THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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KPJ HEALTHCARE BERHAD
(Registration No. 199201015575 (247079-M))
(Incorporated in Malaysia under the Companies Act, 1965 and deemed registered under Companies Act, 2016)

CIRCULAR TO SHAREHOLDERS IN RELATION TO

PART A

(I) PROPOSED SALE (AS DEFINED HEREIN); AND
(II) PROPOSED LEASEBACK (AS DEFINED HEREIN)

(COLLECTIVELY REFERRED TO AS "PROPOSED SALE AND LEASEBACK")

PART B

INDEPENDENT ADVICE LETTER FOR THE PROPOSED SALE AND LEASEBACK

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser

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

Independent Adviser

BDO Capital Consultants Sdn Bhd
(Registration No. 199601032957 (405309-T))

The Extraordinary General Meeting ("**EGM**") of KPJ Healthcare Berhad ("**KPJ**" or "**the Company**") which will be conducted virtually using the remote participation and voting ("**RPV**") facilities to be provided by the poll administrator via TIIH Online website at https://tiih.online or https://tiih.com.my (Domain registration number with MYNIC: DIA282781) will be held on Monday, 12 December 2022 at 2.30 p.m. or any adjournment thereof. The Notice of the EGM together with the Proxy Form are enclosed in this Circular and are available for download from the Company's website at https://kpj.listedcompany.com/egm.html

As a shareholder, you are encouraged to go online, participate, and vote at the EGM using the RPV facilities. If you wish to appoint a proxy to participate and vote on your behalf, you may deposit your Proxy Form at the office of the poll administrator at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, Bangsar South, 59200 Kuala Lumpur, Malaysia or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, or alternatively, you may lodge your Proxy Form by electronic means via TIIH Online website at https://tiih.online, not less than 48 hours before the time set for holding the EGM as indicated below or any adjournment thereof.

Last date and time for lodging the Form of Proxy	:	Saturday, 10 December 2022 at 2.30 p.m.
Date and time of EGM	:	Monday, 12 December 2022 at 2.30 p.m.

This document is dated 22 November 2022

DEFINITIONS

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

Act	:	The Companies Act, 2016, as amended from time to time and any re-enactment thereof
Al-`Aqar	:	Al-`Aqar Healthcare REIT, a real estate investment trust established in Malaysia under the Deed
AmInvestment Bank or **Principal Adviser**	:	AmInvestment Bank Berhad (Registration No. 197501002220 (23742-V))
ART or **Trustee** or **Purchaser** or **Lessor**	:	AmanahRaya Trustees Berhad (Company Registration No. 200701008892 (766894-T)), being the trustee of Al-`Aqar
BDOCC or **Independent Adviser**		BDO Capital Consultants Sdn Bhd (Company Registration No. 199601032957 (405309-T)), being the independent adviser for the Proposed Sale and Leaseback
Board	:	The Board of Directors of KPJ
Bursa Securities	:	Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W))
Cheston or **Independent Valuer**	:	Cheston International (KL) Sdn Bhd (Company Registration No. 200401008741 (647245-W)), being the independent valuer for the Proposed Sale and Leaseback
Circular	:	This circular to shareholders of KPJ dated 22 November 2022 which sets out the details of the Proposed Sale and Leaseback
COVID-19	:	Coronavirus disease
Deed	:	The principal deed dated 27 June 2006 and as amended by the supplementary deed dated 14 May 2009, 27 January 2011 and 9 November 2011, amended and restated by the restated deed dated 31 July 2013 and further amended and restated by the second restated deed dated 25 November 2019, entered into between DRMSB and ART and the persons who are for the time being registered as holders of the units in Al-`Aqar
Director	:	Directors of KPJ
DRMSB or **Manager**	:	Damansara REIT Managers Sdn Berhad (Company Registration No. 200501035558 (717704-V)), being the manager of Al-`Aqar
EGM	:	Extraordinary General Meeting
EPS	:	Earnings per Share
FP	:	Financial period ended/ ending, as the case may be
FY(s)	:	Financial year(s) ended / ending, as the case may be
Interested Directors	:	The directors of KPJ who are deemed interested in the Proposed Sale and Leaseback as disclosed in Section 9 of this Circular
Interested Major Shareholders	:	The major shareholder(s) of KPJ who are deemed interested in the Proposed Sale and Leaseback as disclosed in Section 9 of this Circular

JCorp	:	Johor Corporation, a body corporate established under the Johor Corporation Enactment No. 4, 1968 (as amended by Enactment No. 5, 1995)
KPJ or **the Company**	:	KPJ Healthcare Berhad (Company Registration No. 199201015575 (247079-M))
KPJ Group	:	KPJ and its subsidiary companies
KPJ Share(**s**) or **Share**(**s**)	:	Ordinary share(s) in KPJ
Lease Agreements	:	Lease agreements executed in escrow between the Trustee (for and on behalf of Al-`Aqar in its capacity as the Lessor), the respective Subsidiaries (in their capacity as the Lessees) and the Manager to lease the Properties
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	14 November 2022, being the latest practicable date prior to the printing of the Circular
Major Shareholder	:	(i) Any person who has an interest or interests in one or more voting shares in a corporation and the nominal amount of the share, or the aggregate of the nominal amounts of those shares, is:- (a) 10% or more of the aggregate of the total number of voting shares in the corporation; or (b) 5% or more of the aggregate of the total number of voting shares in the corporation where such person is the largest shareholder of the corporation, For the purpose of this definition, "interests" shall have the meaning of "interest in shares" given in Section 8 of the Act; and (ii) For the purposes of the Proposed Sale and Leaseback, a major shareholder includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of KPJ or any other company which is its subsidiary
MSHSB	:	Maharani Specialist Hospital Sdn. Bhd. (Company Registration No. 199501038576 (367778-U))
NA	:	Net assets
Open Market Value	:	Reasonable and fair market value of the Properties as determined by the independent valuer appointed by the parties to the Lease Agreements based on valuation method without having regard to, the Rental Term(s) (as defined in the Lease Agreements) of the lease provided in the Lease Agreements
PGSH	:	KPJ Pasir Gudang Specialist Hospital land and building
PGSHSB	:	Pasir Gudang Specialist Hospital Sdn. Bhd. (Company Registration No. 200901033717 (876830-H))
Point Zone	:	Point Zone (M) Sdn. Bhd. (Company Registration No. 200901036907 (880036-H)), a wholly owned subsidiary of KPJ that manages and facilitates the treasury services within KPJ Group

Properties	:	The properties as described in Section 2.1.1 of this Circular in relation to PGSH, TMC and SSH and shall also include their respective fixtures and fittings as detailed in the SPA. "Property" shall refer to any one of them
Proposed Leaseback	:	Proposed leaseback of the Properties by the Subsidiaries from the Trustee for and on behalf of Al-`Aqar
Proposed Sale	:	Proposed sale of the Properties by the Subsidiaries to the Trustee for and on behalf of Al-`Aqar
Proposed Sale and Leaseback	:	Collectively, Proposed Sale and Proposed Leaseback
PSHSB	:	Penang Specialist Hospital Sdn. Bhd. (Company Registration No. 200501022411 (704541-H))
REIT	:	Real Estate Investment Trust
RM and sen	:	Ringgit Malaysia and sen respectively
Sale and Purchase Agreements or **SPAs**	:	Sale and purchase agreements dated 2 September 2022 executed between the Trustee (as the Purchaser for and on behalf of Al-`Aqar in its capacity as the Trustee) and the Subsidiaries (as the Vendors) for the sale and purchase of the Properties
SSH	:	A new building forming part of KPJ Seremban Specialist Hospital building
Subsidiaries or **Lessee(s)** or **Vendor(s)**		Collectively, the following subsidiaries of KPJ:- (i) PGSHSB (ii) PSHSB (iii) MSHSB
TMC	:	TMC Health Centre building
Valuation Report(s)	:	Valuation reports of the Properties by Independent Valuer

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

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

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

All references to "**you**" in this Circular are to the shareholders of KPJ.

TABLE OF CONTENTS

THIS EXECUTIVE SUMMARY HIGHLIGHTS THE SALIENT INFORMATION RELATING TO THE PROPOSED SALE AND LEASEBACK. THE INFORMATION IS DERIVED FROM AND SHOULD BE READ IN CONJUNCTION WITH THE FULL TEXT OF THIS CIRCULAR. YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR (INCLUDING THE INDEPENDENT ADVICE LETTER SET OUT IN PART B AND APPENDICES OF THIS CIRCULAR) IN ITS ENTIRETY AND NOT TO RELY SOLELY ON THIS EXECUTIVE SUMMARY IN FORMING A DECISION ON THE PROPOSED SALE AND LEASEBACK BEFORE VOTING AT THE COMPANY'S FORTHCOMING EGM TO BE CONVENED.

Proposed Sale

KPJ, through its Subsidiaries, had on 2 September 2022 entered into individual SPA respectively with ART for the disposal of the following Properties:-

Subsidiaries	Hospital	Properties to be disposed	Consideration (RM'000)
PGSHSB	PGSH	Land and Building	93,000
PSHSB	TMC	Building only	14,300
MSHSB	SSH	Building only	84,700
	Total		**192,000**

The Proposed Sale entails the sale of the Properties for a sale consideration of RM192.0 million ("**Sale Consideration**"), to be satisfied via a combination of cash of RM167.0 million and allotment and issuance of 20.5 million new units in Al-`Aqar ("**Consideration Units**") at an issue price of RM1.22 per Consideration Unit amounting to RM25.0 million in the following manner:-

		%	RM' 000
(i)	Cash consideration	87.0	166,989
(ii)	Allotment and issuance of Consideration Units	13.0	25,011
	Total	**100.0**	**192,000**

The above manner of satisfaction of the Sale Consideration is determined based on a commercial decision between both KPJ and Al-`Aqar after taking into consideration, amongst others, the Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by Securities Commission Malaysia.

Please refer to Section 2.1 of the Circular for detailed information on the Proposed Sale.

Proposed Leaseback

The Trustee (representing Al-`Aqar), had on 2 September 2022 executed the Lease Agreements in escrow with the Subsidiaries and the Manager, wherein Al-`Aqar shall grant the lease of the Properties to the Subsidiaries subject to the terms and conditions of the Lease Agreements agreed upon and entered into between the aforesaid parties. The Lease Agreements will be dated upon the completion of the SPAs.

Please refer to Section 2.2 of the Circular for detailed information on the Proposed Leaseback.

Utilisation of proceeds

The cash proceeds arising from the Proposed Sale of RM167.0 million are proposed to be utilised in the following manner:-

Details of utilisation	Expected utilisation timeframe from Completion Date	Amount
		RM'000
Repayment of sukuk	Within 12 months	90,000
Repayment of bank facility	Within 12 months	45,000
Investment in expansion of hospitals	Within 12 months	24,898
General working capital	Within 3 months	4,991
Estimated expenses for the Proposed Sale and Leaseback	Within 1 months	2,100
Total		**166,989**

Please refer to Section 3 of the Circular for detailed information on the utilisation of proceeds.

Rationale for the Proposed Sale and Leaseback

The Proposed Sale and Leaseback will realise an estimated gain on sale of approximately RM3.82 million. The cash proceeds from the Proposed Sale would be utilised for the purpose as detailed in Section 3 of the Circular.

Please refer to Section 4 of the Circular for detailed information on the rationale for the Proposed Sale and Leaseback.

Risk of the Proposed Sale and Leaseback

The potential risk of the Proposed Sale and Leaseback are as follows:-

(i) Non-completion of the Proposed Sale and Leaseback

The non-completion of the Proposed Sale and Leaseback would result in KPJ needing funds to undertake the activities disclosed in Section 3 of this Circular. If it is funded by way of borrowings, it would expose KPJ to interest rate fluctuations and debt servicing risks.

(ii) Non-renewal of the leases

The non-renewal of the Lease Agreements will result in the Subsidiaries not being able to continue its on-going operations at the Properties.

Please refer to Section 5 of the Circular for detailed information on the risk of the Proposed Sale and Leaseback.

Approvals required	The Proposed Sale and Leaseback is subject to the following approvals:- (i) the approval of the shareholders of KPJ at an EGM to be convened for the Proposed Sale and Leaseback; (ii) the approval of the unitholders of Al-`Aqar at its EGM to be convened for the Proposed Sale and Leaseback; and  (iii) all such other consents and regulatory and/or governmental approvals required to be obtained by the Subsidiaries and/or KPJ and the Trustee, on behalf of Al-`Aqar in order to effect the completion of the Proposed Sale and Leaseback, as the case may be. Please refer to Section 8 of the Circular for detailed information on the approvals required.
Statement by the Board	The Board, save for the Interested Directors, after having considered all aspects of the Proposed Sale and Leaseback, including the rationale and financial effects of the Proposed Sale and Leaseback, valuation of the Properties as ascribed by the Independent Valuer as well as the independent advice by the Independent Adviser for the Proposed Sale and Leaseback, is of the opinion that the Proposed Sale and Leaseback is fair, reasonable and on normal commercial terms and is in the best interests of the Company and not detrimental to the interest of the minority shareholders of KPJ. Accordingly, the Board (save for the Interested Directors) recommends that you vote **IN FAVOUR** of the resolution pertaining to the Proposed Sale and Leaseback to be tabled at the Company's forthcoming EGM.

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PART A

LETTER TO OUR SHAREHOLDERS IN RELATION TO THE PROPOSED SALE AND LEASEBACK

KPJ HEALTHCARE BERHAD
(Registration No. 199201015575 (247079-M))
(Incorporated in Malaysia under the Companies Act, 1965 and deemed registered under Companies Act, 2016)

Registered Office:

Level 13
Menara KPJ
238, Jalan Tun Razak
50400 Kuala Lumpur
Wilayah Persekutuan
Malaysia

22 November 2022

Board of Directors:

Datuk Mohd Arif Bin Mahmood	*(Non-Independent Non-Executive Chairman)*
Dato' Mohd Redza Shah Bin Abdul Wahid	*(Senior Independent Non-Executive Director)*
Mohamed Ridza Bin Mohamed Abdulla	*(Independent Non-Executive Director)*
Khairuddin Bin Jaflus	*(Independent Non-Executive Director)*
Hisham Bin Zainal Mokhtar	*(Independent Non-Executive Director)*
Lee Lai Fan	*(Independent Non-Executive Director)*
Rozaini Bin Mohd Sani	*(Non-Independent Non-Executive Director)*
Shamsul Anuar Bin Abdul Majid	*(Non-Independent Non-Executive Director)*
Prof Dato' Dr Azizi Bin Haji Omar	*(Non-Independent Non-Executive Director)*
Annie Binti Rosle	*(Non-Independent Non-Executive Director)*

To: The Shareholders of KPJ

Dear Sir/Madam,

PROPOSED SALE AND LEASEBACK

1. INTRODUCTION

On 2 September 2022, on behalf of the Board, AmInvestment Bank announced that the Subsidiaries of KPJ (as detailed in Section 2.1.3 of this Circular) entered into individual SPA respectively with ART, being the trustee for and on behalf of Al-`Aqar for the sale of the Properties for a total consideration of RM192.0 million.

As a condition to the sale of the Properties, each Subsidiary will enter into a Lease Agreement with the Trustee (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. For information, each of the Subsidiaries, the Trustee (acting on behalf of Al-`Aqar), and DRMSB had on 2 September 2022 executed the Lease Agreements in escrow, and agreed that the Lease Agreements are to be dated upon the completion of the SPAs.

The Proposed Sale and Proposed Leaseback are inter-conditional and are collectively referred to as "**Proposed Sale and Leaseback**".

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

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

2. PROPOSED SALE AND LEASEBACK

2.1 Details of the Proposed Sale

KPJ, through its Subsidiaries, had on 2 September 2022 entered into individual SPA respectively with ART for the disposal of the following Properties:-

Subsidiaries	Hospital	Properties to be disposed	Consideration
			(RM'000)
PGSHSB	PGSH	Land and Building	93,000
PSHSB	TMC	Building only	14,300
MSHSB	SSH	Building only	84,700
	Total		**192,000**

The Proposed Sale entails the sale of the Properties for a sale consideration of RM192.0million ("**Sale Consideration**"), to be satisfied via a combination of cash of RM167.0 million and allotment and issuance of 20,500,669 new units in Al-`Aqar ("**Al-`Aqar Units**" or "**Units**") ("**Consideration Units**") at an issue price of RM1.22 per Consideration Unit amounting to RM25.0 million in the following manner:-

		%	RM' 000
(i)	Cash consideration	87.0	166,989
(ii)	Allotment and issuance of Consideration Units	13.0	25,011
	Total	**100.0**	**192,000**

The above manner of satisfaction of the Sale Consideration was negotiated between the parties after taking into consideration, amongst others, the Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by Securities Commission Malaysia.

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A detailed breakdown of the Sale Consideration is set out below:-

		Settlement of Sale Consideration					
		Cash	**Consideration Units**				**Balance**
						Deposit	**Consideration**
Properties	**Vendors**			**Issue Price**	**No of Units**	**(5%)**	**(95%)**
		RM	**RM**	**RM**		**RM**	**RM**
PGSH	PGSHSB	67,989,183.82	25,010,816.18	1.22	20,500,669	4,650,000	88,350,000
SSH	MSHSB	84,700,000	-	-	-	4,235,000	80,465,000
TMC	PSHSB	14,300,000	-	-	-	715,000	13,585,000
Total Sale Consideration		**166,989,183.82**	**25,010,816.18**			**9,600,000**	**182,400 ,000**

The Sale Consideration shall be payable as follows:-

(i) The deposit of 5% of the Sale Consideration for each of the Properties shall be paid to Point Zone upon the execution of the SPAs.

(ii) The balance consideration of 95% of the Sale Consideration for each of the Properties shall be satisfied on or before the expiry of 3 months from the date the SPAs becoming unconditional. The Consideration Units of 20.50 million units shall be issued to KPJ and the balance cash consideration shall be paid to Point Zone on the completion date.

The salient terms of the SPA are disclosed in **Appendix I** of this Circular.

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2.1.1 Information on the Properties

The details of the Properties are as follows:-

	PGSH	SSH	TMC
Description	• Entire hospital and land • An 8-storey private medical centre building, a double storey mechanical & electrical ("**M&E**") building, a single storey pump house building and 3 units of single storey refuse chambers	• New building erected on Al-Aqar's land • An 8-storey private consultant block, an annexed 6-storey private medical centre with a ground floor car park, a double storey M&E building, a single storey medical gas storage building and a single storey refuse chamber building	• New building erected on Al-Aqar's land • A 4-storey private ambulatory care centre, M&E building accommodating a main switch board room, a generator set room, a telephone room and a metre room as well as a medical gas building
Address	PTD 204781 (New Lot 198635), Jalan Persiaran Dahlia 2, Taman Bukit Dahlia, 81700 Pasir Gudang, Johor Darul Takzim.	Lot 6219 & 6220, Jalan Toman 1, Kemayan Square, 70200 Seremban, Negeri Sembilan Darul Khusus	T/K PT 1106, Medan Taiping, 34000 Taiping, Perak Darul Ridzuan.
Existing use	Private hospital	Private hospital	Private ambulatory care centre
Category of land use	Building	Building	Building
Express condition(s)	(i) This land shall be used for a private hospital, constructed in accordance with the plan approved by the relevant Local Authority (ii) All impurities and pollution resulting from this activity must be channelled/ disposed to places that have been designated by the Relevant Authority (iii) All policies and conditions that have been implemented and enforced from time to time by the Relevant Authority shall be adhered	This land shall be used for private hospitals building only	Commercial – Shop Building

	PGSH	SSH	TMC
Tenure	99-year leasehold interest expiring on 28 December 2108	Interest in Perpetuity	99-year leasehold interest expiring on 25 July 2088
Age of Building	9.48 years	3.49 years	3.70 years
Gross floor area (sq. ft.)	203,280.10	207,161.14	31,513.28
Occupancy Rate	100% occupied for the hospital operation	100% occupied for the hospital operation	100% occupied for the hospital operation
Net Book Value @ 31 December 2021 (RM'mil)	78.8	82.9	12.4
Market Value (RM'mil)	92.6	84.5	14.3
Date of investment	18 April 2013	17 July 2018	13 September 2018
Original cost of investment (RM'mil)	80.3	84.6	12.4
Encumbrances	Nil	Nil	Nil

(Source: KPJ's management and valuation report by Independent Valuer dated 14 July 2022)

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2.1.2 Information on Purchaser

<u>Information on ART</u>

ART, a subsidiary of Amanah Raya Berhad, was incorporated under the law of Malaysia on 23 March 2007.

ART was registered as a trust company under the Trust Companies Act 1949 and eligible to act as trustee to collective investment scheme, corporate bonds and private retirement schemes by the Securities Commission Malaysia.

As at the LPD, the directors of ART are Dato' Professor Dr Noor Inayah Binti Ya'akub, Dato' Haji Che Pee Bin Samsudin, Encik Hassan Bin Ibrahim, Datuk Ismail Bin Kamaruddin and Dato' Ahmad Suhaimi Bin Endut.

<u>Information on Al-`Aqar</u>

Al-`Aqar was established in Malaysia under the Deed, which includes any amendment(s) and variation(s) thereof and addition(s) thereto and any other instrument(s) executed supplemental thereto or in substitution thereof from time to time and which was duly registered with the Securities Commission Malaysia on 10 January 2020, entered into between DRMSB and ART and the persons who are for the time being registered as holders of the Al-`Aqar Units. Al-`Aqar is listed on the Main Market of Bursa Securities since 10 August 2006.

Al-`Aqar is a real estate investment trust with an existing fund size of 735,985,088 Units. The investment objective of Al-`Aqar is to own and invest in Syariah-compliant healthcare related real estate and real estate-related assets whether directly or indirectly through the ownership of single-purposes companies whose principal assets comprise real estate.

As at LPD, the management company of Al-`Aqar is DRMSB. The Manager was incorporated in Malaysia under the Companies Act 1965 and deemed registered under the Act under the name of Ultimate Benchmark Sdn Bhd on 8 December 2005 and assumed its present name on 15 March 2006. The issued and fully paid-up share capital of the Manager as at 18 August 2022 is RM1.0 million. DRMSB is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp.

<u>Directors of DRMSB</u>

Name	Position
Dato' Mohd Redza Shah Bin Abdul Wahid	Chairman, Independent Non-Executive Director
Dato' Wan Kamaruzaman Bin Wan Ahmad	Independent Non-Executive Director
Abdullah Bin Abu Samah	Independent Non-Executive Director
Datuk Hashim Bin Wahir	Independent Non-Executive Director
Datuk Sr Akmal Bin Ahmad	Non-Independent Non-Executive Director
Dato' Salehuddin Bin Hassan	Non-Independent Non-Executive Director
Shamsul Anuar Bin Abdul Majid	Non-Independent Non-Executive Director

As at LPD, the substantial unitholders of Al-`Aqar are as follows:-

Substantial unitholders of Al-`Aqar

Name	Unitholdings			
	Direct		Indirect	
	No. of Units		No. of Units	
	('000)	%	('000)	%
JCorp	-	-	269,248	(i)36.6
KPJ	-	-	269,075	(ii)36.6
Lembaga Tabung Haji	105,532	14.3	-	-
Employees Provident Fund	83,228	11.3	-	-
Kumpulan Wang Persaraan (Diperbadankan)	65,391	8.9	-	-
Pusat Pakar Tawakal Sdn Bhd	54,649	7.4	-	-
Amanah Saham Bumiputera	46,000	6.3	-	-

Notes:-

(i) Deemed Interested by virtue of interest in KPJ and Johor Ventures Sdn. Bhd. under Section 8 of the Act

(ii) Deemed Interested by virtue of interest held by subsidiaries and associate of KPJ.

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

2.1.3 Information on Vendors

Information on PGSHSB

PGSHSB, a wholly-owned subsidiary of KPJ, is a company incorporated in Malaysia under the Act on 28 October 2009 as a private company limited by shares. The principal activity of PGSHSB is operating a private hospital. As at the LPD, the issued share capital of PGSHSB is RM65,000,000 comprising 65,000,000 ordinary shares.

As at the LPD, the directors of PGSHSB are Khairun bin Ahmad @ Saliman, Badrul Hisham bin Abdullah, Rafiza binti Mohamed Nazir, Dato' Mohamad Farid bin Salim, Hazarul Azly bin Hamzah and Khairul Hasanain bin Abdul Hamid.

Information on MSHSB

MSHSB, a wholly-owned subsidiary of KPJ, is a company incorporated in Malaysia under the Act on 18 November 1995 as a private company limited by shares. The principal activity of MSHSB is operating private hospitals. As at the LPD, the issued share capital of MSHSB is RM55,000,000 comprising 55,000,000 ordinary shares.

As at the LPD, the directors of MSHSB are Khairun bin Ahmad @ Saliman, Mohamad Sofian bin Ismail, Dato' Mohamad Farid bin Salim, Aliza binti Jamaluddin, Muhamad Amin bin Othman, and Maisarah binti Omar.

Information on PSHSB

PSHSB, a wholly-owned subsidiary of KPJ, is a company incorporated in Malaysia under the Act on 29 July 2005 as a private company limited by shares. The principal activity of PSHSB is operating a private hospital and providing ancillary healthcare services. As at LPD, the issued share capital of PSHSB is RM20,000,000 comprising 20,000,000 ordinary shares.

As at the LPD, the directors of PSHSB are Norhaizam binti Mohammad, Roslan bin Ahmad, Zabidi bin Hj Abdul Razak, Mohamed Ahsan bin Mohamed Ismail, Dato' Mohamad Farid bin Salim and Zulkifli bin Abdullah.

2.1.4 Information on KPJ

KPJ was listed on the Main Market of Bursa Securities on 29 November 1994. Since its introduction as the first private specialist hospital in Johor in 1981, KPJ has grown to be one of the region's leading private healthcare providers. KPJ has a network of 29 hospitals in Malaysia, 2 hospitals in Indonesia, 1 hospital in Thailand, 1 hospital in Bangladesh and 4 senior and assisted living care facilities in Kuala Lumpur, Sarawak, Pahang and Australia. With more than 1,451 medical consultants on board, KPJ treats more than 2.9 million patients annually. Its education arm KPJ Healthcare University College offers more than 38 programmes from Foundation to PhD ensuring KPJ has a ready pool of experienced and well-trained talent to support its expansion strategies. KPJ has been a constituent of the Bursa Malaysia FTSE4Good Index since 2016.

As at LPD, KPJ's share capital is RM976.33 million comprising of 4.34 billion ordinary shares (excluding the treasury shares of KPJ).

As at LPD, the directors and substantial shareholders of KPJ are as follows:-

Directors of KPJ

Name	Position
Datuk Mohd Arif Bin Mahmood	Non-Independent Non-Executive Chairman
Dato' Mohd Redza Shah Bin Abdul Wahid	Senior Independent Non-Executive Director
Mohamed Ridza Bin Mohamed Abdulla	Independent Non-Executive Director
Khairuddin Bin Jaflus	Independent Non-Executive Director
Hisham Bin Zainal Mokhtar	Independent Non-Executive Director
Lee Lai Fan	Independent Non-Executive Director
Shamsul Anuar Bin Abdul Majid	Non-Independent Non-Executive Director
Rozaini Bin Mohd Sani	Non-Independent Non-Executive Director
Prof Dato' Dr. Azizi Bin Haji Omar	Non-Independent Non-Executive Director
Annie Binti Rosle	Non-Independent Non-Executive Director

Substantial shareholders of KPJ

	Shareholdings			
	Direct		Indirect	
Name	No. of shares		No. of shares	
	('000)	%	('000)	%
JCorp	1,545,916	35.58	417,760	(i)9.63
Employees Provident Fund	586,012	13.49	-	-
Waqaf An-Nur Corporation Berhad	308,356	7.10	-	-
Kumpulan Wang Persaraan (Diperbadankan)	237,708	5.47	-	-

Note:-

(i) Deemed interested by virtue of its shareholdings 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.

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

2.1.5 Basis and justification for the Sale Consideration

The Sale Consideration for the Proposed Sale was arrived at on a "willing buyer-willing seller" basis after taking into consideration the market value of the Properties amounting to RM191.4 million, as ascribed by the Independent Valuer, vide the valuation report dated 14 July 2022.

The valuation for the Properties has been carried out by using the following methods:-

Hospital	**Market value (RM'000)**	**Valuation method**
PGSH	92,600	Primary: Income Approach by Profits Method (Discounted Cash Flow (DCF)) Secondary: Cost Approach by Comparison Method and Depreciated Replacement Cost Method
TMC	14,300	Cost Approach by Depreciated Replacement Cost Method
SSH	84,500	Cost Approach by Depreciated Replacement Cost Method

(Source: Independent Valuer's valuation report dated 14 July 2022)

(i) Income approach by profits method (discounted cash flow)

This method is adopted where revenues/earnings, expenses and profits are the essence to the value of the property (business based property) and this method capitalises future net profit as a basis for estimating the market value of the subject property as a going concern basis.

(ii) Cost approach by comparison method (for land value)

In determination of value of the commercial land by this method, comparison is made between the subject property under valuation with sale of other similar commercial land(s) where dissimilarities are adjusted for comparability to reflect differences in time, location and accessibility, corner/end premium, size/quantum allowance, tenure and conversion premium from development land to commercial land to render the sold properties as similar as possible to the subject property.

(iii) Cost approach by depreciated replacement cost method (for building(s) value)

The cost approach by depreciated replacement cost method is a method where an estimate is made on the new replacement cost but allowed for depreciation. The depreciated replacement cost method is derived from the gross current reproduction/ replacement cost and deducting therefrom the accrued depreciation comprising physical, functional and economical obsolescences.

The Independent Valuer has adopted the income approach by profits method (discounted cash flow) as the primary valuation methodology and cost approach as check for PGSH whilst depreciated replacement cost ("**DRC**") method as the sole valuation methodology for SSH and TMC.

PGSH comprises the entire/whole land and buildings whereas TMC and SSH are being part of the building(s) component (extension/addition) of the respective existing private medical centre. Thus, according to the Independent Valuer, for TMC and SSH being extension/addition, there is only 1 appropriate valuation method which is the DRC method.

For PGSH, income approach and cost approach are applicable/suitable as these approaches cover both land and buildings. Nevertheless, the income approach by profits method is the most appropriate method as private specialist medical centre is a specialised property providing quality, highly skilled and utilising technologically advanced medical equipment with various sources of revenues are generated from operating the property as a business entity and its revenues/earnings, expenses and profits are the essence to the value of the property. As such, the Independent Valuer has given greater emphasis on the income approach by profits method as a more reliable and appropriate method of valuation. The profits method is able to capture the annual income and expenses over the investment horizon of the investment asset and reflect the investment asset's highest and best use value, thus appropriate to arrive at the fair and accurate market value of a private specialist medical centre.

2.1.6 Basis and justification for the issue price of the Consideration Units

The issue price of RM1.22 per Consideration Unit was based on the 5-day volume weighted average market price ("**VWAP**") of the Al-`Aqar Units up to and including 1 September 2022, being the date prior to the execution of the SPA. The issue price of RM1.22 represents the following:-

		Discount to NAV per Unit	
	(RM)	(RM)	(%)
Audited Net Assets Value ("**NAV**") per Unit as at 31 December 2021	1.27	(0.05)	(3.9)
Unaudited NAV per Unit as at 30 June 2022	1.28	(0.06)	(4.7)

	Unit price	**Premium to Al-`Aqar Unit price**	
	(RM)	(RM)	(%)
(i) Closing price on 14 November 2022, being the LPD	1.21	0.01	0.8
(ii) VWAP of Al-`Aqar Units up to and including 1 September 2022:-			
- 5-day	1.22	-	-
- 1-month	1.22	-	-
- 3-month	1.20	0.02	1.7
- 6-month	1.19	0.03	2.5
- 12-month	1.17	0.05	4.3

(Source: Bloomberg)

KPJ has no immediate intention to sell the Consideration Units received pursuant to the completion of the Proposed Sale. As at this juncture, KPJ plans to hold the Consideration Units to receive dividend income. Nevertheless, the sale of Consideration Units is subject to periodic review by the Board from time to time.

2.1.7 Ranking of the Consideration Units

The Consideration Units shall, upon allotment and issuance, be of the same class and carry the same rights with the then existing Al-`Aqar Units in issue, save and except that the holder(s) of such Consideration Units shall not be entitled to any distributions, rights, allotments and/or other distribution that may be declared, made or paid to the unitholders of Al-`Aqar, for which the relevant entitlement date is prior to the date of allotment and issuance of the Consideration Units.

2.1.8 Listing of and quotation for the Consideration Units

An application by Al-`Aqar has been made to Bursa Securities for the listing of and quotation for the Consideration Units on the Main Market of Bursa Securities.

2.1.9 Assumption of liabilities

There will be no liabilities, including contingent liabilities and guarantees, remaining with KPJ in relation to the Properties pursuant to the Proposed Sale. There is no guarantee given by KPJ to Al-`Aqar pursuant to the Proposed Sale.

2.2 Details of the Proposed Leaseback

The Trustee (representing Al-`Aqar), had on 2 September 2022 executed the Lease Agreements in escrow with the Subsidiaries and the Manager, wherein Al-`Aqar shall grant the lease of the Properties to the Subsidiaries subject to the terms and conditions of the Lease Agreements agreed upon and entered into between the aforesaid parties. The Lease Agreements will be dated upon the completion of the SPAs.

2.2.1 Salient terms of the Lease Agreements

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

(i) The Vendors respectively enter into a Lease Agreement with ART as lessor and the Manager as follows:-

(a) PGSHSB to enter into Lease Agreement for the lease of PGSH for a period of 15 years commencing from the date of completion of Proposed Sale of PGSH with an option to renew for another 15 years (at the discretion of the Lessor);

(b) PSHSB to enter into Lease Agreement for the lease of TMC together with its land for a period commencing from the date of completion of Proposed Sale of TMC to 30 April 2024 with an option to renew for another 15 years (at the discretion of the Lessor); and

(c) MSHSB to enter into Lease Agreement for the lease of SSH together with its land for a period commencing from the date of completion of Proposed Sale of SSH to 13 October 2024 with an option to renew for another 15 years (at the discretion of the Lessor).

(ii) 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.

2.2.1.1 Conditions Precedent to Lease Agreements

(i) The Lease Agreement is conditional upon the fulfilment of the following conditions:-

(a) the approval of the shareholders of the Lessee's ultimate holding company, KPJ, being obtained in respect of the Proposed Leaseback;

(b) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Leaseback; and

(c) the completion of the SPAs.

2.2.1.2 Rent

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

PGSH

(a) Rent formula

First Rental Term	Rent Formula
1st year	5.75% per annum x the sale consideration of PGSH ("**Base Rent**").
2nd & 3rd year	2% incremental increase x the 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
1st year of every succeeding rental term (Years 4, 7, 10 and 13)	5.75% per annum x Open Market Value of the Properties at the point of review, subject to:- (a) A minimum rent of the Base Rent; and (b) any adjustment to the rent shall not be more than 2.0% incremental increase over the rent for the preceding year.
2nd & 3rd year of every succeeding rental term (Years 5, 6, 8, 9, 11, 12, 14, 15)	2% incremental increase over the rent for the preceding year.

SSH

Rental Term	Rent Formula
1st year (from the date of completion of the Proposed Sale of SSH until 13 October 2023)	5.75% per annum x the sale consideration of SSH.
2nd year (from 14 October 2023 until 13 October 2024)	2% incremental increase x the rent for the preceding year.

TMC

Rental Term	Rent Formula
1st year (from the date of completion of the Proposed Sale of TMC until 30 April 2023)	5.75% per annum x the sale consideration of TMC.
2nd year (1 May 2023 from until 30 April 2024)	2% incremental increase x the rent for the preceding year.

Renewal Lease Term

If the Lessee wishes to take a further extension of the lease for the Properties for another 15 years from the expiry, the Lessee shall give a written notice to the Lessor of its intention to extend the lease not less than 12 calendar months prior to the expiry of the principal lease term.

Subject to the Lessee on expiry of the principal lease term having paid the rent reserved by and performed and observed the covenants contained in the Lease Agreements, the Lessor may at its sole and absolute discretion grant to the Lessee a further lease of the Properties for the renewed lease term commencing on the day immediately following the last day of the principal lease term at the rental terms and revised rental rate to be mutually agreed by the Lessor, the Manager and the Lessee but otherwise upon the same terms and conditions of the Lease Agreement with the exception of the provision on renewal, the revised rental rate and the topping up of the security deposit to correspond with the revised rental rate, which shall be mutually agreed upon by the parties to the Lease Agreements, variations to other terms and conditions of the Lease Agreement mutually agreed upon in writing by the said parties during the extended lease period and resulting from any changes in the applicable laws and requirements. Should there be any material changes to the rental terms for the aforesaid extension of lease period, KPJ will make the necessary announcement and seek shareholder's approval, if required, in accordance with the Listing Requirements. Further details on the salient terms of the Lease Agreements are disclosed in **Appendix II** of this Circular.

In the event of non-renewal, KPJ will use its best endeavour to look for new premises. However, in view of the long standing relationship between KPJ and Al-`Aqar, KPJ believes that it should be able to renew the lease of Properties subject to agreement on the rental rates and terms. For your information, KPJ had renewed the lease of 6 properties in 2021 (upon expiry of the 15-year lease period) with Al-`Aqar as approved by the shareholders of KPJ on 22 June 2021.

2.2.2 Basis and justification in arriving at the rental rate

The gross rental of the first year of the initial term is 5.75% x market value of the Properties. The net rental is estimated to be 5.23% (after deducting direct expenses to the Properties which include assessment, takaful, maintenance and quit rent to be borne by Al-`Aqar). The rental rate was arrived at after taking into consideration of, amongst others, the following:-

(i) the net property yields of commercial properties acquired by Malaysian REITs which range from 3.16% to 6.28% between 2020 and 2022; and

(ii) the Independent Valuer observed that based on its analysis of the latest net rental yield of the investment properties comprising UOA Corporate Tower, The Pinnacle Sunway and Menara Guoco, the rental yields range from 5.0% to 6.3% whilst the net yields of IGB Commercial REIT which was launched in April 2021 range between 3.16% to 5.47%.

In light of the above, taking into consideration of the current state of the Malaysian economy and property market and healthcare industry which have been impacted by, amongst others, the COVID-19 pandemic, and making comparisons with the broad spectrum of various types of residential, commercial, industrial and agricultural properties in Malaysia, the Independent Valuer is of the view that the fair net rental yields of the Properties are within 5.0% to 6.0%. The range of net rental yields is based on the Independent Valuer's professional judgement after taking into consideration the aforementioned factors.

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

2.3 Transacted amount for the preceding 12 months

Save for a rental revision on a property located in Australia that was announced on 15 October 2021 (details of which are disclosed in Appendix V of this Circular), there were no transactions (excluding transactions in the ordinary course of business) entered into between KPJ and Al-`Aqar for the preceding 12 months from the date of this Circular.

3. UTILISATION OF PROCEEDS

The cash proceeds arising from the Proposed Sale of RM167.0 million are proposed to be utilised in the following manner:-

Details of utilisation	Notes	Expected utilisation timeframe from Completion Date	Amount
			RM'000
Repayment of sukuk	(i)	Within 12 months	90,000
Repayment of bank facility	(ii)	Within 12 months	45,000
Investment in expansion of hospitals	(iii)	Within 12 months	24,898
General working capital	(iv)	Within 3 months	4,991
Estimated expenses for the Proposed Sale and Leaseback	(v)	Within 1 months	2,100
Total			**166,989**

***Notes**:-*

(i) The proceeds earmarked for partial repayment of sukuk due of RM90 million. As at LPD, the weighted average profit rate of the Sukuk is 5.52% per annum.

(ii) As at LPD, the total bank borrowings of KPJ stood at approximately RM603.0 million. The proceeds for repayment of bank facility are for the early repayment of a banking facility. The interest savings is expected to be RM1.76 million a year based on interest rate of 3.9% per annum.

(iii) The proceeds earmarked for investment in expansion of hospitals are intended to be utilised for hospital expansion which includes, but not limited to, funding of renovation, expansion works, purchase of medical equipment and other miscellaneous development. At this juncture, the details of the utilisation of proceeds for investment in expansion of hospitals have not been finalised.

(iv) The proceeds earmarked for the general working capital are intended to be utilised for the hospitals' day to day operation expenses which include, amongst others, payment to suppliers for the purchase of drugs and medical supplies, statutory and administrative payments, staff cost and office related expenses.

(v) The estimated expenses for the Proposed Sale and Leaseback include, amongst others, expenses relating to stamp duties, fees for solicitor, valuer and principal adviser.

Pending utilisation of the proceeds from the Proposed Sale, the proceeds will be placed in interest-bearing deposits with financial institutions as the Board may deem fit.

4. RATIONALE FOR THE PROPOSED SALE AND LEASEBACK

The Proposed Sale and Leaseback will enable KPJ Group to unlock the value of the Properties and realise an estimated gain on sale (after taking into consideration the impact from the Proposed Leaseback of the Properties) of approximately RM3.82 million upon completion of the Proposed Sale and Leaseback.

The gain on sale is derived as follows in accordance with MFRS16: Leases:-

Properties	(A) Net Book Value as at 2 September 2022	(B) Purchase Price	(C) Present Value of Monthly Lease Payment ("PVMLP")	[(B-C)/B] x (B-A) Gain on Sale
	RM('mil)	RM('mil)	RM('mil)	RM('mil)
PGSH	78.40	93.00	78.28	2.31
SSH	82.60	84.70	54.84	0.74
TMC	12.25	14.30	8.95	0.77
Total	**173.25**	**192.00**	**142.07**	**3.82**

Furthermore, the cash proceeds from the Proposed Sale would be utilised for the purpose as detailed in Section 3 of the Circular.

5. RISKS OF THE PROPOSED SALE AND LEASEBACK

5.1 Non-completion of the Proposed Sale and Leaseback

The Proposed Sale and Leaseback is conditional upon the fulfilment of the conditions precedent as set out in Appendix I and Appendix II of this Circular. Whilst KPJ will take all reasonable steps to facilitate the fulfilment of the conditions precedent and terms pursuant to the SPAs and Lease Agreements, there can be no assurance that such conditions precedent will be fulfilled within the stipulated timeframe.

The non-completion of the Proposed Sale and Leaseback would result in KPJ needing funds to undertake the activities disclosed in Section 3 of this Circular. If it is funded by way of borrowings, it would expose KPJ to interest rate fluctuations and debt servicing risks.

5.2 Non-renewal of the leases

The renewal of the lease upon expiry of the lease term is at the discretion of the Lessor, is also subject to, amongst others, the parties agreeing on the rental rate as set out in Section 2.2.1.2 of this Circular. As such, if the lease of the Properties is not renewed after the expiry of the same or if KPJ, via the relevant Subsidiary, relocates its operations to a suitable alternative location, the Subsidiaries will not be able to continue its on-going operations at the Properties. This could have an impact on KPJ's long term sustainability of its business. In such event, KPJ Group will use its best endeavour to take all reasonable steps to mitigate the aforesaid risk by, amongst others, commencing early negotiations with Al-`Aqar to renew the lease term and actively engage in sourcing for suitable alternative locations to minimise the disruptions to its operations. However, as the properties must be purpose built as hospital, 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.

6. EFFECTS OF THE PROPOSED SALE AND LEASEBACK

6.1 Share capital and substantial shareholder's shareholdings

The Proposed Sale and Leaseback will not have any effect on the share capital as well as substantial shareholders' shareholdings in KPJ as the Proposed Sale and Leaseback does not involve issuance of shares in KPJ.

6.2 NA and gearing

For illustration purposes, based on the audited consolidated financial statements of KPJ for FY 2021, assuming that the Proposed Sale and Leaseback was effected on 31 December 2022, the financial impact to the NA and NA per share and gearing of KPJ for FY 2021 are as follows:-

	Audited as at 31 December 2021	After the Proposed Sale and Leaseback
	RM'000	**RM'000**
Share Capital	959,521	959,521
Reserves	1,331,219	[(i)]1,332,938
Less: Treasury Shares	(155,310)	(155,310)
NA attributable to shareholders	2,135,430	2,137,149
Non-controlling interests	115,078	115,078
Total equity	**2,250,508**	**2,252,227**
No of KPJ Shares ('000)[(ii)]	4,326,852	4,326,852
NA per KPJ Share (RM)	0.49	0.49
Total borrowings[(iii)]	1,828,464	[(iv)]1,693,464
Gearing (times)	0.86	0.79

Notes:-

(i) After taking into consideration the gain on sale of the Properties of RM3.82 million and after deducting the estimated expenses for the Proposed Sale and Leaseback of RM2.10 million.

(ii) Excluding treasury shares.

(iii) Excluding lease liabilities.

(iv) After repayment of sukuk and banking facility amounting to RM135.0 million from the proceeds of the Proposed Sale.

6.3 Earnings and EPS

For illustration purposes, based on the audited consolidated financial statements of KPJ for FY 2021, assuming the Proposed Sale and Leaseback were completed at the beginning of the financial year, the financial effects of the Proposed Sale and Leaseback on the earnings and EPS of KPJ are as follows:-

Proforma Effects	**Audited FY 2021 RM'000**
Profit attributable to owners of the Company	51,033
Add: Interest for repayment of bank borrowing and sukuk(i)	6,720
Add: Gain on sale of Properties(ii)	3,819
Add: Estimated yearly distribution income from the Al-`Aqar units received from the Proposed Sale and Leaseback(iii)	1,333
Add: Existing depreciation on the buildings to be disposed	3,248
Add: Expenses that will be borne by Al-`Aqar instead of KPJ upon commencement of the lease	1,295
Add: Tax impact	814
(Less): Depreciation and finance charge (MFRS 16 - lease impact)	(13,960)
(Less): Estimated expenses in relation to the Proposed Sale and Leaseback(iv)	(2,100)
Pro forma profit	**52,202**
Existing basic/diluted EPS (sen)(v)	1.19/1.16
Proforma basic/diluted EPS (sen)(v)	1.22/1.18

Notes:-

(i) The interest takes into consideration the following:-

(a) early repayment of banking facilities amounting to RM45 million at 3.9% per annum; and

(b) repayment of sukuk due amounting to RM90 million based on the weightage average profit rate of 5.52%.

(ii) After taking into consideration the impact from the leaseback of the Properties;

(iii) Assuming receiving distribution of RM0.065 from Al-`Aqar after taking into consideration Al-`Aqar distribution for FY2021 of RM57.4 million divided by the enlarged no. of units after the Proposed Sale and Leaseback and Al-`Aqar's proposed placement.

(iv) The estimated expenses include, amongst others, expenses relating to fees for solicitor, valuer and principal adviser.

(v) Based on weighted average number of ordinary shares in issue of 4.29 billion (basic) and 4.42 billion (diluted).

7. PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Sale and Leaseback pursuant to Paragraph 10.02(g) of the Listing Requirements is 10.41% (including the percentage ratio of the rental revision on the property located in Australia which was announced on 15 October 2021).

8. APPROVALS REQUIRED

The Proposed Sale and Leaseback is subject to the following approvals:-

(i) the approval of the shareholders of KPJ at an EGM to be convened for the Proposed Sale and Leaseback;

(ii) the approval of the unitholders of Al-`Aqar at its EGM to be convened for the Proposed Sale and Leaseback; and

(iii) all such other consents and regulatory and/or governmental approvals required to be obtained by the Subsidiaries and/or KPJ and the Trustee, on behalf of Al-`Aqar (which include approval from Bursa Securities for the issuance of Consideration Units which was obtained by Al-`Aqar on 16 November 2022) in order to effect the completion of the Proposed Sale and Leaseback, as the case may be.

The completion of the Proposed Sale and Leaseback is not conditional upon any other proposals undertaken or to be undertaken by KPJ.

The Proposed Sale and Proposed Leaseback are inter-conditional upon each other.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED WITH THEM

Save as disclosed below, none of the Directors and Major Shareholders of the Company have any interest, either direct or indirect, in the Proposed Sale and Leaseback.

9.1 Interested Directors' Interest

The directors who are deemed interested in the Proposed Sale and Leaseback are as follows:-

(i) Datuk Md Arif Bin Mahmood, the Non-Independent Non-Executive Chairman of KPJ, is a person connected to JCorp by virtue of him being a Board representative of JCorp in 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 and also a senior management of JCorp; and

(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,

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

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations and decision at the Board meetings relating to the Proposed Sale and Leaseback. The Interested Directors will also abstain from the voting in respect of their direct and indirect shareholdings in KPJ on any resolutions in relation to the Proposed Sale and Leaseback at the forthcoming EGM of KPJ and shall undertake to ensure that persons connected to them shall abstain from voting in respect of their direct and/or indirect interests on the resolutions pertaining to the Proposed Sale and Leaseback to be tabled at the forthcoming EGM of KPJ.

As at LPD, save for Datuk Md Arif Bin Mahmood who holds 60,000 ordinary shares in KPJ, the other Interested Directors do not have any shareholdings in KPJ.

9.2 Interested Major Shareholders' Interest

The direct and indirect shareholdings of the Major Shareholder in KPJ who is deemed interested in the Proposed Sale and Leaseback as at LPD are as follows:-

	Direct		**Indirect**	
	No. of shares	**%**	**No. of shares**	**%**
	'000		'000	
JCorp	1,545,916	35.58	417,760	(i)9.63

Note:-

(ii) Deemed interested by virtue of its shareholdings 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.

DRMSB is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp. As such, JCorp is deemed interested in the Proposed Sale and Leaseback ("**Interested Major Shareholder**").

Accordingly, JCorp shall abstain from voting in respect of its direct and indirect shareholdings in KPJ on the resolutions pertaining to the Proposed Sale and Leaseback to be tabled at the forthcoming EGM. In addition, JCorp will ensure that persons connected to JCorp, if any, abstain from voting in respect of their direct and indirect shareholdings in KPJ on the resolutions pertaining to the Proposed Sale and Leaseback to be tabled at the forthcoming EGM.

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

10. DIRECTORS' STATEMENT AND RECOMMENDATION

The Board, save for the Interested Directors, after having considered all aspects of the Proposed Sale and Leaseback, including the rationale and financial effects of the Proposed Sale and Leaseback, valuation of the Properties as ascribed by the Independent Valuer as well as the independent advice by the Independent Adviser for the Proposed Sale and Leaseback, is of the opinion that the Proposed Sale and Leaseback is fair, reasonable and on normal commercial terms and is in the best interests of the Company and not detrimental to the interest of the minority shareholders of KPJ.

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

11. 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 Sale and Leaseback, including the rationale and financial effects of the Proposed Sale and Leaseback, valuation of the Properties as ascribed by the Independent Valuer as well as the independent advice by the Independent Adviser for the Proposed Sale and Leaseback), is of the opinion that the Proposed Sale and Leaseback is fair, reasonable and on normal commercial terms and is in the best interests of the Company and not detrimental to the interest of the minority shareholders of KPJ.

12. INDEPENDENT ADVISER

The Proposed Sale and Leaseback is deemed as a related party transaction pursuant to the Listing Requirements. In view of the interest of the Interested Parties in the Proposed Sale and Leaseback, the Board had appointed the Independent Adviser to undertake the following:-

(i) comment as to whether the Proposed Sale and Leaseback are:-

  (a) fair and reasonable so far as the non-interested shareholders of KPJ are concerned; and

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

(ii) advise the non-interested Directors of the Company and the non-interested shareholders of KPJ on the Proposed Sale and Leaseback, and whether the non-interested shareholders of KPJ should vote in favour of the Proposed Sale and Leaseback; and

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

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

13. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

As at LPD, save as disclosed below, the Board is not aware of any outstanding corporate exercise which has been announced by the Company but pending completion prior to the printing of this Circular.

KPJ had on 13 September 2022 announced that KPJ's subsidiary, Jeta Gardens (QLD) Pty Ltd, had on 12 September 2022 entered into a contract for commercial land and buildings with JLand Australia PTY LTD for a proposed disposal of vacant freehold development land in Bethania Queensland Australia for a total cash consideration of AUD 6,500,000.

14. TENTATIVE TIMETABLE FOR COMPLETION

Barring any unforeseen circumstances, subject to the required shareholders' approvals being obtained, the Proposed Sale and Leaseback is expected to be completed by the end of the 1st quarter of 2023 and the Lease Agreements shall commence upon the completion of the SPAs.

The estimated timeframe for the Proposed Sale and Leaseback is as follows:-

Date	Events
Mid December 2022	- EGM to approve the Proposed Sale and Leaseback
Early January 2023	- Completion of the Proposed Sale - Commencement of the lease under the Lease Agreements

15. EGM

The EGM of the Company will be conducted virtually using the remote participation and voting ("**RPV**") facilities to be provided by the poll administrator via TIIH Online website at https://tiih.online or https://tiih.com.my (Domain registration number with MYNIC: D1A282781) on Monday, 12 December 2022 at 2.30 p.m. for the purpose of considering, and if thought fit, passing the ordinary resolution to give to the Proposed Sale and Leaseback as set out in the Notice of EGM and the Proxy Form which is enclosed in this Circular and are also available to be downloaded from the Company's website at https://kpj.listedcompany.com/egm.html.

As a shareholder, you are encouraged to go online, participate and vote at the EGM using the RPV facilities. If you wish to appoint a proxy to participate and vote on your behalf, you may deposit your Proxy Form at the office of the poll administrator or alternatively, you may lodge your Proxy Form at the office of the poll administrator or alternatively, you may lodge your Proxy Form by electronic means via TIIH Online website at https://tiih.online. The completed Proxy Form must be deposited/lodged not less than 48 hours before the time set for holding the EGM or any adjournment thereof. The lodging of the Proxy Form will not preclude you from participating the EGM and voting in person at the EGM should you subsequently wish to do so.

16. FURTHER INFORMATION

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

Yours faithfully,
For and on behalf of the Board of Directors
KPJ HEALTHCARE BERHAD

HISHAM BIN ZAINAL MOKHTAR
Independent Non-Executive Director

PART B

INDEPENDENT ADVICE LETTER BY BDOCC TO THE NON-INTERESTED SHAREHOLDERS OF KPJ IN RELATION TO THE PROPOSED SALE AND LEASEBACK

EXECUTIVE SUMMARY

Definitions or defined terms used in this Executive Summary shall have the same meanings as defined in the "Definitions" section of the Circular except where the context requires otherwise or as otherwise defined.

All references to "we", "us" and "our" in this executive summary are ascribed to BDOCC, being the Independent Adviser for the Proposed Sale and Leaseback.

THIS EXECUTIVE SUMMARY HIGHLIGHTS THE SALIENT INFORMATION OF THE PROPOSED SALE AND LEASEBACK. THE SHAREHOLDERS OF KPJ ARE ADVISED TO READ AND UNDERSTAND THIS INDEPENDENT ADVICE LETTER ("IAL") IN ITS ENTIRETY, TOGETHER WITH PART A OF THE CIRCULAR AND THE APPENDICES THERETO FOR ANY OTHER RELEVANT INFORMATION, AND ARE NOT TO RELY SOLELY ON THIS EXECUTIVE SUMMARY BEFORE FORMING AN OPINION ON THE PROPOSED SALE AND LEASEBACK. YOU ARE ALSO ADVISED TO CONSIDER CAREFULLY THE RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTIONS RELATING TO THE PROPOSED SALE AND LEASEBACK TO BE TABLED AT THE FORTHCOMING EGM.

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

1. INTRODUCTION

On 2 September 2022, on behalf of the Board, AmInvestment Bank announced that the Subsidiaries of KPJ (as detailed in **Section 2.1.3 of Part A of the Circular**) entered into individual SPA respectively with ART, being the trustee for and on behalf of Al-`Aqar for the sale of the Properties for a total consideration of RM192.0 million.

As a condition to the sale of the Properties, each Subsidiary will enter into a Lease Agreement with the Trustee (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. For information, each of the Subsidiaries, the Trustee (acting on behalf of Al-`Aqar), and DRMSB had on 2 September 2022 executed the Lease Agreements in escrow, and agreed that the Lease Agreements are to be dated upon the completion of the SPAs.

The Proposed Sale and Proposed Leaseback are inter-conditional and are collectively referred to as "**Proposed Sale and Leaseback**".

The Proposed Sale and Leaseback are deemed to be related party transactions pursuant to Paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Directors and Interested Major Shareholder as set out in **Section 9 of Part A of the Circular**.

Pursuant to the above, BDOCC was appointed by KPJ as the Independent Adviser to advise the non-interested Directors and non-interested shareholders of KPJ in relation to the:

(i) Fairness and reasonableness of the Proposed Sale and Leaseback ; and

(ii) Whether the Proposed Sale and Leaseback are detrimental to the non-interested shareholders of KPJ.

The purpose of this IAL is to provide the non-interested shareholders of KPJ with an independent evaluation on the fairness and reasonableness of the Proposed Sale and Leaseback, together with our recommendation thereon, subject to the limitations of our role and evaluation as specified in this IAL.

2. EVALUATION OF THE PROPOSED SALE AND LEASEBACK

In evaluating the Proposed Sale and Leaseback, we have taken into consideration the following:-

Section in this IAL	Area of evaluation	Our Evaluation
Section 7	Rationale of the Proposed Sale and Leaseback	We noted that KPJ Group intends to utilise RM90.0 million of the cash proceeds to partially repay RM90.0 million of sukuk due. Based on the weighted average profit rate of 5.5% per annum for the sukuk, the partial repayment of sukuk due of RM90.0 million is expected to result in annual profit savings of approximately RM4.95 million. In addition, KPJ Group also intends to utilise RM45.0 million of the cash proceeds for early repayment of a bank facility. The proposed repayment is expected to result in annual interest saving of approximately RM1.76 million based on interest rate of 3.9% per annum. Premised on the above, KPJ Group expects the repayment of sukuk and bank facility to result in total annual profit and interest savings of approximately RM6.72 million. In addition, based on the audited consolidated financial statements of KPJ for FY 2021, the gearing of KPJ Group is expected to reduce from 0.86 times to 0.79 times after the repayment of sukuk and bank facility. We also noted that KPJ Group intends to utilise RM24.9 million of the cash proceeds to fund its hospital expansion which includes, but not limited to the funding of renovation, expansion works, purchase of medical equipment and other miscellaneous development. We further noted that the Proposed Sale and Leaseback will enable KPJ Group to instantly realise an estimated gain on sale of approximately RM3.82 million upon completion of the Proposed Sale and Leaseback. We also wish to highlight that the Lease Agreements for TMC and SHH are only until year 2024 and the option to renew for an extension of 15 years is at the discretion of the Lessor. It might have an impact on the operations and sustainability of the business if the extension of 15 years is not renewed by the Lessor. Notwithstanding the above, the risk on the operations and sustainability of the business will be mitigated as the Properties are custom built and currently operated as hospital for the usage of KPJ Group and the Lessor and Lessees agree that the Properties shall be used strictly for the purpose of operating a healthcare facility. In addition, the Properties are unlikely to be demolished as the Properties are being acquired by the Lessor based on the valuation performed by Cheston using DRC Method.

Section in this IAL	Area of evaluation	Our Evaluation
		We also noted that the Contractual Term for TMC and SSH are from the completion of Proposed Sale of TMC and SSH to 30 April 2024 and 13 October 2024 respectively are in line with the existing contractual term of the respective land and other buildings that are being leased to the Lessees, with an option to renew another 15 years from the expiry of the Contractual Term at the option of the Lessor. The terms are reasonable to ensure that Contractual Term for TMC and SSH will coincide with the existing contractual term of the respective land and buildings. We also understand that KPJ Group will use its best endeavour to take all reasonable steps to mitigate the risk by commencing early negotiations with the Lessor to renew the lease term and actively engage in sourcing for suitable alternative locations to minimise the disruptions to its operations. Based on the above, we are of the view the rationale of the Proposed Sale and Leaseback is **reasonable** and not detrimental to the non-interested shareholders of KPJ.
Section 8	Basis and justifications for the Sale Consideration	We are of the following views:- (i) that the adoption of the income approach by profits method as the primary method of valuation is **reasonable** and that the market value of PGSH of RM92.6 million adopted by Cheston is **fair**; (ii) that the adoption of Depreciated Replacement Cost ("**DRC**") Method as the sole valuation methodology is **reasonable** and that the market value of TMC of RM14.3 million adopted by Cheston is **fair**; and (iii) that the adoption of DRC Method as the sole valuation methodology is **reasonable** and that the market value of SSH of RM84.5 million adopted by Cheston is **fair**. On an aggregate basis, the Sale Consideration of RM192.0 million represents a **premium** of RM0.6 million or 0.3% over the market value of the Properties of RM191.4 million. As such, we are of the view that the Sale Consideration is **fair.**
Section 9	Basis and justifications for the issue price of the Consideration Units	The issue price of the Consideration Units represents the following:- (i) **premium** ranging between RM0.0022 to RM0.0477 or 0.2% to 4.1% over the closing market price as at 1 September 2022, the five (5)-day, one (1)-month, three (3)-month, six (6)-month and one (1)-year VWAPs of Al-`Aqar Units up to and including 1 September 2022; and (ii) **premium** ranging between RM0.0092 to RM0.0100 or 0.8% over the closing market price as at LPD and the five (5)-day VWAP up to and including the LPD. We also noted that the issue price of RM1.22 per Consideration Unit approximates to the 5-day VWAP as at 1 September 2022

Section in this IAL	Area of evaluation	Our Evaluation
		of RM1.2178, and also represents a slight **premium** over the closing market prices and other VWAPs as at both 1 September 2022 and the LPD. We noted that the issue price of RM1.22 per Consideration Unit represents a **discount** ranging between RM0.0460 to RM0.0550 or 3.6% to 4.3% over the audited and unaudited Net Assets Value ("**NAV**") per Al-`Aqar Unit. Premised on the above, we are of the opinion that the issue price of the Consideration Units is **fair.**
Section 10	Basis and justifications in arriving at the rental rate	We noted that Cheston is of the view that the fair net rental yields of the Properties should be between 5.0% to 6.0%, after taking into consideration: (i) Current state of the Malaysian economy, property market and healthcare industry which have been impacted by the COVID-19 pandemic, looming global recession fears and the geopolitical risk; (ii) Current cost of financing rates, short to long term securities rates; and (iii) After comparison of broad spectrum of various types of yields of residential, commercial, industrial and agricultural properties in Malaysia. In addition, we noted that the incremental increase per annum of 2.0% is within close proximity to the 10-year average inflation rate of Malaysia of 2.1%. Based on the 2% incremental increase per annum, the net rental rate of 5.23% will increase to 5.33% in year 2 and 5.44% in year 3 respectively, which are still within the range of fair net rental yield of the Properties based on Cheston's view of 5.0% to 6.0%. Premised on the above, we are of the view that the gross rental rate of 5.75%, the net rental rate of 5.23% as well as the 2% incremental increase per annum for every Year 2 and Year 3 of the rental term are **fair.**
Section 11	Evaluation of the salient terms of the SPAs	Based on our evaluation, we are of the view that the salient terms of the respective SPAs are **reasonable.**
Section 12	Evaluation of the salient terms of the Lease Agreements	Based on our evaluation, we are of the view that the salient terms of the respective Lease Agreements are **reasonable**.
Section 13	Effects of the Proposed Sale and Leaseback	Based on the pro forma financial effects, we noted that the Proposed Sale and Leaseback will not significantly impact the pro forma NA per KPJ Share as the NA per KPJ Share is projected to remain at RM0.49 upon completion of the Proposed Sale and Leaseback due to minimal net gain on sale of the

Section in this IAL	Area of evaluation	Our Evaluation
		Properties of RM1.72 million (based on gain on sale of the Properties of RM3.82 million and after deducting the estimated expenses for the Proposed Sale and Leaseback of RM2.10 million) representing less than 0.1% of the FY 2021 audited NA attributable to shareholders of RM2,251 million. We also noted that the Proposed Sale and Leaseback will decrease the pro forma gearing of KPJ Group from 0.86 as at FY 2021 to 0.79 upon completion of the Proposed Sale and Leaseback due to the decrease of RM135 million (repayment of sukuk of RM90 million and bank facility of RM45 million) in KPJ Group's total borrowings from RM1,828.5 million in FY 2021 to RM1, 693.5 million. In addition, the Proposed Sale and Leaseback will increase the pro forma basic and diluted EPS of KPJ Group from 1.19 sen and 1.16 sen respectively as at the FY 2021 to 1.22 sen and 1.18 sen respectively upon completion of the Proposed Sale and Leaseback primarily due to the profit and interest savings from the repayment of bank facility and sukuk, gain on sale of Properties as well as saving on the existing depreciation on the buildings to be disposed, offset by the depreciation and finance charge arising from the MFRS 16 and estimated expenses in relation to the Proposed Sale and Leaseback. We also wish to highlight that the sale proceeds from the Proposed Sale will be utilised for the repayment of sukuk, bank facility and investment in expansion of hospitals as highlighted in **Section 7 of this IAL**. Premised on the above, we are of the view that the overall effects of the Proposed Sale and Leaseback are **reasonable** and **not detrimental** to the interests of the non-interested shareholders of KPJ.
Section 14	Economic and market overview	We are of the view that the economic and market conditions appear to be favourable to the operations of KPJ Group. Nonetheless, we wish to highlight that the Proposed Sale and Leaseback is subject to certain risk factors as disclosed in **Section 15 of this IAL**.
Section 15	Risk factors associated with the Proposed Sale and Leaseback	In considering the Proposed Sale and Leaseback, the non-interested shareholders of KPJ are advised to give careful consideration to the following risk factors:- (i) Non-completion of the Proposed Sale and Leaseback; and (ii) Non-renewal of the leases. We noted that in the event where the lease of the Properties is not renewed, KPJ Group will use its best endeavour to take all reasonable steps to minimise the disruptions to its operations. We wish to highlight that although measures could be taken by KPJ Group to attempt to limit the risk(s) associated with the Proposed Sale and Leaseback, no assurance can be given that the abovementioned risk factors will not crystallise and give rise to material impact on the operation and financial performance of

Section in this IAL	Area of evaluation	Our Evaluation
		KPJ Group. In evaluating the Proposed Sale and Leaseback, the shareholders of KPJ are advised to carefully consider the above said risk factors.

3. CONCLUSION AND RECOMMENDATION

In arriving at our conclusion and recommendation, we have taken into account the various consideration factors as set out in this IAL. Based on this, BDOCC views that the Proposed Sale and Leaseback is **fair** and **reasonable** and is **not detrimental** to the non-interested shareholders of KPJ.

Accordingly, we advise and recommend that the non-interested shareholders **vote in favour** of the ordinary resolutions pertaining to the Proposed Sale and Leaseback to be tabled at the forthcoming EGM.

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Malaysia

22 November 2022

To: The non-interested shareholders of KPJ Healthcare Berhad

Dear Sir / Madam,

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

INDEPENDENT ADVICE LETTER ("IAL") TO THE NON-INTERESTED SHAREHOLDERS OF KPJ IN RELATION TO THE PROPOSED SALE AND LEASEBACK

1. INTRODUCTION

On 2 September 2022, on behalf of the Board, AmInvestment Bank announced that the Subsidiaries of KPJ (as detailed in **Section 2.1.3 of Part A of the Circular**) entered into individual SPA respectively with ART, being the trustee for and on behalf of Al-`Aqar for the sale of the Properties for a total consideration of RM192.0 million.

As a condition to the sale of the Properties, each Subsidiary will enter into a Lease Agreement with the Trustee (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. For information, each of the Subsidiaries, the Trustee (acting on behalf of Al-`Aqar), and DRMSB had on 2 September 2022 executed the Lease Agreements in escrow, and agreed that the Lease Agreements are to be dated upon the completion of the SPAs.

The Proposed Sale and Proposed Leaseback are inter-conditional and are collectively referred to as "**Proposed Sale and Leaseback**".

The Proposed Sale and Leaseback is a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Directors and Interested Major Shareholder as set out in **Section 9 of Part A of the Circular**. Accordingly, the Board (save for Interested Directors) had on 25 November 2021 appointed BDOCC as the Independent Adviser to advise the non-interested directors and non-interested shareholders of KPJ on the Proposed Sale and Leaseback.

The purpose of this IAL is to provide the non-interested shareholders of KPJ with an independent evaluation on the fairness and reasonableness of the Proposed Sale and Leaseback, together with our recommendation thereon, subject to the limitations of our role and evaluation as specified in this IAL.

NON-INTERESTED SHAREHOLDERS OF KPJ ARE ADVISED TO READ BOTH THIS IAL AND PART A OF THE CIRCULAR, TOGETHER WITH THE ACCOMPANYING APPENDICES, AND CAREFULLY CONSIDER THE RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSED SALE AND LEASEBACK TO BE TABLED AT THE FORTHCOMING EGM.

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

2. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED WITH THEM

The Proposed Sale and Leaseback is deemed to be a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Directors and Interested Major Shareholder as set out in **Section 9 of Part A of the Circular**.

3. SCOPE AND LIMITATIONS OF OUR EVALUATION OF THE PROPOSED SALE AND LEASEBACK

BDOCC was not involved in the formulation of the Proposed Sale and Leaseback and/or any deliberations and negotiations pertaining to the terms and conditions of the Proposed Sale and Leaseback. BDOCC's terms of reference as an Independent Adviser are limited to expressing an independent evaluation of the Proposed Sale and Leaseback based on the information provided to us or made available to us, including but not limited to the following:

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

(ii) The PGSH SPA dated 2 September 2022 entered between PGSHSB and the Trustee;

(iii) The TMC SPA dated 2 September 2022 entered between PSHSB and the Trustee;

(iv) The SSH SPA dated 2 September 2022 entered between MSHSB and the Trustee;

(v) The Lease Agreements executed in escrow between the Trustee, the respective Subsidiaries and the Manager to lease the Properties;

(vi) Valuation report dated 14 July 2022 by Cheston in relation to the valuation of the PGSH;

(vii) Valuation report dated 14 July 2022 by Cheston in relation to the valuation of the SSH;

(viii) Valuation report dated 14 July 2022 by Cheston in relation to the valuation of the TMC;

(ix) Discussions with and representations by the Board and management of KPJ;

(x) Other relevant information, documents, confirmations and representations furnished to us by the Board and management of KPJ; and

(xi) Other publicly available information which we deemed to be relevant for our evaluation.

We have made such reasonable enquiries to the Board and management of KPJ. We have relied upon the information and/or documents as mentioned above and also that relevant facts and information and/or representations necessary for our evaluation of the Proposed Sale and Leaseback have been disclosed to us and that such information is accurate, valid and there is no omission of material facts which would make any information provided to us to be incomplete, misleading or inaccurate. We express no opinion on any such information and have not undertaken any independent investigation into the business and affairs of KPJ Group and all relevant parties involved in the Proposed Sale and Leaseback. Based on the above, we are satisfied with the information and documents provided by KPJ Group and are not aware of any fact or matter not disclosed which renders any such information untrue, inaccurate or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this IAL.

In rendering our advice, BDOCC had taken note of pertinent issues, which we believe are necessary and important to an assessment of the implications of the Proposed Sale and Leaseback and therefore of general concern to the non-interested shareholders of KPJ. As such:

(i) The scope of BDOCC's responsibility regarding the evaluation and recommendation contained herein is confined to the assessment of the fairness and reasonableness of the terms and conditions of the Proposed Sale and Leaseback as well as other implications of the Proposed Sale and Leaseback only. Comments or points of consideration which may be commercially oriented such as the rationale of the Proposed Sale and Leaseback are included in our overall evaluation as we deem necessary for disclosure purposes to enable the shareholders of KPJ to consider and form their views thereon. We do not express an opinion on legal, accounting and taxation issues relating to the Proposed Sale and Leaseback;

(ii) BDOCC's views and advice as contained in this IAL only cater to the non-interested shareholders of KPJ at large and not to any shareholder individually. Hence, in carrying out our evaluation, we have not given consideration to the specific investment objectives, risk profiles, financial and tax situations and particular needs of any individual shareholder or any specific group of shareholders; and

(iii) We recommend that any individual shareholder or group of shareholders of KPJ who are in doubt as to the action to be taken or require advice in relation to the Proposed Sale and Leaseback in the context of their individual objectives, risk profiles, financial and tax situations or particular needs, shall consult their respective stockbrokers, bankers, solicitors, accountants or other professional advisers immediately.

Our evaluation and recommendation expressed herein are based on prevailing economic, market and other conditions, and the information and/or documents made available to us as at the LPD. Such conditions may change over a short period of time. Accordingly, our evaluation and recommendation expressed herein do not take into account the information, events and conditions arising after the LPD.

The Board has seen and approved the contents of this IAL. They collectively and individually accept full responsibility for the accuracy and completeness of the information contained in this IAL and confirm that, after making all enquiries as were reasonable in the circumstances and to the best of their knowledge and belief, there are no false or misleading statements or other facts, the omission of which would make any information in this IAL false or misleading.

The responsibility of the Board in respect of the independent advice and expression of opinion by BDOCC in relation to the Proposed Sale and Leaseback as set out in **Section 1 of Appendix VI of the Circular**, is to ensure that accurate information in relation to the KPJ Group was provided to BDOCC for its evaluation of the Proposed Sale and Leaseback and to ensure that all information in relation to the KPJ Group that is relevant to BDOCC's evaluation of the Proposed Sale and Leaseback has been completely disclosed to BDOCC and that there is no omission of material facts which would make any information provided to BDOCC false or misleading.

We shall notify the shareholders of KPJ if, after the despatch of this IAL, we become aware of the following:

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

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

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

If circumstances require, a supplementary IAL will be sent to the shareholders of KPJ.

4. DECLARATION OF CONFLICT OF INTEREST

BDOCC confirms that it is not aware of any existing conflict of interest or any circumstances which would or are likely to give rise to a possible conflict of interest by virtue of BDOCC's appointment as the Independent Adviser in respect of the Proposed Sale and Leaseback.

Save for the current appointment as the Independent Adviser of the Proposed Sale and Leaseback, we did not have any other professional relationship with KPJ at any time during the past two (2) years prior to the date of this IAL.

5. CREDENTIALS, EXPERIENCE AND EXPERTISE OF BDOCC

BDOCC is a corporate advisory firm in Malaysia with a corporate finance advisory team which provides an extensive range of services to both the corporate and financial sectors as well as the investment community. The areas of expertise include valuation services, capital market transactions, due diligence works and mergers and acquisition.

The credentials and experience of BDOCC as an Independent Adviser, where we have been appointed in the past two (2) years prior to the date of this IAL, include the following proposals:

(i) Appointment by Versatile Creative Berhad as Independent Adviser for the conditional mandatory take-over offer by NSK Trading Sdn Bhd to acquire all the remaining ordinary shares in Versatile Creative Berhad not already held by NSK Trading Sdn Bhd for a cash consideration of RM0.70 per offer share. Our independent advice circular was issued on 21 January 2021;

(ii) Appointment by Eastern & Oriental Berhad as Independent Adviser for the conditional mandatory take-over offer by Amazing Parade Sdn Bhd to acquire all the remaining ordinary shares in Eastern & Oriental Berhad not already owned by Amazing Parade Sdn Bhd, Datuk Tee Eng Ho, Datin Toh Siew Chuon and Tee Eng Seng and persons acting in concert with them for a cash consideration of RM0.60 per offer share. Our independent advice circular was issued on 26 April 2021;

(iii) Appointment by MAG Holdings Berhad as Independent Adviser in relation to the proposed acquisition of 100% equity interest of North Cube Sdn Bhd for a purchase consideration of RM200,000,000. Our independent advice letter was issued on 10 June 2021;

(iv) Appointment by Damansara Realty Berhad as Independent Adviser in relation to the proposed disposal of a real property asset to a related party for a total cash consideration of approximately RM38.42 million. Our independent advice letter was issued on 8 July 2021;

(v) Appointment by OCR Group Berhad as Independent Adviser in relation to the proposed acquisition and settlement of various contingent sums. Our independent advice letter was issued on 2 November 2021;

(vi) Appointment by MPHB Capital Berhad as Independent Adviser in relation to the proposed disposal of 51% equity interest in MPI Generali Insurans Berhad to Generali Asia N.V. for a total cash consideration of RM485.00 million, subject to adjustments. Our Independent advice letter was issued on 28 June 2022;

(vii) Appointment by Citaglobal Berhad as Independent Adviser in relation to the proposed acquisition of 100% equity interest in Citaglobal Engineering Services Sdn Bhd for a purchase consideration of RM140,000,000. Our independent advice letter was issued on 21 September 2022;

(viii) Appointment by Heng Huat Resources Group Berhad as Independent Adviser for the conditional mandatory take-over offer by GH Consortium Sdn Bhd to acquire all the offer securities for a cash consideration of RM0.3771 per offer share andRM0.2971 per offer warrant. The independent advice circular was issued on 30 October 2022; and

(ix) Appointment by Iskandar Waterfront City Berhad as Independent Adviser in relation to the proposed disposal of a piece of freehold vacant land for a cash consideration of RM53.24 million and settlement of debt owing by the company and its subsidiary amounting to RM50.76 million by way of set-off against the disposal consideration. Our independent advice letter was issued on 31 October 2022.

Premised on the foregoing, BDOCC is capable and competent in carrying out its role and responsibilities as the Independent Adviser to advise the non-interested shareholders of KPJ in relation to the Proposed Sale and Leaseback.

6. EVALUATION OF THE PROPOSED SALE AND LEASEBACK

In evaluating the Proposed Sale and Leaseback, we have taken into consideration the following factors in forming our opinion:-

		Section in this IAL
(i)	Rationale of the Proposed Sale and Leaseback	7
(ii)	Basis and justifications for the Sale Consideration	8
(iii)	Basis and justifications for the issue price of the Consideration Units	9
(iv)	Basis and justifications in arriving at the rental rate	10
(v)	Evaluation of the salient terms of the SPAs	11
(vi)	Evaluation of the salient terms of the Lease Agreements	12
(vii)	Effects of the Proposed Sale and Leaseback	13
(viii)	Economic and market overview	14
(ix)	Risk factors associated with the Proposed Sale and Leaseback	15

7. RATIONALE OF THE PROPOSED SALE AND LEASEBACK

We take cognisance of the following rationale to be derived from the Proposed Sale and Leaseback as outlined in **Section 4 of Part A of the Circular**.

We noted that the Proposed Sale and Leaseback will enable KPJ Group to unlock the value of the Properties and realise an estimated gain on sale (after taking into consideration the impact from the Proposed Leaseback of the Properties) of approximately RM3.82 million upon completion of the Proposed Sale and Leaseback.

The gain on sale is derived as follows in accordance with MFRS16: Leases:-

	(A)	(B)	(C)	[(B-C)/B] x (B-A)
Properties	**Net Book Value as at 2 September 2022**	**Purchase Price**	**Present Value of Monthly Lease Payment ("PVMLP")**	**Gain on Sale**
	RM('mil)	**RM('mil)**	**RM('mil)**	**RM('mil)**
PGSH	78.40	93.00	78.28	2.31
SSH	82.60	84.70	54.84	0.74
TMC	12.25	14.30	8.95	0.77
Total	**173.25**	**192.00**	**142.07**	**3.82**

We further noted that as detailed in **Section 3 of Part A of the Circular**, the cash proceeds arising from the Proposed Sale of RM167.0 million is proposed to be utilised in the following manner:-

Details of utilisation	Expected utilisation timeframe from Completion Date	Cash proceeds amount
		(RM'000)
Repayment of sukuk	Within 12 months	90,000
Repayment of bank facility	Within 12 months	45,000
Investment in expansion of hospitals	Within 12 months	24,898
General working capital	Within 3 months	4,991
Estimated expenses for the Proposed Sale and Leaseback	Within 1 months	2,100
Total		**166,689**

BDOCC's Comments:

We noted that KPJ Group intends to utilise RM90.0 million of the cash proceeds to partially repay RM90.0 million of sukuk due. Based on the weighted average profit rate of 5.5% per annum for the sukuk, the partial repayment of sukuk due of RM90.0 million is expected to result in annual profit savings of approximately RM4.95 million. In addition, KPJ Group also intends to utilise RM45.0 million of the cash proceeds for early repayment of a bank facility. The proposed repayment is expected to result in annual interest saving of approximately RM1.76 million based on interest rate of 3.9% per annum.

Premised on the above, KPJ Group expects the repayment of sukuk and bank facility to result in total annual profit and interest savings of approximately RM6.72 million. In addition, based on the audited consolidated financial statements of KPJ for FY 2021, the gearing of KPJ Group is expected to reduce from 0.86 times to 0.79 times after the repayment of sukuk and bank facility.

We also noted that KPJ Group intends to utilise RM24.9 million of the cash proceeds to fund its hospital expansion which includes, but not limited to the funding of renovation, expansion works, purchase of medical equipment and other miscellaneous development.

We further noted that the Proposed Sale and Leaseback will enable KPJ Group to instantly realise an estimated gain on sale of approximately RM3.82 million upon completion of the Proposed Sale and Leaseback.

We also wish to highlight that the Lease Agreements for TMC and SHH are only until year 2024 and the option to renew for an extension of 15 years is at the discretion of the Lessor. It might have an impact on the operations and sustainability of the business if the extension of 15 years is not renewed by the Lessor.

Notwithstanding the above, the risk on the operations and sustainability of the business will be mitigated as the Properties are custom built and currently operated as hospital for the usage of KPJ Group and the Lessor and Lessees agree that the Properties shall be used strictly for the purpose of operating a healthcare facility. In addition, the Properties are unlikely to be demolished as the Properties are being acquired by the Lessor based on the valuation performed by Cheston using DRC Method.

We also noted that the Contractual Term for TMC and SSH are from the completion of Proposed Sale of TMC and SSH to 30 April 2024 and 13 October 2024 respectively are in line with the existing contractual term of the respective land and other buildings that are being leased to the Lessees, with an option to renew another 15 years from the expiry of the Contractual Term at the option of the Lessor. The terms are reasonable to ensure that Contractual Term for TMC and SSH will coincide with the existing contractual term of the respective land and buildings.

We also understand that KPJ Group will use its best endeavour to take all reasonable steps to mitigate the risk by commencing early negotiations with the Lessor to renew the lease term and actively engage in sourcing for suitable alternative locations to minimise the disruptions to its operations.

Based on the above, we are of the view the rationale of the Proposed Sale and Leaseback is <u>reasonable</u> and not detrimental to the non-interested shareholders of KPJ. Nevertheless, non-interested shareholders of KPJ should note that the potential benefits arising from the Proposed Sale and Leaseback are subject to certain risk factors as disclosed in Section 15 of this IAL.

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8. BASIS AND JUSTIFICATIONS FOR THE SALE CONSIDERATION

As set out in **Section 2.1.5 of Part A of the Circular**, the Sale Consideration for the Proposed Sale was arrived at on a “willing buyer-willing seller” basis after taking into consideration the market value of the Properties amounting to RM191.4 million, as ascribed by Cheston, vide the valuation reports dated 14 July 2022.

The valuation for the Properties has been carried out by using the following methods:-

Hospital	Adopted market value (RM’mil)	Valuation methodology
PGSH	92.6	Primary method: Income Approach by Profits Method Secondary method: Cost Approach by Comparison Method and Depreciated Replacement Cost (“**DRC**”) Method
TMC	14.3	Cost Approach by DRC Method[(1)]
SSH	84.5	Cost Approach by DRC Method[(1)]
Total	**191.4**	

<u>Notes</u>:
(1) Cheston has adopted only DRC Method as the primary valuation method for the valuation of SSH and TMC in view that both SSH and TMC involve the valuation of buildings only excluding the land component.

We have reviewed the contents of the valuation reports which were prepared in accordance with the Asset Valuation Guidelines issued by the Securities Commission Malaysia and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers, Estate Agents and Property Managers Malaysia. Accordingly, we are satisfied with the bases and assumptions adopted by Cheston in arriving at the market value of the Properties.

The basis of valuation adopted is the market value which is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after property marketing where the parties had each acted knowledgeably, prudently and without compulsion”.

As disclosed in **Section 2.1.1, Part A of the Circular**, the details of the Properties are summarised follows:-

	PGSH	SSH	TMC
Description	• Entire hospital and land • An 8-storey private medical centre building, a double storey M&E building, a single storey pump house building and 3 units of single storey refuse chambers	• New building erected on Al-Aqar's land • An 8-storey private consultant block, an annexed 6-storey private medical centre with a ground floor car park, a double storey M&E building, a single storey medical gas storage building and a single storey refuse chamber building	• New building erected on Al-Aqar's land • A 4-storey private ambulatory care centre, M&E building accommodating a main switch board room, a generator set room, a telephone room and a metre room as well as a medical gas building
Address	PTD 204781 (New Lot 198635), Jalan Persiaran Dahlia 2, Taman Bukit Dahlia, 81700 Pasir Gudang, Johor Darul Takzim	Lot 6219 & 6220, Jalan Toman 1, Kemayan Square, 70200 Seremban, Negeri Sembilan Darul Khusus	T/K PT 1106, Medan Taiping, 34000 Taiping, Perak Darul Ridzuan
Existing use	Private hospital	Private hospital	Private ambulatory care centre
Category of land use	Building	Building	Building
Express condition(s)	(i) This land shall be used for a private hospital, constructed in accordance with the plan approved by the relevant Local Authority (ii) All impurities and pollution resulting from this activity must be channelled/ disposed to places that have been designated by the Relevant Authority (iii) All policies and conditions that have been implemented and enforced from time to time by the Relevant Authority shall be adhered	This land shall be used for private hospitals building only	Commercial – Shop Building

	PGSH	SSH	TMC
Tenure	99-year leasehold interest expiring on 28 December 2108	Interest in Perpetuity	99-year leasehold interest expiring on 25 July 2088
Age of Building	9.48 years	3.49 years	3.70 years
Gross floor area (sq. ft.)	203,280.10	207,161.14	31,513.28
Occupancy Rate	100% occupied for the hospital operation	100% occupied for the hospital operation	100% occupied for the hospital operation
Net Book Value @ 31 December 2021 (RM'mil)	78.8	82.9	12.4
Market Value (RM'mil)	92.6	84.5	14.3
Date of investment	18 April 2013	17 July 2018	13 September 2018
Original cost of investment (RM'mil)	80.3	84.6	12.4
Encumbrances	Nil	Nil	Nil

We noted that the Cheston had adopted the valuation methods in the valuation of the Properties which include income approach by profits method, the cost approach and the DRC Method. A brief description of the respective valuation method is as follows:-

(i) **Income approach by profits method**

We noted that this method is adopted where revenues/earnings, expenses and profits are the essence to the value of the property (business based property) and this method capitalises future net trading profit as a basis for estimating the market value of the subject property as a going concern inclusive of goodwill, hospital operating equipment, furniture, fittings, plant, machinery and equipment.

(ii) **Cost approach**

We noted that this approach entails the summation of the market value of land which derived from comparison method and depreciated replacement cost of the building by DRC Method. Cost approach is the common method or it can be applied to wide range of assets. The cost approach estimates value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. It is based on the principle of substitution (i.e. that unless undue time, inconvenience, risk or other factors are involved, the price that a buyer in the market would pay for the asset being valued would not be more than the cost to construct an equivalent asset).

(iii) **DRC Method**

We noted that this method is the commonly adopted method for the valuation of buildings only excluding the land component and when there is either very limited or no evidence of sale transactions. The DRC Method estimates value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. This method is also based on the principle of substitution (i.e. that unless undue time, inconvenience, risk or other factors are involved, the price that a buyer in the market would pay for the asset being valued would not be more than the cost to construct an equivalent asset).

We also noted that Cheston has adopted the valuation methodology which comprise of Income Approach by Profits Method as the primary method and Cost Approach as the secondary method for the valuation of PGSH. For the valuation of SSH and TMC, Cheston has only adopted the DRC Method. This is due to the fact that PGSH comprises the entire land and buildings whereas the valuation of TMC and SSH are in respect of the building component of the respective existing private medical centres.

Premised on the above, in view that the valuation methods adopted are consistent with the generally applied valuation methodologies, we are of the view that the valuation methods adopted by Cheston in arriving at the market value of the respective Properties are **reasonable**. For further information in relation to our analysis on the valuation carried out by Cheston, please refer to **Sections 8.1, 8.2 and 8.3 of this IAL**.

8.1 Valuation of PGSH

We noted that in arriving at the valuation of PGSH, Cheston has adopted the income approach by profits method as the primary valuation methodology and the cost approach as a cross-check.

8.1.1 Income approach by profits method

In arriving at the market value of PGSH, we noted that Cheston has used the income approach by profits method based on the forecasted profits of PGSH for a 5-year period and the terminal value of PGSH based on the fifth year's net profit for the remaining term of the tenure.

In arriving at the forecasted profits of PGSH, we noted that Cheston has conducted its analysis on PGSH's past operating performance, projections prepared by PGSHSB as well as due diligence to arrive at the independent projections as per practice in the industry. We also noted that in Cheston's analysis of PGSH's past operating performance, Cheston did not take into consideration of past revenues and expenses for years 2020, 2021 and the period to 2022 as the private specialist medical centre sector is affected by the global economic crisis caused by the COVID-19 pandemic. We further noted that the forecasted profits of PGSH prepared by Cheston have taken into consideration the recovery from the pandemic phase for the initial years and gradual increase from the return to normalcy phase at latter years. The market value of PGSH based on the income approach by profits method is RM92.6 million.

The key parameters adopted by Cheston in arriving at the market value of PGSH using the income approach by profits method and our comments are set out below:-

<table>
<tr><th>No.</th><th>Key parameters</th><th>BDOCC's comments</th></tr>
<tr><td>1.</td><td><u>Occupancy rate of beds</u>
<table><tr><th>Year</th><th>Occupancy Rate</th></tr><tr><td>Year 1</td><td>55.0%</td></tr><tr><td>Year 2</td><td>60.0%</td></tr><tr><td>Year 3</td><td>65.0%</td></tr><tr><td>Year 4</td><td>70.0%</td></tr><tr><td>Year 5</td><td>75.0%</td></tr><tr><td>Terminal</td><td>75.0%</td></tr></table></td><td>We noted that the projected occupancy rate of 55.0% for year 1 is derived by Cheston based on the historical occupancy rate achieved by PGSH since years 2015 to 2019. The occupancy rate of 55.0% reflected a lower occupancy rate for year 1 as Cheston foresee that the impact of COVID-19 pandemic to continue albeit on a lower scale in year 2022/2023.

The historical occupancy rate of beds is as follows:-<table><tr><th>Year</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>Jan-July 2022</th></tr><tr><td>Occupancy rate of beds</td><td>54.2%</td><td>72.9%</td><td>71.3%</td><td>75.9%</td><td>78.0%</td><td>60.7%</td><td>40.8%</td><td>61.6%</td></tr></table>
We noted that Cheston has projected a 5.0% per annum gradual increase in the occupancy rate starting from 55.0% in year 1. We further noted that the rate of 5.0% is adopted on the basis that it represents the average occupancy rate to return to normalcy, which is in line with the recovery in the Malaysian economy. The occupancy rate of beds of 75.0% in year 5 is reasonable as the historical occupancy rate of beds in years 2015 to 2021 were ranging from 40.8% to 78.0%.

In addition, we are of the view that the occupancy rate of beds of 75% is reasonable as the average historical occupancy rate of beds in year 2015 to 2019 (years 2020, 2021 and the period to July 2022 were excluded due to COVID-19) is approximately 70.5%. We also noted that the most recent occupancy rate of beds in year 2018 and 2019 (before the COVID-19) were 75.9% and 78.0% respectively.

Based on the above, the basis for the assumption is reasonable.</td></tr>
</table>

<table>
<tr><th>No.</th><th>Key parameters</th><th>BDOCC’s comments</th></tr>
<tr><td>2.</td><td><u>Average Number of Days Every Inpatient Admitted</u>

Cheston has adopted <u>2.12 days</u> as the average number of days every inpatient admitted.</td><td>The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. We noted that the projected rate of 2.12 days for the average number of days every inpatient admitted adopted by Cheston is calculated based on the historical average of years 2017, 2018 and 2019. We also noted that this projected rate remains fixed throughout the projection period. The average number of days every inpatient admitted of 2.12 days is reasonable as it falls within the range of the historical number of days every inpatient admitted in years 2017 to 2021 of 2.07 days to 2.15 days.

The historical number of days every inpatient admitted is as follows:-
<table>
<tr><th>Year</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>Jan-July 2022</th></tr>
<tr><td>Average number of days every inpatient admitted</td><td>2.14</td><td>2.15</td><td>2.07</td><td>2.09</td><td>2.07</td><td>2.19</td></tr>
<tr><td></td><td colspan="3">3-year average: 2.12</td><td colspan="3">Excluded due to COVID-19</td></tr>
</table>
Based on the above, the basis for the assumption is reasonable.</td></tr>
<tr><td>3.</td><td><u>Ratio of number of outpatients / number of inpatients</u>

Cheston has adopted <u>3.94</u> as the ratio of number of outpatient / number of inpatient.</td><td>We noted that the projected ratio of 3.94 for the number of outpatients / number of inpatients is adopted by Cheston to derive the projected number of outpatient.

We noted that the projected ratio of 3.94 for the number of outpatient / number of inpatient adopted by Cheston is calculated based on the historical average of years 2016, 2017 and 2019. We also noted that this projected rate remains fixed throughout the projection period. The projected ratio of 3.94 for the number of outpatient / number of inpatient is reasonable as it falls within the range of the historical ratio of number of outpatient / number of inpatient in years 2016 to 2021 (save for year 2018 which is inconsistent with other years) of 3.74 to 7.34.

The historical ratio of number of outpatient / number of inpatient is as follows:-
<table>
<tr><th>Year</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>Jan-July 2022</th></tr>
<tr><td>Ratio of number of outpatient / number of inpatient</td><td>3.88</td><td>3.74</td><td>3.17</td><td>4.20</td><td>5.82</td><td>7.34</td><td>5.20</td></tr>
<tr><td></td><td colspan="4">3-year average: 3.94 (excluding year 2018 as outlier)</td><td colspan="3">Excluded due to COVID-19</td></tr>
</table>
Based on the above, the basis for the assumption is reasonable.</td></tr>
</table>

<table>
<tr><th>No.</th><th>Key parameters</th><th>BDOCC's comments</th></tr>
<tr><td>4.</td><td><u>Consultant inpatient revenue per occupied bed</u>

Cheston has adopted <u>RM741</u> as the consultant inpatient revenue per occupied bed.</td><td>We noted that the consultant inpatient revenue is derived by multiplying the total beds occupied for the year with the estimated consultant inpatient revenue per occupied bed.

We noted that the projected rate of RM741 per occupied bed adopted by Cheston is calculated based on the historical average of years 2017, 2018 and 2019. We also noted that this projected rate remains fixed throughout the projection period. The consultant inpatient revenue per occupied bed of RM741 is reasonable as it falls within the range of the historical consultant inpatient revenue per occupied bed in years 2017 to 2021 of RM727 to RM891.

The historical consultant inpatient revenue per occupied bed is as follows:-
<table>
<tr><th>Year</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>Jan-July 2022</th></tr>
<tr><td>Consultant inpatient revenue per occupied bed</td><td>766</td><td>727</td><td>729</td><td>762</td><td>891</td><td>719</td></tr>
<tr><td></td><td colspan="3">3-year average: 741</td><td colspan="3">Excluded due to COVID-19</td></tr>
</table>
Based on the above, the basis for the assumption is reasonable.</td></tr>
<tr><td>5.</td><td><u>Consultant outpatient revenue per person</u>

Cheston has adopted <u>RM116</u> as the consultant outpatient revenue per person.</td><td>We noted that the consultant outpatient revenue is derived by multiplying the total projected outpatient visits to PGSH for the year with the consultant outpatient revenue per person.

We noted that the projected rate of RM116 per outpatient adopted by Cheston is calculated based on the historical average of years 2017, 2018 and 2019. We also noted that this projected rate remains fixed throughout the projection period. The consultant outpatient revenue per person of RM116 is reasonable as it falls within the range of the historical consultant outpatient revenue per person in years 2017 to 2021 of RM72 to RM129.

The historical consultant outpatient revenue per person is as follows:-
<table>
<tr><th>Year</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>Jan-July 2022</th></tr>
<tr><td>Consultant outpatient revenue per person</td><td>119</td><td>129</td><td>99</td><td>80</td><td>72</td><td>84</td></tr>
<tr><td></td><td colspan="3">3-year average: 116</td><td colspan="3">Excluded due to COVID-19</td></tr>
</table>
Based on the above, the basis for the assumption is reasonable.</td></tr>
</table>

<table>
<tr><th>No.</th><th>Key parameters</th><th>BDOCC's comments</th></tr>
<tr><td>6.</td><td><u>Hospital inpatient revenue per occupied bed</u>

Cheston has adopted <u>RM2,047</u> as the hospital inpatient revenue per occupied bed.</td><td>We noted that the hospital inpatient revenue is derived by multiplying the total occupied beds for the year with the hospital inpatient revenue per occupied bed.

We noted that the projected rate of RM2,047 per occupied bed adopted by Cheston is calculated based on the historical average of years 2017, 2018 and 2019. We also noted that this projected rate remains fixed throughout the projection period. The hospital inpatient revenue per occupied bed of RM2,047 is reasonable as it falls within the range of the historical hospital inpatient revenue per occupied bed in years 2017 to 2021 of RM1,891 to RM2,694.

The historical hospital inpatient revenue per occupied bed is as follows:-
<table>
<tr><th>Year</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>Jan-July 2022</th></tr>
<tr><td>Hospital inpatient revenue per occupied bed</td><td>1,891</td><td>2,093</td><td>2,157</td><td>2,341</td><td>2,694</td><td>2,340</td></tr>
<tr><td></td><td colspan="3">3-year average: 2,047</td><td colspan="3">Excluded due to COVID-19</td></tr>
</table>
Based on the above, the basis for the above assumption is reasonable.</td></tr>
<tr><td>7.</td><td><u>Hospital outpatient revenue per person</u>

Cheston has adopted <u>RM220</u> as the hospital outpatient revenue per person.</td><td>We noted that the hospital outpatient revenue is derived by multiplying the total projected outpatient visits to PGSH for the year with the hospital outpatient revenue per person.

We noted that the projected rate of RM220 per outpatient adopted by Cheston is calculated based on the historical average of years 2017, 2018 and 2019. We also noted that this projected rate remains fixed throughout the projection period. The hospital outpatient revenue per person of RM220 is reasonable as it falls within the range of the historical hospital outpatient revenue per person in years 2017 to 2021 of RM197 to RM253.

The historical hospital outpatient revenuer per person is as follows:-
<table>
<tr><th>Year</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>Jan-July 2022</th></tr>
<tr><td>Hospital revenue per outpatient</td><td>197</td><td>252</td><td>212</td><td>240</td><td>253</td><td>284</td></tr>
<tr><td></td><td colspan="3">3-year average: 220</td><td colspan="3">Excluded due to COVID-19</td></tr>
</table>
Based on the above, the basis for the above assumption is reasonable.</td></tr>
</table>

No.	Key parameters	BDOCC's comments
8.	**Cost of sales**	

Cost of sales

Cheston's cost of sales parameters are as follows:

Material cost	25.1% of hospital inpatient and outpatient revenues
Direct staff cost	13.6% of gross operating revenue before hospital discount and appropriation to consultant
Operating overhead	6.3% of gross operating revenue before hospital discount and appropriation to consultant

BDOCC's comments

From the analysis of the historical cost of sales of PGSH performed by Cheston, we noted that material cost moved in tandem with the hospital inpatient and outpatient revenues. The percentage of material cost over the hospital inpatient and outpatient revenue is derived based on the historical average of years 2017, 2018 and 2019.

We also noted that the direct staff cost and operating overhead moved in tandem with the gross operating revenue before hospital discount and appropriation to consultant. The percentage of direct staff cost and operating overhead over the gross operating revenue before hospital discount and appropriation to consultant is derived based on the historical average of year 2017, 2018 and 2019.

The historical material costs in relation to hospital inpatient and outpatient revenues are as follows:-

Year	2017	2018	2019	2020	2021	Jan-July 2022
Material cost	26.9%	25.0%	23.3%	26.0%	26.5%	24.3%
	3-year average: 25.1%			*Excluded due to COVID-19*		

The historical direct staff costs in relation to gross operating revenue before hospital discount and appropriation to consultant are as follows:-

Year	2017	2018	2019	2020	2021	Jan-July 2022
Direct staff cost	13.4%	13.9%	13.6%	13.0%	14.6%	13.5%
	3-year average: 13.6%			*Excluded due to COVID-19*		

The historical operating overheads in relation to gross operating revenue before hospital discount and appropriation to consultant are as follows:-

Year	2017	2018	2019	2020	2021	Jan-July 2022
Operating overhead	6.2%	6.3%	6.4%	8.4%	8.5%	7.8%
	3-year average: 6.3%			*Excluded due to COVID-19*		

Based on the above, the basis for the above assumptions are reasonable as the basis for the material costs, direct staff costs and operating overhead are based on the historical average of year 2017, 2018 and 2019, which are also within the range in years 2017 to 2021.

No.	Key parameters	BDOCC's comments
9.	**Undistributed operating expenses**	From the analysis of the historical expenses of PGSH, it is noted that all categories of the undistributed operating expenses moved in tandem with the gross operating revenue after hospital discount and appropriation to consultant. The % of undistributed operating expenses over the gross operating revenue after hospital discount and appropriation to consultant is derived based on the historical average of years 2017, 2018 and 2019.

Cheston's undistributed operating expenses parameters are as follows:

Administration and General	11.1%
Sales and Marketing	0.4%
Property Operations Maintenance and Energy Cost ("POMEC")	7.5%

Note:
All expense percentages above are in relation *to gross operating revenue after hospital discount and appropriation to consultant.*

The historical administration and general costs in relation to gross operating revenue after hospital discount and appropriation to consultant are as follows:-

Year	2017	2018	2019	2020	2021	Jan-July 2022
Administration and General	12.9%	11.3%	9.2%	8.8%	8.4%	7.6%
	3-year average: 11.1%			*Excluded due to COVID-19*		

The historical sales and marketing costs in relation to gross operating revenue after hospital discount and appropriation to consultant are as follows:-

Year	2017	2018	2019	2020	2021	Jan-July 2022
Sales and Marketing	0.3%	0.4%	0.5%	0.3%	0.2%	0.4%
	3-year average: 0.4%			*Excluded due to COVID-19*		

The historical POMEC in relation to gross operating revenue after hospital discount and appropriation to consultant are as follows:-

Year	2017	2018	2019	2020	2021	Jan-July 2022
POMEC	9.3%	5.7%	7.6%	8.2%	8.0%	7.8%
	3-year average: 7.5%			*Excluded due to COVID-19*		

Based on the above, the basis for the above assumptions are reasonable as the basis for the administration and general, sales and marketing as well as POMEC are based on the historical average of years 2017, 2018 and 2019, which are also within the range in years 2017 to 2021.

<table>
<tr><th>No.</th><th>Key parameters</th><th>BDOCC’s comments</th></tr>
<tr><td>10.</td><td><u>Other operating expenses</u>

Cheston’s other operating expenses parameters are as follows:
<table>
<tr><td>Hospital management fees</td><td>1.5% of gross operating revenue after hospital discount</td></tr>
<tr><td>Quit rent</td><td>RM22,044 per annum based on actual amount in year 2021</td></tr>
<tr><td>Assessment expense</td><td>RM202,500 per annum based on actual amount in year 2021</td></tr>
<tr><td>Insurance expense</td><td>RM327,552 per annum based on average of years 2020, 2021 and 2022</td></tr>
<tr><td>Incentive management fee</td><td>40% of gross operating profit of medical centre</td></tr>
<tr><td>Capital reserve fund for asset replacement</td><td>Starting at RM25,000 per bed with RM5,000 annual increment</td></tr>
</table></td><td>We noted that hospital management fees of 1.5% of gross operating revenue after hospital discount is in line with the management fees adopted for similar medical centres and profits-oriented properties. The fees comprises fees for advisory services charged by management to the hospital based on the gross operating revenue after hospital discount and before appropriation to consultant of the medical centre.

We also noted that quit rent, assessment cost and insurance expense are adopted based on current actual expenses in year 2021 as well as average of years 2020, 2021 and 2022 respectively. We further noted that these expenses remain fixed throughout the projection period.

In addition, we noted that the incentive management fee reflects the operator’s risk, management advisory and skill to operate the various income generating resources of the medical centre.

For capital reserve fund for asset replacement, we noted that the average 10-year capital reserve fund for asset replacement of PGSH is RM24,339 per bed which is lower compared to other medical centres which have been in operation between 23 to 40 years. We further noted that the average 12-year capital reserve fund for asset replacement of other medical centres are at RM44,372, the lower average of PGSH of RM24,339 per bed is due to PGSH’s age being only 10 years. Premised on the above, Cheston has opted to gradually increase the capital reserve fund for asset replacement cost by RM5,000 per bed per annum throughout the projection period.

Based on the above, the basis for the above assumptions are reasonable.</td></tr>
</table>

11. **Terminal capitalisation rate**

Cheston have adopted 8.5% as the terminal capitalisation rate in arriving at the terminal value.

We noted that in arriving at the terminal value of PGSH, the resultant profits for the 5th year (final year) of the projection period is to be capitalised by an appropriate capitalisation rate. We also noted that the capitalisation rate adopted reflects investors' expected investment rate of return of PGSH.

We noted that Cheston has adopted a market corroborated capitalisation rate as the market based rate is the most frequent adopted methodology by participants in the property industry in Malaysia as it reflects the inherent risk associated with the investment.

Key details of the comparable sales referenced by Cheston to arrive at the terminal capitalisation rate are as follows:-

Description	Comparable 1	Comparable 2
Building	KPJ Batu Pahat Specialist Hospital, No. 1, Jalan Mutiara Gading Utama, Taman Mutiara Gading, Sri Gading, 83000 Batu Pahat, Johor Darul Takzim.	Sunway Medical Centre, No. 5, Jalan Lagoon Selatan, Bandar Sunway, 46150 Petaling Jaya, Selangor Darul Ehsan.
Description	A purpose built 7-storey private medical centre (excluding 1.38 acres commercial land for future development) (Corner)	A 7-storey purpose built private medical centre with a lower ground floor, an annexed multi storey car park block and a convention centre (Corner)
Land area	60,113.00 sq. ft.	195,839.00 sq. ft.
Main floor area	164,963.12 sq. ft.	517,712.00 sq. ft.
GFA excluding car park area	173,645.39 sq. ft.	544,960.00 sq. ft.
Consideration	RM78,000,000	RM310,000,000
Date of transaction	26 August 2019	31 December 2012
Tenure	Interest in perpetuity	99-year leasehold interest expiring on 1 April 2097 (unexpired term of about 85 years), in respect of both titles
Average net revenue per annum (RM)	7,633,421	22,289,647
Analysed yield	**9.8%**	**7.2%**

Premised on the table above, we noted that the yields of the abovementioned comparable sales range between 7.2% and 9.8% respectively. We further noted that the terminal capitalisation rate of PGSH of 8.5% was adopted after taking into consideration the time, location, quality, characteristics and tenure of PGSH in comparison with the abovementioned comparable sales as well as the current economic condition, the existing and future demand and supply of the private specialist medical centre segment.

In addition, we also noted that the terminal capitalisation rate adopted for the proposed lease renewal in year 2021 for 6 hospitals operated by KPJ Group, namely KPJ Ampang Puteri Specialist Hospital, KPJ Damansara Specialist Hospital, KPJ Ipoh Specialist Hospital, KPJ Johor Specialist Hospital, KPJ Puteri Specialist Hospital and KPJ

No.	Key parameters	BDOCC's comments
		Selangor Specialist Hospital ranges from 8% to 11.25%. The terminal capitalisation rate of 8.5% adopted above is within the range of 8% to 11.25%. Based on the above, the basis for the above assumptions is reasonable.
12.	**Discount rate** Cheston have adopted 10.5% as the discount rate	We noted that Cheston has adopted the discount rate of 10.5% which is 2.0% higher than the terminal capitalisation rate to reflect a higher risk on the future business and revenue of PGSH, the prospect of the Malaysian healthcare industry and the Malaysian economy. We view that the 2% upward adjustment to the terminal capitalisation rate of 8.5% to derive the discount rate of 10.5% to reflect the investment characteristics of PGSH in term of the riskiness and achievability of the projected revenue and cost of PGSH during the projection period is reasonable. Based on the above, the basis for the above assumptions is reasonable.

8.1.2 Cost approach

The cost approach entails the summation of the market value of the commercial land which is derived from the comparison method with the value of the building which is derived using the DRC Method. When using the DRC Method, the initial building value is derived from the Gross Current Reproduction/Replacement Cost New ("**GCRCN**") of the building and improvements and later deducting the accrued depreciation comprising of physical, functional and economical obsolescence of the building from the GCRCN.

In arriving at the market value of the commercial land, Cheston has adopted the market/comparison approach which is premised on the principle that comparison is made of the property under valuation with sales of other similar properties. Additionally, Cheston has conducted a survey on property sales that have occurred in recent past within similar areas as PGSH. We noted that the market value of PGSH based on the cost approach is RM86.6 million.

The details of the comparable sale evidences of the commercial land are set out as follows:

	PGSH	Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot No. / Town / Mukim / District / State:	Lot 198635 (formerly PTD 204781), Mukim of Plentong, District of Johor Bahru, Johor Darul Takzim	Lot 63136 / Mukim of Plentong / District of Johor Bahru / Johor Darul Takzim	Lot 156682 / Mukim of Plentong / District of Johor Bahru / Johor Darul Takzim	PTD 238752 (New Lot 212849) / Mukim of Plentong / District of Johor Bahru / Johor Darul Takzim	PTD 210466 (New Lot 207315) / Mukim of Plentong / District of Johor Bahru / Johor Darul Takzim

	PGSH	Comparable 1	Comparable 2	Comparable 3	Comparable 4
Title No.:	Pajakan Negeri 70767 (formerly HS(D) 478087)	Geran 427805	Geran 164926	HS(D) 591621	HS(D) 499883 (New Title Geran 542910)
Property Type:	A purpose built private specialist medical centre known as KPJ Pasir Gudang Specialist Hospital	A parcel of commercial land currently accommodating a petrol filling and service station (Intermediate)	A parcel of development land zoned for commercial use (Intermediate)	A parcel of commercial land (Intermediate)	A parcel of commercial land (Intermediate)
Location:	Jalan Persiaran Dahlia 2, Taman Bukit Dahlia, 81700 Pasir Gudang, Johor Darul Takzim.	Caltex Plentong Petrol Station, KM 18.4, Off Lebugraya Pasir Gudang Highway, Taman Perindustrian Sri Plentong, Masai, Johor Darul Takzim.	Lot 156662, Jalan Permas Jaya, Taman Permas Jaya, Masai, Johor Darul Takzim.	Jalan Tasek, Bandar Baru Seri Alam, Masai, Johor Darul Takzim.	Jalan Suria 1, Off Jalan Persiaran Seri Alam, Bandar Baru Seri Alam, Masai, Johor Darul Takzim.
Shape:	Rectangular	Rectangular	Rectangular	Irregular	Regular
Category of Land Use:	Building	Building	Nil	Building	Building
Town Planning:	Commercial	Commercial	Zoned Commercial	Commercial	Commercial
Tenure:	99-yr leasehold interest expiring on 28 Dec 2108	Interest in Perpetuity	Interest in Perpetuity	Interest in Perpetuity	Interest in Perpetuity
Land Area (sq. ft.):	141,480.83	61,214.36	463,591.53	140,153.75	52,269.55
Consideration:	-	RM4,460,000.00	RM46,347,840.00	RM11,212,344.00	RM4,441,344.00
Date of Transaction:	-	8 January 2020	3 May 2019	31 October 2018	7 June 2017
Vendor:	-	Chevron Sdn Bhd	Straits View Development Sdn Bhd	Seri Alam Properties Sdn Bhd	Seri Alam Properties Sdn Bhd
Purchaser:	-	Sim Teong Huat Sdn Bhd	Khong Guan (M) Sdn Bhd	Consomac Sdn Bhd	Regency Specialist Hospital Sdn Bhd
Analysis (per sq. ft.):	-	RM72.86	RM99.98	RM80.00	RM84.97

	PGSH	Comparable 1	Comparable 2	Comparable 3	Comparable 4
Adjustments:					
Market condition		-5.0%	-10.0%	-10.0%	-5.0%
Location and accessibility		+20.0%	-25.0%	+5.0%	0.0%
Corner premium		+10.0%	+10.0%	+10.0%	+10.0%
Conversion premium		+5.0%	+15.0%	+5.0%	+5.0%
Size/Quantum allowance		-5.0%	+7.5%	0.0%	-5.0%
Shape		0.0%	0.0%	+5.0%	0.0%
Tenure		-6.4%	-4.7%	-5.8%	-5.5%
Restriction in interest		-2.5%	-2.5%	0.0%	0.0%
Adjusted Value of Land (psf):	-	RM84.59	RM90.32	RM87.33	RM84.55

(Source: Valuation report dated 14 July 2022 by Cheston in relation to the valuation of the PGSH)

Premised on the table above, Cheston has adopted the adjusted value of RM84.59 per square foot (psf) based on the adjusted land value of Comparable 1 which represents the latest sale transaction, translating into market value of the commercial land of RM11.9 million. Notwithstanding that Comparable 4 has the least difference in term of location and accessibility with PGSH, Cheston has put greater emphasis on the date of transaction in the valuation of property. In addition, we also noted that the difference between adjusted value of RM84.59 psf for comparable 1 is only slightly higher than the adjusted value of RM84.55 psf for comparable 4 by RM0.04 psf or 0.05%.

In arriving at the GCRCN of the building, Cheston has adopted RM442.24 psf as a fair development cost. The GCRCN of the building was adopted after taking into consideration the actual construction cost of PGSH, construction cost of similar type of buildings, made reference to the records of other similar developments and various contracts awarded, made enquiries with the contractors and quantity surveyors and made reference to JUBM and Arcadis Construction Cost Handbook Malaysia 2022. The GCRCN of the building adopted by Cheston is RM92.2 million.

Additionally, Cheston has adopted a straight-line depreciation at a rate of 2.0% per annum and the estimated life span of the building of 50 years as per the practice in the industry for similar type of properties after consultation with contractors and quantity surveyors. The accrued depreciation of the building amounts to RM17.5 million.

As highlighted in **Section 8.1.2 of this IAL**, the cost approach entails the summation of the market value of land which is derived from comparison method and depreciated replacement cost of the building by DRC Method as follows:-

PGSH	**RM' mil**
GCRCN of building	92.16
Less: Accrued depreciation of building	(17.48)
DRC of building	**74.68**
Add: Market value of commercial land	11.97
Market value of PSGH	86.65
Market value of PSGH (rounded down to nearest hundred thousand by Cheston)	**86.60**

Premised on the above, we noted that the market value of PGSH based on the cost approach is RM86.6 million.

8.1.3 Summary of PGSH valuation

We noted that for the valuation of PGSH, Cheston has adopted the income approach using the profits method as the primary valuation methodology and the cost approach as a secondary cross-check.

The primary and secondary market value of PGSH are as follows:-

		(RM' mil)
Income approach by profits method	(Primary)	92.6
Cost approach	(Secondary)	86.6

Premised on the analysis conducted in **Sections 8.1.1 and 8.1.2 above**, we are of the view that the adoption of the income approach by profits method as the primary method of valuation is **reasonable** and that the market value of PGSH of RM92.6 million adopted by Cheston is **fair**.

8.2 Valuation of TMC

In arriving at the market value of TMC, Cheston has adopted the DRC Method of valuation as the sole valuation methodology as the DRC Method is frequently used to estimate the value of the building component of a property and when there is either very limited or no evidence of sale transactions.

The DRC Method estimates value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. It is based on the principle of substitution, i.e., that unless undue time, inconvenience, risk or other factors are involved, the price that a buyer in the market would pay for the asset being valued would not be more than the cost to assemble or construct an equivalent asset.

In assessing what it might be prepared to pay for the subject asset, a potential purchaser may consider as an alternative to acquiring the subject asset, the cost to construct a similar asset having the same functionality, this represents the maximum that a potential purchaser would be prepared to pay for the subject asset if it were new at the date of valuation.

The building value is derived from the gross current GCRCN of the building and improvements. Subsequently, the accrued depreciation comprising physical, functional and economical obsolescence is being deducted from the building value.

The DRC Method is the most commonly adopted method for the valuation of buildings only excluding the land component. This is due to capital and rental comparable involving the buildings only is relatively rare. Therefore, other valuation methodologies are deemed inappropriate to be applied as they include the land component and the nature of the TMC being the unsold building component only. In addition, there were insufficient past performance records to adopt the Income Approach by Profits Method. In addition, the operation of TMC is carried out together with the respective medical centres and therefore the income and expenses cannot be segregated or apportioned. Hence, in arriving at the valuation of TMC, Cheston has adopted the DRC Method as the sole valuation methodology which reflect the market value of TMC.

We noted that in arriving at the development cost considered in the valuation of TMC, Cheston has excluded the cost of fit out works and lessee's improvements incurred by the lessee from the development cost established by quantity surveyor ARH Jurukur Bahan.

In arriving at GCRCN of TMC, Cheston has adopted RM477.69 psf as a fair development cost. The GCRCN of TMC was adopted after taking into consideration of the actual construction cost of TMC, construction cost of similar type of buildings, made reference to the records of other similar developments and various contracts awarded, made enquiries with the contractors and quantity surveyors and made reference to JUBM and Arcadis Construction Cost Handbook Malaysia 2022. The GCRCN of TMC arrived is RM15.4 million.

Additionally, Cheston has adopted a straight-line depreciation at a rate of 2.0% per annum and the estimated life span of the building of 50 years as per the practice in the industry for similar type of properties after consultation with contractors and quantity surveyors. The accrued depreciation of TMC amount to RM1.1 million.

Subject	RM' mil
GCRCN of TMC	15.4
Less: Accrued depreciation of TMC	(1.1)
Market value of TMC	**14.3**

BDOCC's Comments:

We are of the view that the exclusion of improvement costs incurred by lessee from the development cost is reasonable since these costs incurred by the lessee will be reimbursed by the lessor as noted in **Section 12 of this IAL**.

We are of the view that the fair development cost of RM477.69 psf adopted by Cheston is fair as it falls within the range of the construction costs for general public sector hospitals in Kuala Lumpur of RM371.85 psf to RM573.25 psf as noted by quantity surveyors JUBM and Arcadis.

(Source: JUBM & Arcadis Construction Cost Handbook Malaysia 2022)

We further noted that the straight-line depreciation at 2.0% per annum adopted by Cheston is reasonable as the estimated life span of the building of 50 years is consistent with KPJ's depreciation policy for its buildings.

(Source: KPJ's Annual Report 2021)

Premised on the above we are of the view that the adoption of DRC Method as the sole valuation methodology is reasonable and that the market value of TMC of RM14.3 million adopted by Cheston is fair.

8.3 Valuation of SSH

In arriving at the market value of SSH, Cheston has adopted the DRC Method of valuation as the sole valuation methodology as the DRC Method is frequently used to estimate the value of the building component of a property and when there is either very limited or no evidence of sale transactions.

The DRC Method estimates value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. It is based on the principle of substitution, i.e., that unless undue time, inconvenience, risk or other factors are involved, the price that a buyer in the market would pay for the asset being valued would not be more than the cost to assemble or construct an equivalent asset.

In assessing what it might be prepared to pay for the subject asset, a potential purchaser may consider as an alternative to acquiring the subject asset, the cost to construct a similar asset having the same functionality, this represents the maximum that a potential purchaser would be prepared to pay for the subject asset if it were new at the date of valuation.

The building value is derived from the gross current GCRCN of the building and improvements. Subsequently, the accrued depreciation comprising physical, functional and economical obsolescence is being deducted from the building value.

The DRC Method is the most commonly adopted method for the valuation of buildings only excluding the land component. This is due to capital and rental comparable involving the buildings only is relatively rare. Therefore, other valuation methodologies are deemed inappropriate to be applied as they include the land component and the nature of the SSH being the unsold building component only. In addition, there were insufficient past performance records to adopt the Income Approach by Profits Method. In addition, the operation of SSH is carried out together with the respective medical centres and therefore the income and expenses cannot be segregated or apportioned. Hence, in arriving at the valuation of SSH, Cheston has adopted the DRC Method as the sole valuation methodology which reflect the market value of SSH.

We noted that in arriving at the development cost considered in the valuation of SSH, Cheston has excluded the cost of fit out works and lessee's improvements incurred by the lessee from the development cost established by quantity surveyor ARH Jurukur Bahan.

In arriving at GCRCN of SSH, Cheston has adopted RM421.89 psf as a fair development cost. The GCRCN of SSH was adopted after taking into consideration of the actual construction cost of SSH, construction cost of similar type of buildings, made reference to the records of other similar developments and various contracts awarded, made enquiries with the contractors and quantity surveyors and made reference to JUBM and Arcadis Construction Cost Handbook Malaysia 2022. The GCRCN of SSH arrived is RM90.8 million.

Additionally, Cheston has adopted a straight-line depreciation at a rate of 2.0% per annum and the estimated life span of the building of 50 years as per the practice in the industry for similar type of properties after consultation with contractors and quantity surveyors. The accrued depreciation of SSH amount to RM6.3 million.

Subject	RM' mil
GCRCN of SSH	90.8
Less: Accrued depreciation of SSH	(6.3)
Market value of SSH	**84.5**

BDOCC's Comments:

We are of the view that the exclusion of improvement costs incurred by lessee from the development cost is reasonable since these costs incurred by the lessee will be reimbursed by the lessor as noted in **Section 12 of this IAL**.

We are of the view that the fair development cost of RM421.89 psf adopted by Cheston is fair as it falls within the range of the construction costs for general public sector hospitals in Kuala Lumpur of RM371.85 psf to RM573.25 psf as noted by quantity surveyors JUBM and Arcadis.

(Source: JUBM & Arcadis Construction Cost Handbook Malaysia 2022)

We further noted that the straight-line depreciation at 2.0% per annum adopted by Cheston is reasonable as the estimated life span of the building of 50 years is consistent with KPJ's depreciation policy for its buildings.

(Source: KPJ's Annual Report 2021)

Premised on the above we are of the view that the adoption of DRC Method as the sole valuation methodology is reasonable and that the market value of SSH of RM84.5 million adopted by Cheston is fair.

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8.4 Summary of analysis on the Sale Consideration

In arriving at the fairness evaluation of the Sale Consideration, we have compared the Sale Consideration against the market value of the Properties as appraised by Cheston as follows:-

	Sale Consideration	Market value adopted by Cheston	Premium of the Sale Consideration over the market value	
	RM' mil.	RM' mil.	RM' mil.	%
PGSH	93.0	92.6	0.4	0.4
TMC	14.3	14.3	-	-
SSH	84.7	84.5	0.2	0.2
	192.0	**191.4**	**0.6**	**0.3**

Premised on the above, we noted the following:

(i) the sale consideration of PGSH of RM93.0 million represents a **premium** of RM0.4 million or 0.4% over the market value of PGSH of RM92.6 million;

(ii) the sale consideration of TMC of RM14.3 million is **equal** to the market value of TMC of RM14.3 million; and

(iii) the sale consideration of SSH of RM84.7 million represents a **premium** of RM0.2 million or 0.2% over the market value of SSH of RM84.5 million.

On an aggregate basis, the Sale Consideration of RM192.0 million represents a **premium** of RM0.6 million or 0.3% over the market value of the Properties of RM191.4 million. As such, we are of the view that the Sale Consideration is **fair.**

Nevertheless, non-interested shareholders should also consider the qualitative factors of the Proposed Sale and Leaseback as set out in the ensuing sections of this IAL to arrive at a holistic view.

9. BASIS AND JUSTIFICATIONS FOR THE ISSUE PRICE OF THE CONSIDERATION UNITS

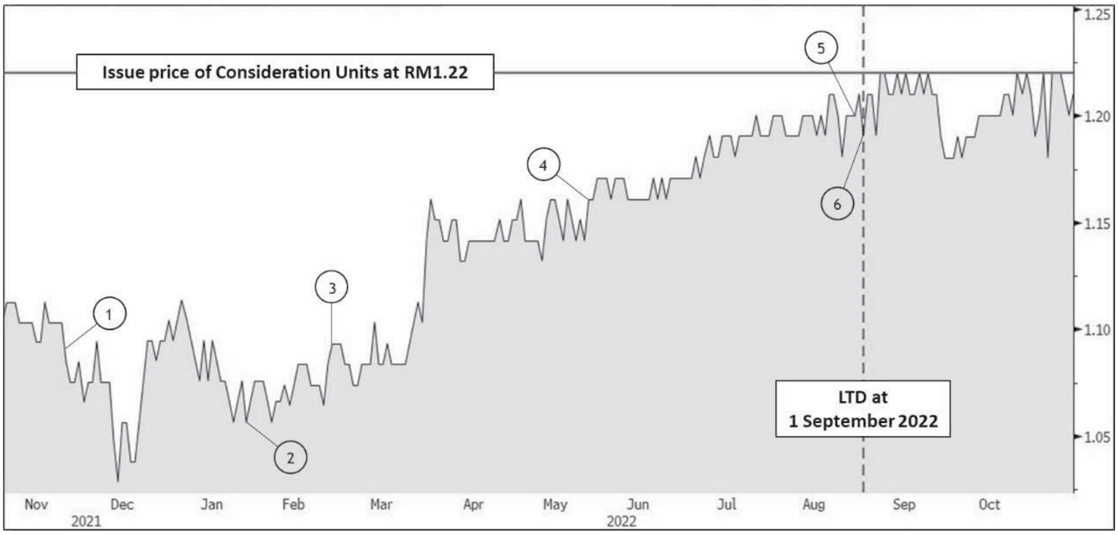
As disclosed in **Section 2.1 of Part A of the Circular**, we noted that the Proposed Sale entails the sale of the Properties for Sale Consideration of RM192.0 million, to be satisfied via a combination of cash of RM167.0 million and allotment and issuance of 20,500,669 new Al-`Aqar Units ("**Consideration Units**") at an issue price of RM1.22 per Consideration Unit amounting to RM25.0 million in the following manner:-

		%	RM' million
(i)	Cash consideration	87.0	167.0
(ii)	Allotment and issuance of Consideration Units	13.0	25.0
	Total	**100.0**	**192.0**

9.1 Evaluation of issue price of Consideration Units

We noted that in **Section 2.1.6 of Part A of the Circular** that the issue price of RM1.22 per Consideration Unit was based on the 5-day VWAP of the Al-`Aqar Units up to and including 1 September 2022, being the date prior to the execution of the SPA.

As such, in evaluating the fairness of the issue price of the Consideration Units, we have taken into consideration the movement of the market price of Al-`Aqar Units over the past 1 year up to LPD as illustrated in the graph below:-



(Source: Bloomberg)

The above information extracted from Bloomberg has been adjusted for the effects of any dividend and corporate exercise throughout the relevant period.

Throughout the past 12-months prior to the LPD and up to and including the LPD, the principal activities of Al-`Aqar have remained the same.

We are not aware of any particular reasons which might have led to the upward or downward movements of the market price of Al-`Aqar Units for the past 12-months prior to the LPD and up to and including the LPD, but we noted the following material announcements made by Al-`Aqar on Bursa Securities:-

	Date	Events
1.	26 November 2021	Announcement of quarterly report on the consolidated financial results for the third quarter, Financial Period Ended ("**FPE**") 30 September 2021.
2.	28 February 2022	Announcement of annual report on the consolidated financial results for the FY 2021.
3.	30 May 2022	Announcement of quarterly report on the consolidated financial results for the first quarter, FPE 31 March 2022.
4.	26 August 2022	Announcement of quarterly report on the consolidated financial results for the second quarter, FPE 30 June 2022.
5.	2 September 2022	The board of Al-`Aqar announced that ART had entered into respective SPAs with the Subsidiaries of KPJ.

Non-interested shareholders of KPJ should note that the historical market prices may not be an indication of future market price performance of Al-`Aqar Units as it may be influenced by, amongst others, the performance and prospects of the Al-`Aqar, prevailing market conditions, economic outlook, stock market conditions, market sentiments and other general macroeconomic conditions as well as company-specific factors.

In addition, we have also compared the issue price of RM1.22 per Consideration Unit to the historical VWAPs of Al-`Aqar Units over various timeframes up to 1 September 2022 and LPD. The premium to the closing market prices and VWAPs of Al-`Aqar Units is as follows:-

	Closing market price / VWAP	Premium of the issue price over the closing market price or VWAP	
	RM	RM	%
Up to and including 1 September 2022:			
Closing market price	1.2100	0.0100	0.8
Five (5)-day VWAP	1.2178	0.0022	0.2
One (1)-month VWAP	1.2151	0.0049	0.4
Three (3)-month VWAP	1.2016	0.0184	1.5
Six (6)-month VWAP	1.1878	0.0322	2.7
One (1)-year VWAP	1.1723	0.0477	4.1
Up to and including the LPD:			
Closing market price	1.2100	0.0100	0.8
Five (5)-day VWAP	1.2108	0.0092	0.8

(Source: Bloomberg)

Based on the table above, we noted that the issue price of the Consideration Units represents the following:-

(i) **premium** ranging between RM0.0022 to RM0.0477 or 0.2% to 4.1% over the closing market price as at 1 September 2022, the five (5)-day, one (1)-month, three (3)-month, six (6)-month and one (1)-year VWAPs of Al-`Aqar Units up to and including 1 September 2022; and

(ii) **premium** ranging between RM0.0092 to RM0.0100 or 0.8% over the closing market price as at LPD and the five (5)-day VWAP up to and including the LPD.

We also noted that the issue price of RM1.22 per Consideration Unit approximates to the 5-day VWAP as at 1 September 2022 of RM1.2178, and also represents a slight **premium** over the closing market prices and other VWAPs as at both 1 September 2022 and the LPD.

Additionally, the comparison of the issue price of RM1.22 per Consideration Unit to the audited and unaudited NAV per Al-`Aqar Unit are as follows:-

	NAV per Al-`Aqar Unit[(i)]	Discount of the issue price over the NAV per Al-`Aqar Unit	
	RM	RM	%
Audited NAV per Al-`Aqar Unit as at 31 December 2021	1.2660	(0.0460)	(3.6)
Unaudited NAV per Al-`Aqar Unit as at 30 June 2022	1.2750	(0.0550)	(4.3)

(Source: Al-`Aqar's annual report for FY Ended 31 December 2021 and quarterly report for financial period ended 30 June 2022)

Notes:
(i) NAV per Al-`Aqar Unit figures are NAV per Al-`Aqar Unit after income distribution as reported in the respective annual report and quarterly report.

We noted that the issue price of RM1.22 per Consideration Unit represents a **discount** ranging between RM0.0460 to RM0.0550 or 3.6% to 4.3% over the audited and unaudited NAV per Al-`Aqar Unit.

Premised on the above, we are of the opinion that the issue price of the Consideration Units is fair.

10. BASIS AND JUSTIFICATIONS IN ARRIVING AT THE RENTAL RATE

We noted that the basis and justification for arriving at the rental rate are set out in **Section 2.2.2 of Part A of the Circular**.

We noted that the rental of the first year of the initial term is as follows:-

Subject	Rental rate
Gross rental	5.75% X market value of the Properties
Net rental	5.23%[(1)] X market value of the Properties

Notes:
(1) After deducting direct expenses to the Properties which include assessment, takaful, maintenance and quit rent to be borne by Al-'Aqar.

The rental rate was arrived at after taking into consideration of, amongst others, the following:-

(i) the net property yields of commercial properties acquired by Malaysian REIT which ranges from 3.16% to 6.28% between 2020 and 2022; and

(ii) Cheston observed that based on its analysis of the latest net rental yield of the investment properties comprising UOA Corporate Tower, The Pinnacle Sunway and Menara Guoco, the rental yields range from 5.0% to 6.3% whilst the net yields of IGB Commercial REIT which was launched in April 2021 range between 3.16% to 5.47%.

In light of the above, taking into consideration of the current state of the Malaysian economy and property market and healthcare industry which have been impacted by, amongst others, the COVID-19 pandemic, current cost of financing rates, short to long term securities rates and making comparisons with the broad spectrum of various types of residential, commercial, industrial and agricultural properties in Malaysia, Cheston is of the view that the fair net rental yields of the Properties are within 5.0% to 6.0%.

We also noted that the 2.0% incremental increase per annum for every Year 2 and Year 3 of the rental term was arrived at after taking into consideration, the average of the 10-year consumer price index year-on-year movement of approximately 2.2% (excluding year 2020 which is a negative).

BDOCC's comments:

We noted that in arriving at the estimated net rental of 5.23%, KPJ has taken into consideration expenses that are transferrable to Al-`Aqar such as maintenance fee (0.08%), takaful (0.07%), quit rent (0.017%) and assessment (0.35%).

Our evaluations on the rental rate are as follows:-

(i) **Gross and net rental rates**

In evaluating the fairness of the gross and estimated net rental terms, we noted that the gross and net rental yield of recent lease renewal in May 2021 for KPJ Johor Specialist Hospital, KPJ Puteri Specialist Hospital as well as KPJ Ipoh Specialist Hospital (the hospitals are located in Johor and Perak respectively which are within the same region of the Properties) are based on the gross rental yield of 5.75% per annum X open market value of the properties for the first rental term.

We also noted that Cheston is of the view that the fair net rental yields of the Properties should be between 5.0% to 6.0%, after taking into consideration:-

(i) Current state of the Malaysian economy, property market and healthcare industry which have been impacted by the COVID-19 pandemic, looming global recession fears and the geopolitical risk;

(ii) Current cost of financing rates, short to long term securities rates; and

(iii) After comparison of broad spectrum of various types of yields of residential, commercial, industrial and agricultural properties in Malaysia.

We also noted that the low net rental yields of IGB Commercial REIT which was launched in April 2021 range between 3.16% to 5.47%. This is during the COVID-19 pandemic period.

(ii) **2% incremental increase per annum**

We noted that the 2% incremental increase per annum for every Year 2 and Year 3 of the rental term was arrived at after taking into consideration the average of the 10-year consumer price index year-on-year movement. As such, the annual inflation rates of Malaysia for the past 10 years are as follows:-

Date	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Inflation rate, %(i)	1.7	2.1	3.1	2.1	2.1	3.8	1.0	0.7	(1.1)(ii)	2.5
									High	*3.8*
									Low	*0.7*
									Average	*2.1*

Notes:

(i) *Inflation rate figures are represented by the year over year percentage changes of the Malaysia's Consumer Price Index (CPI) reported monthly by the Department of Statistic Malaysia.*

(ii) *Excluded due to being an outlier.*

We noted that the incremental increase per annum of 2.0% is within close proximity to the 10-year average inflation rate of Malaysia of 2.1%. Based on the 2% incremental increase per annum, the net rental rate of 5.23% will increase to 5.33% in year 2 and 5.44% in year 3 respectively, which are still within the range of fair net rental yield of the Properties based on Cheston's view of 5.0% to 6.0%.

Premised on the above, we are of the view that the gross rental rate of 5.75%, the net rental rate of 5.23% as well as the 2% incremental increase per annum for every Year 2 and Year 3 of the rental term are fair.

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11. EVALUATION OF THE SALIENT TERMS OF THE SPAs

In evaluating the salient terms of the SPAs of the respective Property, we have considered the following salient terms:

(i) Sale consideration;

(ii) Conditions precedent to the SPAs; and

(iii) Events of default;

Based on our evaluation shown below, we are of the view that the salient terms of the respective SPAs are <u>reasonable</u>.

Please refer to our comments below on the salient terms of the respective SPAs:-

	PGSH	TMC	SSH
1.	**Sale consideration** In relation to SPA of PGSH ("**PGSH SPA**"), the deposit which is 5% of the sale consideration amounting to RM4,650,000.00 shall be paid upon the execution of the PGSH SPA and the balance sale consideration which is 95% of the sale consideration amounting to RM88,350,000.00 comprising of a combination of cash and Consideration Units shall be satisfied on or before the expiry of 3 months from the date the PGSH SPA becoming unconditional.	In relation to SPA of TMC ("**TMC SPA**"), the deposit which is 5% of the sale consideration amounting to RM715,000.00 shall be paid upon the execution of the TMC SPA and the balance sale consideration which is 95% of sale consideration amounting to RM13,585,000.00 shall be satisfied on or before the expiry of 3 months from the date the TMC SPA becoming unconditional.	In relation to SPA of SSH ("**SSH SPA**"), the deposit which is 5% of the sale consideration amounting to RM4,235,000.00 shall be paid upon the execution of the SSH SPA and the balance sale consideration which is 95% of sale consideration amounting to RM80,465,000.00 shall be satisfied on or before the expiry of 3 months from the date the SSH SPA becoming unconditional.
	<u>BDOCC's comments:</u> **We noted the respective Sale Consideration are reasonable as it was arrived on a 'willing-buyer willing-seller' basis after taking into consideration the market value of the Properties as ascribed by Cheston.** **We also noted that the deposit amounting to 5% of the respective Sale Consideration upon the execution of the respective SPAs is reasonable as it serves to protect the interest of KPJ Group. In addition, the balance 95% of the respective Sale Consideration shall be satisfied on or before the expiry of 3 months from the date of the respective SPAs becoming unconditional is also reasonable to ensure the timely completion of the SPAs and serve to protect the interest of KPJ Group.**		

	PGSH	TMC	SSH
2.	**Conditions precedent to the SPAs** (i) The SPAs for the Properties are conditional on the following:- a) Approval from the board of directors and shareholders of KPJ and relevant Vendor for Proposed Sale and Leaseback of each relevant Property; b) Approval from and notification to the appropriate authorities which include, amongst others, Bursa Securities; c) Approval from the board of directors of the Trustee and Manager and the unitholders of Al-`Aqar;  d) Approval from the existing financiers, creditors or lenders of Al-`Aqar (if any); e) The issuance of letter of offer or letter of commitment in relation to the financing of the relevant Property by the Purchaser's financier and accepted by the Purchaser or Al-`Aqar's special purpose vehicle company which will be used for the purposes of such financing; f) Certificate of completion and compliance of the Properties has been duly obtained by the Vendor; g) In relation to PGSH, the receipt of a registrable memorandum of transfer with the relevant stamp duty office endorsement on the same as being exempted from the payment of stamp duly pursuant to Stamp Duty (Exemption) (No. 4) Order 2004; h) Execution of the Lease Agreements in escrow and the relevant documents to give effect to the Lease Agreements; and i) Confirmation by solicitors certifying that the conditions precedent are satisfied, (collectively referred to as "**Conditions Precedent**"). (ii) The time period for fulfilment of all Conditions Precedent is six (6) months from the date of the SPAs or any extension thereof agreed between the parties to the SPAs. (iii) The completion date is a date falling on or before expiry of three (3) months from the date the SPAs becoming unconditional. (iv) In the event, the SPAs are not completed by the completion date, the SPAs will be extended for an additional three (3) months from the completion date.		

	PGSH	TMC	SSH
	<u>BDOCC's comments:</u> **We noted that the Conditions Precedent of the SPAs are reasonable as they require both KPJ and the Al-`Aqar to procure the relevant requisite approvals and to be in compliance with the applicable laws and regulatory requirements.** **We also noted that the SPAs are conditional upon the Conditions Precedent being fulfilled within a period of 6 months or any extensions thereof agreed between the parties of the SPAs. The SPAs shall become unconditional when the Conditions Precedents are satisfied by the parties. We also noted that the completion date will be set within 3 months from the date the SPAs become unconditional and if the SPAs are not completed by said completion date, the SPAs would be extended for an additional 3 months from the completion date. We are of the view that the terms are reasonable as they provide flexibility and extension of time for the parties involved to fulfil the Conditions Precedent as well as the completion of the SPAs.**		
3.	**Events of default** Please refer to **Appendix I of the Circular – Salient Terms of the SPA** on the events of default for more details.		
	<u>BDOCC's comments:</u> **We noted that in the event of default by the Vendor, the Vendor shall pay to the Purchaser an amount equivalent to the deposit as liquidated damages failing which the Vendor shall pay the Purchaser damages on the aforesaid money calculated at the rate of 8% per annum on a daily basis.** **We also noted that in the event of default by the Purchaser, the Vendor shall refund the Purchaser all monies received under the SPA free of interest, save and except for the deposit paid as it shall be forfeited by the Vendor as the agreed liquidated damages.** **We noted that the terms above are common commercial terms in an agreement for similar transactions to the Proposed Sale and are reasonable and not detrimental to the interest of the non-interested shareholders of KPJ.**		

12. EVALUATION OF SALIENT TERMS OF THE LEASE AGREEMENTS

In evaluating the salient terms of the Lease Agreements of the respective Property, we have considered the following salient terms:

(i) Lease and use of Properties;

(ii) Conditions precedent to Lease Agreements;

(iii) Rent;

(iv) Expansion;

(v) New Development; and

(vi) Events of default and Termination.

Based on our evaluation shown below, we are of the view that the salient terms of the respective Lease Agreements are <u>reasonable</u>.

Please refer to our comments below on the salient terms of the respective Lease Agreements:-

	PGSH	TMC	SSH
1.	**Lease and use of Properties** PGSHSB to enter into Lease Agreement for the lease of PGSH for a period of 15 years commencing from the date of completion of Proposed Sale of PGSH with an option to renew for another 15 years (at the discretion of the Lessor). The Lessor and the Lessee agree that the Property shall be used strictly for the purpose of operating a healthcare facility which operation and usage shall not be contrary to Shariah principles.	PSHSB to enter into Lease Agreement for the lease of TMC together with its land for a period commencing from the date of completion of Proposed Sale of TMC to 30 April 2024 with an option to renew for another 15 years (at the discretion of the Lessor). The Lessor and the Lessee agree that the Property shall be used strictly for the purpose of operating a healthcare facility which operation and usage shall not be contrary to Shariah principles.	MSHSB to enter into Lease Agreement for the lease of SSH together with its land for a period commencing from the date of completion of Proposed Sale of SSH to 13 October 2024 with an option to renew for another 15 years (at the discretion of the Lessor). The Lessor and the Lessee agree that the Property shall be used strictly for the purpose of operating a healthcare facility which operation and usage shall not be contrary to Shariah principles.
	<u>BDOCC's comments:</u> **The period of respective Lease Agreements is referred to as "Contractual Term". We noted that the Contractual Term for PGSH is 15 years with an option to renew for another 15 years from the expiry of the Contractual Term at the option of the Lessor is reasonable as it provides long term**		

	PGSH	TMC	SSH
	commitment by the Lessor to make available the Properties for KPJ Group to operate its business. The Contractual Term of 15 years with an option to renew for another 15 years will allow any expansion and new developments of buildings can be carried out to ensure the business sustainability of KPJ Group. **We also noted that the Contractual Term for TMC and SSH are from the completion of Proposed Sale of TMC and SSH to 30 April 2024 and 13 October 2024 respectively are in line with the existing contractual term of the respective land and buildings, with an option to renew another 15 years from the expiry of the Contractual Term at the option of the Lessor. The terms are reasonable to ensure that Contractual Term for TMC and SSH will coincide with the existing contractual term of the respective land and buildings.** **In addition, we further noted that at present, the Properties are being operated as hospitals and there is no intention for the Properties to be utilised for any other purpose other than as healthcare facilities. Hence, we are of the view that the term is reasonable.**		
2.	**Conditions precedent to Lease Agreements** The Lease Agreement is conditional upon the fulfilment of the following conditions:- (i) the approval of the shareholders of the Lessees' ultimate holding company, KPJ, being obtained in respect of the Proposed Leaseback; (ii) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Leaseback; and (iii) the completion of the SPAs.		
	<u>BDOCC's comments:</u> **We noted that the conditions precedent of the Lease Agreements are reasonable as they require the completion of the SPAs as well as for both KPJ and the Al-`Aqar to procure the relevant requisite approvals from each respective shareholders or unitholders.**		
3.	**Rent** The rent shall be denominated in RM and the formula for determination of the rent in the Lease Agreements are as follows:- (i) Rent formula	The rent shall be denominated In RM and the formula for determination of the rent in the Lease Agreements are as follows:- (i) Rent formula	The rent shall be denominated in RM and the formula for determination of the rent in the Lease Agreements are as follows:- (i) Rent formula

<table>
<tr><th></th><th>PGSH</th><th>TMC</th><th>SSH</th></tr>
<tr><td></td>
<td>
<table>
<tr><th>Rental Term</th><th>Rent Formula</th></tr>
<tr><td>1st year</td><td>5.75% per annum X the sale consideration of PGSH (“Base Rent”).</td></tr>
<tr><td>2nd and 3rd year</td><td>2% incremental increase X the rent for the preceding year.</td></tr>
</table>
(ii) Rent review formula
<table>
<tr><th>Rental Term</th><th>Rent Formula</th></tr>
<tr><td>1st year of every succeeding rental term (Years 4, 7, 10 and 13)</td><td>5.75% per annum X Open Market Value of the Property at the point of review, subject to:-
(a) A minimum rent of the Base Rent; and
(b) any adjustment to the rent shall not be more than 2.0% incremental increase over the rent for the preceding year.</td></tr>
<tr><td>2nd and 3rd year of every succeeding rental term (Years 5, 6, 8, 9, 11, 12, 14, 15)</td><td>2% incremental increase over the rent for the preceding year.</td></tr>
</table>
The security deposit is equivalent to 2 times prevailing monthly rent to be paid to the Lessor and retained on trust by the Trustee throughout the Contractual Term.
The Lessor shall during the Contractual Term inter alia:-
</td>
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<table>
<tr><th>Rental Term</th><th>Rent Formula</th></tr>
<tr><td>1st year (from the date of completion of the Proposed Sale of TMC until 30 April 2023)</td><td>5.75% per annum X the sale consideration of TMC.</td></tr>
<tr><td>2nd year (1 May 2023 from until 30 April 2024)</td><td>2% incremental increase X the rent for the preceding year.</td></tr>
</table>
The security deposit is equivalent to 2 times prevailing monthly rent to be paid to the Lessor and retained on trust by the Trustee throughout the Contractual Term.
The Lessor shall during the Contractual Term inter alia:-
(i) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which in relation to the Property;
(ii) pay for quit rent and assessment of the Property;
(iii) maintain takaful coverage in respect of the Property and the Lessor’s fixtures and fittings, equipment and machinery in the Property against fire and allied perils;
(iv) appoint and pay to the maintenance manager for the maintenance and management services rendered by the maintenance manager; and
</td>
<td>
<table>
<tr><th>Rental Term</th><th>Rent Formula</th></tr>
<tr><td>1st year (from the date of completion of the Proposed Sale of SSH until 13 October 2023)</td><td>5.75% per annum X the sale consideration of SSH.</td></tr>
<tr><td>2nd year (from 14 October 2023 until 13 October 2024)</td><td>2% incremental increase X the rent for the preceding year.</td></tr>
</table>
The security deposit is equivalent to 2 times prevailing monthly rent to be paid to the Lessor and retained on trust by the Trustee throughout the Contractual Term.
The Lessor shall during the Contractual Term inter alia:-
(i) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which in relation to the Property;
(ii) pay for quit rent and assessment of the Property;
(iii) maintain takaful coverage in respect of the Property and the Lessor’s fixtures and fittings, equipment and machinery in the Property against fire and allied perils;
(iv) appoint and pay to the maintenance manager for the maintenance and management
</td>
</tr>
</table>

	PGSH	TMC	SSH
	(i) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which in relation to the Property; (ii) pay for quit rent and assessment of the Property; (iii) maintain takaful coverage in respect of the Property and the Lessor's fixtures and fittings, equipment and machinery in the Property against fire and allied perils; (iv) appoint and pay to the maintenance manager for the maintenance and management services rendered by the maintenance manager; and (v) be responsible to make good any structural repairs and works necessary to maintain the external and internal structure of the Property or total replacement of the Lessor's fixtures and fittings attached to the Property. The Lessee 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 Property that the Lessee are responsible for during the Contractual Term. The Lessee shall be given first right of refusal, should the Lessor intend to sell the Property, by way of written notice from the Lessor to sell the Property at the prevailing/open market value, to	(v) be responsible to make good any structural repairs and works necessary to maintain the external and internal structure of the Property or total replacement of the Lessor's fixtures and fittings attached to the Property. The Lessee 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 Property that the Lessee are responsible for during the Contractual Term. The Lessee shall be given first right of refusal, should the Lessor intend to sell the Property, by way of written notice from the Lessor to sell the Property at the prevailing/open market value, to which notice the Lessee shall reply within 60 calendar days thereof. Any subsequent extension to the lease period for TMC will be at the rental terms and revised rental rate to be mutually agreed by the Lessor, the Manager and the Lessee but otherwise upon the same terms and conditions of the Lease Agreement with the exception of the provision on renewal, the revised rental rate and the topping up of the security deposit to correspond with the revised rental rate, which shall be mutually agreed upon by the parties to the Lease Agreement, variations to other terms and conditions of the Lease Agreement mutually agreed upon in writing by the said parties during the extended lease period and resulting from any changes in the	services rendered by the maintenance manager; and (v) be responsible to make good any structural repairs and works necessary to maintain the external and internal structure of the Property or total replacement of the Lessor's fixtures and fittings attached to the Property. The Lessee 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 Property that the Lessee are responsible for during the Contractual Term. The Lessee shall be given first right of refusal, should the Lessor intend to sell the Property, by way of written notice from the Lessor to sell the Property at the prevailing/open market value, to which notice the Lessee shall reply within 60 calendar days thereof. Any subsequent extension to the lease period for SSH will be at the rental terms and revised rental rate to be mutually agreed by the Lessor, the Manager and the Lessee but otherwise upon the same terms and conditions of the Lease Agreement with the exception of the provision on renewal, the revised rental rate and the topping up of the security deposit to correspond with the revised rental rate, which shall be mutually agreed upon by the parties to the Lease Agreement, variations to other terms and conditions of the Lease Agreement mutually agreed upon in writing

	PGSH	TMC	SSH
	which notice the Lessee shall reply within 60 calendar days thereof.	applicable laws and requirements. Should there be any material changes to the rental terms for the aforesaid extension of lease period, KPJ will make the necessary announcement and seek shareholder's approval, if required, in accordance with the Listing Requirements.	by the said parties during the extended lease period and resulting from any changes in the applicable laws and requirements. Should there be any material changes to the rental terms for the aforesaid extension of lease period, KPJ will make the necessary announcement and seek shareholder's approval, if required, in accordance with the Listing Requirements.

BDOCC's comments:

We noted that the respective Properties' rent formulas and PGSH's rent review formula throughout the respective Contractual Term were mutually agreed between the parties.

Premised on our view as set out in Section 10 of this IAL, we are of the view that the 5.75% gross rental term is fair. The use of the Sale Consideration of the respective Properties in the rent formula is fair to reflect the respective Properties' current market value.

In addition, premised on our view as set out in Section 10 of this IAL, we are of the view that the 2% incremental increase per annum is fair.

We also noted the use of PGSH's open market value in the rent review formula. We are of the view that the term is reasonable as it ensures that the succeeding rental rate reflects the market value of PGSH at the point of review based on valuation method without having regard to the rental term of the lease provided in the Lease Agreements.

In addition, we also noted that the Lessor shall during the Contractual Term to pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which in relation to the Properties as well as to make good any structural repairs and works necessary to maintain the external and internal structure of the Properties. We are of the view that this is reasonable to ensure that the Properties are well maintained for the use and benefits of the KPJ Group.

4\. **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

	PGSH	TMC	SSH
	(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 (**this is applicable to Lease Agreement for PGSH only**).		

	PGSH	TMC	SSH

<u>**BDOCC's comments:**</u>

We noted that the terms above provide the Lessee an avenue for renovation and/or refurbishment works on the Properties. We further noted that the Lessor is responsible to bear the Expansion Costs and Expansion Reimbursement Costs incurred by the Lessee. We also noted that any resultant increase in gross floor area due to the expansion will result in a subsequent increase in monthly rent to the Lessee, of which, shall be mutually agreed upon between the parties.

The above terms are reasonable and benefit the Lessee as they cater for any potential future expansion plans by the Lessee to support the Lessee's operations at the Properties. Hence, we are of the view that the above terms are reasonable as they give the Lessee the option to expand the Properties.

5. 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.

<table>
<tr><th></th><th>PGSH</th><th>TMC</th><th>SSH</th></tr>
<tr><td></td><td colspan="3"><u>BDOCC's comments:</u>

We noted that the terms above provide the Lessee an avenue to plan, design and construct building(s) and structures on the land where the Properties are situated. We further noted that, subject to the agreement between the parties and in accordance with the Lease Agreement, the New Development undertaken by the Lessee shall be acquired by the Lessor and leased back to the Lessee under a new lease agreement or a supplemental lease agreement.

The above terms are reasonable and benefit the Lessee as they cater for any potential future new development plans by the Lessee to support the Lessee's operations at the Properties. Hence, we are of the view that the above terms are reasonable as they give the Lessee the option to develop the Properties.</td></tr>
<tr><td>6.</td><td colspan="3">Events of default and Termination

Please refer to Appendix II of the Circular – Salient Terms of the Lease Agreement on the events of default and Termination for more details.</td></tr>
<tr><td></td><td colspan="3"><u>BDOCC's comments:</u>

We noted that the terms lay out the events that would constitute default by the Lessee's failure in fulfilling its obligations under the salient terms of the Lease Agreements, of which the Lessor will have the rights to exercise for remedies from the Lessee.

We further noted that in the event of default by the Lessee, 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. We noted that neither party is allowed to terminate the Lease Agreements at its discretion as this works in the interest of both parties for the continuity of the lease terms as mutually negotiated and agreed upon.

We noted that the terms are common commercial terms in transactions of similar nature. Hence, we are of the view that the terms above are reasonable.</td></tr>
</table>

13. EFFECTS OF THE PROPOSED SALE AND LEASEBACK

In evaluating the Proposed Sale and Leaseback, we have taken note of the effects of the Proposed Sale and Leaseback as set out **in Section 6 of Part A of the Circular**.

13.1 Share capital and substantial shareholder's shareholdings

As set out in **Section 6.1 of Part A of the Circular**, we noted that the Proposed Sale and Leaseback will not have any effect on the share capital as well as substantial shareholders' shareholdings in KPJ as the Proposed Sale and Leaseback does not involve issuance of shares in KPJ.

13.2 NA, NA per share and gearing

As set out in **Section 6.2 of Part A of the Circular**, for illustration purposes, based on the audited consolidated financial statements of KPJ for FY 2021, assuming that the Proposed Sale and Leaseback was effected on 31 December 2021, the financial impact to the NA, NA per share and gearing of KPJ for FY 2021 are as follows:-

	Audited as at 31 December 2021	**After the Proposed Sale and Leaseback**
	RM'000	**RM'000**
Share Capital	959,521	959,521
Reserves	1,331,219	1,332,938(i)
Less: Treasury Shares	(155,310)	(155,310)
NA attributable to shareholders	2,135,430	2,137,149
Non-controlling interests	115,078	115,078
Total equity	**2,250,508**	**2,252,227**
No of KPJ Shares ('000)(ii)	4,326,852	4,326,852
NA per KPJ Share (RM)	0.49	0.49
Total borrowings(iii)	1,828,464	1,693,464(iv)
Gearing (times)	0.86	0.79

<u>*Notes:*</u>

(i) After taking into consideration the gain on sale of the Properties of RM3.82 million and after deducting the estimated expenses for the Proposed Sale and Leaseback of RM2.10 million.

(ii) Excluding treasury shares

(iii) Excluding lease liabilities.

(iv) After repayment of sukuk and banking facility amounting to RM135.0 million from the proceeds of the Proposed Sale.

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13.3 Earnings and EPS

As set out in **Section 6.3 of Part A of the Circular**, for illustration purposes, based on the audited consolidated financial statements of KPJ for FY 2021, assuming the Proposed Sale and Leaseback was completed at the beginning of the financial year, the financial effects of the Proposed Sale and Leaseback on the earnings and EPS of KPJ are as follows:-

Proforma Effects	**Audited FY 2021 RM'000**
Profit attributable to owners of the Company	51,033
Add: Interest for repayment of bank borrowing and sukuk(i)	6,720
Add: Gain on sale of Properties(ii)	3,819
Add: Estimated yearly distribution income from the Al-`Aqar units received from the Proposed Sale and Leaseback(iii)	1,333
Add: Existing depreciation on the buildings to be disposed	3,248
Add: Expenses that will be borne by Al-`Aqar instead of KPJ upon commencement of the lease	1,295
Add: Reduce in tax expense	814
(Less): Depreciation and finance charge (MFRS 16 - lease impact)	(13,960)
(Less): Estimated expenses in relation to the Proposed Sale and Leaseback(iv)	(2,100)
Pro forma profit	**52,202**
Existing basic/diluted EPS (sen)(v)	1.19/1.16
Proforma basic/diluted EPS (sen)(v)	1.22/1.18

Notes:

(i) The interest takes into consideration the following:-
(a) early repayment of banking facilities amounting to RM45 million at 3.9% per annum; and
(b) repayment of sukuk due amounting to RM90 million based on the weightage average profit rate of 5.52%.

(ii) After taking into consideration the impact from the leaseback of the Properties.

(iii) Assuming receiving distribution of RM0.065 from Al-`Aqar after taking into consideration Al-`Aqar distribution for FY2021 of RM57.4 million divided by the enlarged no. of units after the Proposed Sale and Leaseback and Al-`Aqar's proposed placement.

(iv) The estimated expenses include, amongst others, expenses relating to fees for solicitor, valuer and principal adviser.

(v) Based on weighted average number of ordinary shares in issue of 4.29 billion (basic) and 4.42 billion (diluted).

BDOCC's Comments:

Based on the pro forma financial effects, we noted that the Proposed Sale and Leaseback will not significantly impact the pro forma NA per KPJ Share as the NA per KPJ Share is projected to remain at RM0.49 upon completion of the Proposed Sale and Leaseback due to minimal net gain on sale of the Properties of RM1.72 million (based on gain on sale of the Properties of RM3.82 million and after deducting the estimated expenses for the Proposed Sale and Leaseback of RM2.10 million) representing less than 0.1% of the FY 2021 audited NA attributable to shareholders of RM2,251 million.

We also noted that the Proposed Sale and Leaseback will decrease the pro forma gearing of KPJ Group from 0.86 as at FY 2021 to 0.79 upon completion of the Proposed Sale and Leaseback due to the decrease of RM135 million (repayment of sukuk of RM90 million and bank facility of RM45 million) in KPJ Group's total borrowings from RM1,828.5 million in FY 2021 to RM1, 693.5 million.

In addition, the Proposed Sale and Leaseback will increase the pro forma basic and diluted EPS of KPJ Group from 1.19 sen and 1.16 sen respectively as at the FY 2021 to 1.22 sen and 1.18 sen respectively upon completion of the Proposed Sale and Leaseback primarily due to the profit and interest savings from the repayment of bank facility and sukuk, gain on sale of Properties as well as saving on the existing depreciation on the buildings to be disposed, offset by the depreciation and finance charge arising from the MFRS 16 and estimated expenses in relation to the Proposed Sale and Leaseback.

We also wish to highlight that the sale proceeds from the Proposed Sale will be utilised for the repayment of sukuk, bank facility and investment in expansion of hospitals as highlighted in **Section 7 of this IAL**.

Premised on the above, we are of the view that the overall effects of the Proposed Sale and Leaseback are reasonable and not detrimental to the interests of the non-interested shareholders of KPJ.

14. ECONOMIC AND MARKET OVERVIEW

We are of the view that the long-term prospect of KPJ Group to be encouraging underpinned by the following key factors:

(i) Malaysia's economy expanded by 6.9% in the first half of year 2022 underpinned by favourable momentum in the domestic economy and steady expansion in the external sector, as well as continued improvement of the labour market conditions;

(ii) strong performance is expected to sustain, backed by an increase in private consumption and business activities as the economy transitions to endemicity phase of COVID-19 with the surging tourist arrivals;

(iii) For the full year of year 2022, the economic growth is expected to register a higher growth within the range of 6.5% to 7%;

(iv) The Budget 2023 aims to improve access to quality healthcare nationwide including a focus on prevention and health screenings. Focus will be given on the measures to upgrade and expand healthcare facilities;

(v) The other services subsector is projected to rise by 8.5%, driven by private health and education segments. The continuous commitment and active participation of Malaysia Healthcare Travel Council ("**MHTC**") in international conferences and exhibitions to promote Malaysian healthcare services, are expected to boost the private health segment;

(vi) MHTC estimates healthcare tourism revenue to increase by 30% to RM1.3 billion in year 2023;

*(Source: Economic Outlook 2023, Ministry of Finance ("**MOF**"))*

(vii) Private consumption grew at a pace of 18.3% (Quarter 1 of year 2022: 5.5%), driven by higher spending on necessities and selected discretionary items such as restaurants and hotels, recreational services and household furnishings;

(viii) Public consumption expanded at a moderate pace of 2.6% (Quarter 1 of year 2022: 6.7%), weighed down by lower supplies and services spending, reflecting smaller COVID-19 related expenditure; and

(Source: Quarterly Bulletin Q2 2022, Bank Negara Malaysia)

(ix) There were 15,169 commercial property transactions worth RM14.02 billion recorded in first half of year 2022, up by 45.4% in volume and 28.3% in value compared to the same period last year.

(Source: Property Market Report H1 2020, Valuation and Property Services Department, MOF)

Premised on the above, we are of the view that the economic and market conditions appear to be favourable to the operations of KPJ Group. Nonetheless, we wish to highlight that the Proposed Sale and Leaseback is subject to certain risk factors as disclosed in Section 15 of this IAL.

15. RISK FACTORS ASSOCIATED WITH THE PROPOSED SALE AND LEASEBACK

In considering the Proposed Sale and Leaseback, the non-interested shareholders of KPJ are advised to give careful consideration to the risk factors as set out in **Section 5 of Part A of the Circular**.

The following are the key risk factors relating to the Proposed Sale and Leaseback:

15.1 Non-completion of the Proposed Sale and Leaseback

We noted that the Proposed Sale and Leaseback is conditional upon the fulfilment of the conditions precedent as set out in **Appendix I and Appendix II of the Circular**. Whilst KPJ will take all reasonable steps to facilitate the fulfilment of the conditions precedent and terms pursuant to the SPAs and Lease Agreements, there can be no assurance that such conditions precedent will be fulfilled within the stipulated timeframe.

The non-completion of the Proposed Sale and Leaseback would result in KPJ needing funds to undertake the activities disclosed in **Section 3 of Part A of the Circular**. If it is funded by way of borrowings, it would expose KPJ to interest rate fluctuations and debt servicing risks.

15.2 Non-renewal of the leases

We noted that the renewal of the lease upon expiry of the lease term is at the discretion of the Lessor, is also subject to, amongst others, the parties agreeing on the rental rate as set out in **Section 2.2.1.2 of Part A of the Circular**. As such, if the lease of the Properties is not renewed after the expiry of the same or if KPJ, via the relevant Subsidiary, relocates its operations to a suitable alternative location, the Subsidiaries will not be able to continue its on-going operations at the Properties. This could have an impact on KPJ's long term sustainability of its business. In such event, KPJ Group will use its best endeavour to take all reasonable steps to mitigate the aforesaid risk by, amongst others, commencing early negotiations with Al-`Aqar to renew the lease term and actively engage in sourcing for suitable alternative locations to minimise the disruptions to its operations. However, as the properties must be purpose built as hospital, 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.

BDOCC's Comments:

We noted that in the event where the lease of the Properties is not renewed, KPJ Group will use its best endeavour to take all reasonable steps to minimise the disruptions to its operations.

We wish to highlight that although measures could be taken by KPJ Group to attempt to limit the risk(s) associated with the Proposed Sale and Leaseback, no assurance can be given that the abovementioned risk factors will not crystallise and give rise to material impact on the operation and financial performance of KPJ Group.

In evaluating the Proposed Sale and Leaseback, the shareholders of KPJ are advised to carefully consider the above said risk factors.

16 CONCLUSION AND RECOMMENDATION

You should carefully consider the terms of the Proposed Sale and Leaseback based on all relevant and pertinent factors including those set out above, and other considerations as set out in this IAL, the Circular and any other publicly available information.

In arriving at our conclusion and recommendation, we have taken into account the various consideration factors which are summarised as follows:-

Section in this IAL	Area of evaluation	Our Evaluation
Section 7	Rationale of the Proposed Sale and Leaseback	We noted that KPJ Group intends to utilise RM90.0 million of the cash proceeds to partially repay RM90.0 million of sukuk due. Based on the weighted average profit rate of 5.5% per annum for the sukuk, the partial repayment of sukuk due of RM90.0 million is expected to result in annual profit savings of approximately RM4.95 million. In addition, KPJ Group also intends to utilise RM45.0 million of the cash proceeds for early repayment of a bank facility. The proposed repayment is expected to result in annual interest saving of approximately RM1.76 million based on interest rate of 3.9% per annum. Premised on the above, KPJ Group expects the repayment of sukuk and bank facility to result in total annual profit and interest savings of approximately RM6.72 million. In addition, based on the audited consolidated financial statements of KPJ for FY 2021, the gearing of KPJ Group is expected to reduce from 0.86 times to 0.79 times after the repayment of sukuk and bank facility. We also noted that KPJ Group intends to utilise RM24.9 million of the cash proceeds to fund its hospital expansion which includes, but not limited to the funding of renovation, expansion works, purchase of medical equipment and other miscellaneous development. We further noted that the Proposed Sale and Leaseback will enable KPJ Group to instantly realise an estimated gain on sale of approximately RM3.82 million upon completion of the Proposed Sale and Leaseback.

Section in this IAL	Area of evaluation	Our Evaluation
		We also wish to highlight that the Lease Agreements for TMC and SHH are only until year 2024 and the option to renew for an extension of 15 years is at the discretion of the Lessor. It might have an impact on the operations and sustainability of the business if the extension of 15 years is not renewed by the Lessor. Notwithstanding the above, the risk on the operations and sustainability of the business will be mitigated as the Properties are custom built and currently operated as hospital for the usage of KPJ Group and the Lessor and Lessees agree that the Properties shall be used strictly for the purpose of operating a healthcare facility. In addition, the Properties are unlikely to be demolished as the Properties are being acquired by the Lessor based on the valuation performed by Cheston using DRC Method. We also noted that the Contractual Term for TMC and SSH are from the completion of Proposed Sale of TMC and SSH to 30 April 2024 and 13 October 2024 respectively are in line with the existing contractual term of the respective land and other buildings that are being leased to the Lessees, with an option to renew another 15 years from the expiry of the Contractual Term at the option of the Lessor. The terms are reasonable to ensure that Contractual Term for TMC and SSH will coincide with the existing contractual term of the respective land and buildings. We also understand that KPJ Group will use its best endeavour to take all reasonable steps to mitigate the risk by commencing early negotiations with the Lessor to renew the lease term and actively engage in sourcing for suitable alternative locations to minimise the disruptions to its operations. Based on the above, we are of the view the rationale of the Proposed Sale and Leaseback is **reasonable** and not detrimental to the non-interested shareholders of KPJ.
Section 8	Basis and justifications for the Sale Consideration	We are of the following views:- (i) that the adoption of the income approach by profits method as the primary method of valuation is **reasonable** and that the market value of PGSH of RM92.6 million adopted by Cheston is **fair**; (ii) that the adoption of DRC Method as the sole valuation methodology is **reasonable** and that the market value of TMC of RM14.3 million adopted by Cheston is **fair**; and (iii) that the adoption of DRC Method as the sole valuation methodology is **reasonable** and that the market value of SSH of RM84.5 million adopted by Cheston is **fair**. On an aggregate basis, the Sale Consideration of RM192.0 million represents a **premium** of RM0.6 million or 0.3% over

Section in this IAL	Area of evaluation	Our Evaluation
		the market value of the Properties of RM191.4 million. As such, we are of the view that the Sale Consideration is **fair.**
Section 9	Basis and justifications for the issue price of the Consideration Units	The issue price of the Consideration Units represents the following:- (i) **premium** ranging between RM0.0022 to RM0.0477 or 0.2% to 4.1% over the closing market price as at 1 September 2022, the five (5)-day, one (1)-month, three (3)-month, six (6)-month and one (1)-year VWAPs of Al-`Aqar Units up to and including 1 September 2022; and (ii) **premium** ranging between RM0.0092 to RM0.0100 or 0.8% over the closing market price as at LPD and the five (5)-day VWAP up to and including the LPD. We also noted that the issue price of RM1.22 per Consideration Unit approximates to the 5-day VWAP as at 1 September 2022 of RM1.2178, and also represents a slight **premium** over the closing market prices and other VWAPs as at both 1 September 2022 and the LPD. We noted that the issue price of RM1.22 per Consideration Unit represents a **discount** ranging between RM0.0460 to RM0.0550 or 3.6% to 4.3% over the audited and unaudited NAV per Al-`Aqar Unit. Premised on the above, we are of the opinion that the issue price of the Consideration Units is **fair.**
Section 10	Basis and justifications in arriving at the rental rate	We noted that Cheston is of the view that the fair net rental yields of the Properties should be between 5.0% to 6.0%, after taking into consideration: (i) Current state of the Malaysian economy, property market and healthcare industry which have been impacted by the COVID-19 pandemic, looming global recession fears and the geopolitical risk; (ii) Current cost of financing rates, short to long term securities rates; and (iii) After comparison of broad spectrum of various types of yields of residential, commercial, industrial and agricultural properties in Malaysia. In addition, we noted that the incremental increase per annum of 2.0% is within close proximity to the 10-year average inflation rate of Malaysia of 2.1%. Based on the 2% incremental increase per annum, the net rental rate of 5.23% will increase to 5.33% in year 2 and 5.44% in year 3 respectively, which are still within the range of fair net rental

Section in this IAL	Area of evaluation	Our Evaluation
		yield of the Properties based on Cheston's view of 5.0% to 6.0%. Premised on the above, we are of the view that the gross rental rate of 5.75%, the net rental rate of 5.23% as well as the 2% incremental increase per annum for every Year 2 and Year 3 of the rental term are **fair.**
Section 11	Evaluation of the salient terms of the SPAs	Based on our evaluation, we are of the view that the salient terms of the respective SPAs are **reasonable.**
Section 12	Evaluation of the salient terms of the Lease Agreements	Based on our evaluation, we are of the view that the salient terms of the respective Lease Agreements are **reasonable**.
Section 13	Effects of the Proposed Sale and Leaseback	Based on the pro forma financial effects, we noted that the Proposed Sale and Leaseback will not significantly impact the pro forma NA per KPJ Share as the NA per KPJ Share is projected to remain at RM0.49 upon completion of the Proposed Sale and Leaseback due to minimal net gain on sale of the Properties of RM1.72 million (based on gain on sale of the Properties of RM3.82 million and after deducting the estimated expenses for the Proposed Sale and Leaseback of RM2.10 million) representing less than 0.1% of the FY 2021 audited NA attributable to shareholders of RM2,251 million. We also noted that the Proposed Sale and Leaseback will decrease the pro forma gearing of KPJ Group from 0.86 as at FY 2021 to 0.79 upon completion of the Proposed Sale and Leaseback due to the decrease of RM135 million (repayment of sukuk of RM90 million and bank facility of RM45 million) in KPJ Group's total borrowings from RM1,828.5 million in FY 2021 to RM1, 693.5 million. In addition, the Proposed Sale and Leaseback will increase the pro forma basic and diluted EPS of KPJ Group from 1.19 sen and 1.16 sen respectively as at the FY 2021 to 1.22 sen and 1.18 sen respectively upon completion of the Proposed Sale and Leaseback primarily due to the profit and interest savings from the repayment of bank facility and sukuk, gain on sale of Properties as well as saving on the existing depreciation on the buildings to be disposed, offset by the depreciation and finance charge arising from the MFRS 16 and estimated expenses in relation to the Proposed Sale and Leaseback. We also wish to highlight that the sale proceeds from the Proposed Sale will be utilised for the repayment of sukuk, bank facility and investment in expansion of hospitals as highlighted in **Section 7 of this IAL**. Premised on the above, we are of the view that the overall effects of the Proposed Sale and Leaseback are **reasonable**

Section in this IAL	Area of evaluation	Our Evaluation
		and **<u>not detrimental</u>** to the interests of the non-interested shareholders of KPJ.
Section 14	Economic and market overview	We are of the view that the economic and market conditions appear to be favourable to the operations of KPJ Group. Nonetheless, we wish to highlight that the Proposed Sale and Leaseback is subject to certain risk factors as disclosed in **Section 15 of this IAL**.
Section 15	Risk factors associated with the Proposed Sale and Leaseback	In considering the Proposed Sale and Leaseback, the non-interested shareholders of KPJ are advised to give careful consideration to the following risk factors:- (i) Non-completion of the Proposed Sale and Leaseback; and (ii) Non-renewal of the leases. We noted that in the event where the lease of the Properties is not renewed, KPJ Group will use its best endeavour to take all reasonable steps to minimise the disruptions to its operations. We wish to highlight that although measures could be taken by KPJ Group to attempt to limit the risk(s) associated with the Proposed Sale and Leaseback, no assurance can be given that the abovementioned risk factors will not crystallise and give rise to material impact on the operation and financial performance of KPJ Group. In evaluating the Proposed Sale and Leaseback, the shareholders of KPJ are advised to carefully consider the above said risk factors.

In arriving at our conclusion and recommendation, we have taken into account the various consideration factors as set out in this IAL. Based on this, BDOCC views that the Proposed Sale and Leaseback is **<u>fair</u>** and **<u>reasonable</u>** and is **<u>not detrimental</u>** to the non-interested shareholders of KPJ.

Accordingly, we advise and recommend that the non-interested shareholders **<u>vote in favour</u>** of the ordinary resolutions pertaining to the Proposed Sale and Leaseback to be tabled at the forthcoming EGM.

Yours faithfully
for and on behalf of
BDO CAPITAL CONSULTANTS SDN BHD

Wong Wing Seong
Executive Director - Advisory

Eng Cha Lun
Director - Advisory

APPENDIX I – SALIENT TERMS OF THE SPA

The salient terms of the SPAs are as follows:-

Sale consideration

(i) In relation to SPA of PGSH ("**PGSH SPA**"), the deposit which is 5% of the sale consideration amounting to RM4,650,000.00 shall be paid upon the execution of the PGSH SPA and the balance sale consideration which is 95% of the sale consideration amounting to RM88,350,000.00 comprising of a combination of cash and Consideration Units shall be satisfied on or before the expiry of 3 months from the date the PGSH SPA becoming unconditional.

(ii) In relation to SPA of TMC ("**TMC SPA**"), the deposit which is 5% of the sale consideration amounting to RM715,000-00 shall be paid upon the execution of the TMC SPA and the balance sale consideration which is 95% of sale consideration amounting to RM13,585,000.00 shall be satisfied on or before the expiry of 3 months from the date the TMC SPA becoming unconditional.

(iii) In relation to SPA of SSH ("**SSH SPA**"), the deposit which is 5% of the sale consideration amounting to RM4,235,000.00 shall be paid upon the execution of the SSH SPA and the balance sale consideration which is 95% of sale consideration amounting to RM80,465,000.00 shall be satisfied on or before the expiry of 3 months from the date the SSH SPA becoming unconditional.

Conditions Precedent to the SPAs

(i) The SPAs for the Properties are conditional on the following:-

(a) Approval from the board of directors and shareholders of KPJ and relevant Vendor for Proposed Sale and Leaseback of each relevant Property;

(b) Approval from and notification to the appropriate authorities which include, amongst others, Bursa Securities;

(c) Approval from the board of directors of the Trustee and Manager and the unitholders of Al-`Aqar;

(d) Approval from the existing financiers, creditors or lenders of Al-`Aqar (if any);

(e) The issuance of letter of offer or letter of commitment in relation to the financing of the relevant Property by the Purchaser's financier and accepted by the Purchaser or Al-`Aqar's special purpose vehicle company which will be used for the purposes of such financing;

(f) Certificate of completion and compliance of the Properties has been duly obtained by the Vendor;

(g) In relation to PGSH, the receipt of a registrable memorandum of transfer with the relevant stamp duty office endorsement on the same as being exempted from the payment of stamp duly pursuant to Stamp Duty (Exemption) (No. 4) Order 2004;

(h) Execution of the Lease Agreements in escrow and the relevant documents to give effect to the Lease Agreements; and

(i) Confirmation by solicitors certifying that the conditions precedent are satisfied,

(collectively referred to as "**Conditions Precedent**").

(ii) The time period for fulfillment of all Conditions Precedent is six (6) months from the date of the SPAs or any extension thereof agreed between the parties to the SPAs.

(iii) The completion date is a date falling on or before expiry of three (3) months from the date the SPAs becoming unconditional.

(iv) In the event, the SPAs are not completed by the completion date, the SPAs will be extended for an additional three (3) months from the completion date.

Events of default

(i) Events of default by the Vendors and consequences thereof under the SPAs:-

In the event that:

1) there is a default by the Vendor to complete the sale of the Property in accordance with the terms and conditions of the SPA; or

2) the Vendor fails, neglects or refuses to perform or comply with any of its obligations on its part herein to be performed under the SPAs in any material respect and where remediable, fails to remedy the same within 14 business days from the date of a written notice from the Purchaser requiring the same to be remedied; or

3) any representation, warranty or undertaking of the Vendor is not true or accurate or is not complied with in any material respect, or

4) an encumbrancer takes possession of, or a trustee, receiver or similar officer is appointed in respect of, all or any substantial part of the business or assets of the Vendor; or

5) the Vendor becomes insolvent; or

6) (a) any party takes any action or any legal proceedings are started or other steps taken for the Vendor to be adjudicated or found insolvent, (b) the winding-up, dissolution of the Vendor either by an order of a court of competent jurisdiction or by way of voluntary winding-up save and except to effect a reorganisation of the business of the Vendor (c) the appointment of a liquidator, trustee receiver or similar officer of the Vendor over the whole or any part of the Vendor's or any of its respective undertaking(s), concession, rights or revenues other than a winding-up of the Vendor for the purpose of amalgamation or reconstruction;

At any time prior to the completion of the SPA, then subject always to the Purchaser having observed and fulfilled the provisions of the SPA required on its part to be observed or performed, the Purchaser shall give to the Vendor 45 business days' notice or such later period as the parties to the SPA may mutually agree in writing to rectify the alleged breach or default as stipulated in the said notice. For the avoidance of doubt, no remedy period is to be given to the Vendor in respect of any breach referred to under items (4) to (6) above. In the event that the Vendor fails to rectify the alleged breach or default within the said 45 business days or such later period as the parties to the SPA may mutually agree to in writing, the Purchaser shall be entitled at the Purchaser's sole and absolute discretion to do either of the following (by notice in writing to the Vendor):-

(a) to require specific performance of the SPA; or

(b) to claim damages for the breach of the SPA by the Vendor; or

(c) to terminate the SPA by notice in writing to the Vendor and the parties to the SPA shall within 14 business days of receipt by the Vendor of such written notice do the following at the Vendor's own cost and expense:

(i) the Vendor shall refund to the Purchaser all monies received by the Vendor under the SPA (save for any late payment compensation which shall be paid by the Purchaser) free of interest;

(ii) the Vendor pays to the Purchaser an amount equivalent to the deposit as liquidated damages failing which the Vendor shall pay the Purchaser damages on the aforesaid money calculated at the rate of eight per centum (8%) per annum on a daily basis commencing from the expiry of the aforesaid 14 business days until the date of the actual payment;

(iii) the Purchaser shall return and procure the purchaser's solicitors to return all documents received by the Purchaser and/or the purchaser's solicitors pursuant to the SPA, to the Vendor in their original state and condition (fair wear and tear excepted);

(iv) the Vendor shall return all documents received by the Vendor pursuant to the SPA, to the Purchaser in their original state and condition (fair wear and tear excepted);

(v) the Purchaser shall withdraw the private caveat over the Property, if the same has been entered into (this is applicable to PGSH SPA only); and

(vi) the Purchaser shall re-deliver the possession of the Property to the Vendor, if the same has been duly delivered to the Purchaser pursuant to the SPA in its original state and condition.

Thereafter, the SPA shall become null and void and be of no further effect and neither party thereto shall have any further claims action or proceedings against the other in respect of or arising out of the SPA, save and except for any claim arising from any antecedent breach and as provided in the SPA.

(ii) Events of default by the Purchaser and consequences thereof under the SPAs:-

In the event that:

1) the Purchaser shall fail to satisfy the sale consideration or any part thereof or to complete the sale and purchase of the Property in accordance with the terms and conditions of the SPA; or

2) the Purchaser fails, neglects or refuses to perform or comply with any of its obligations on its part herein to be performed under the SPA in any material respect and where remediable, fails to remedy the same within 14 business days from the date of a written notice from the Vendor requiring the same to be remedied; or

3) any representation, warranty or undertaking of the Purchaser is not true or accurate or is not complied with in any material respect, or

4) an encumbrancer takes possession of, or a trustee, receiver or similar officer is appointed in respect of, all or any substantial part of the business or assets of the Purchaser; or

5) the Purchaser becomes insolvent;

6) the Purchaser is unable to pay its debts as they fall due, stops or suspends payment of all or a material part of its debts, begins negotiations or takes any proceeding or other steps with a view to readjustment, rescheduling or deferral of all of its borrowed money (or of any part of its borrowings/financing facilities which it will or might otherwise be unable to pay when due) or proposes to make a general assignment or an arrangement or composition with or for the benefit of its creditors or a moratorium is agreed or declared in respect of or affecting all or a part of the borrowings/financing facilities of the Purchaser **(this is applicable to PGSH SPA only)**; or

7) (a) any party takes any action or any legal proceedings are started or other steps taken for the Purchaser to be adjudicated or found insolvent, (b) the winding-up, dissolution of the Purchaser either by an order of a Court of competent jurisdiction or by way of voluntary winding-up save and except to effect a reorganisation of the business of the Purchaser (c) the appointment of a liquidator, trustee receiver or similar officer of the Purchaser over the whole or any part of the Purchaser's or any of its respective

undertaking(s), concession, rights or revenues other than a winding-up of the Purchaser for the purpose of amalgamation or reconstruction; or

8) the commencement of any proceedings pursuant to Section 366 of the Act in relation to the Purchaser (except for the purpose of and followed by reconstruction, amalgamation or reorganisation which does not in the opinion of the other party have a material adverse effect);

Then subject always to the Vendor having observed and fulfilled the provisions of the SPA required on its part to be observed or performed, the Vendor shall give to the Purchaser 45 business days' notice or such later period as the parties to the SPA may mutually agree to in writing to rectify the alleged breach or default as stipulated in the said notice. For the avoidance of doubt, no remedy period is to be given to the Purchaser in respect of any breach referred to under items (4) to (7) above. In the event that the Purchaser fails to rectify the alleged breach or default within the said 45 business days or such later period as the parties to the SPA may mutually agree to in writing, the Vendor shall be entitled at the Vendor's sole and absolute discretion to do either of the following (by notice in writing to the Purchaser):-

(a) to require specific performance of the SPA; or

(b) to claim damages for the breach of the SPA by the Purchaser; or

(c) to terminate the SPA by notice in writing to the Purchaser and the parties to the SPA shall within 14 business days of receipt by the Purchaser of such written notice do the following at the Purchaser's own cost and expense:

(aa) the Vendor shall refund to the Purchaser all monies (save and except for the deposit which shall be forfeited by the Vendor as the agreed liquidated damages) received by the Vendor under the SPA (save for any late payment compensation which shall be paid by Purchaser) free of interest;

(bb) the Purchaser shall return and procure the purchaser's solicitors to return all documents received by the Purchaser and/or the purchaser's solicitors pursuant to the SPA, to the Vendor in their original state and condition (fair wear and tear excepted);

(cc) the Vendor shall return all documents received by the Vendor pursuant to the SPA, to the Purchaser in their original state and condition (fair wear and tear excepted);

(dd) the Purchaser shall withdraw the private caveat over the Property, if the same has been entered into **(this is applicable to PGSH SPA only)**; and

(ee) the Purchaser shall re-deliver the possession of the Property to the Vendor, if the same has been duly delivered to the Purchaser pursuant to the SPA in its original state and condition.

Thereafter, the SPA shall become null and void and be of no further effect and neither party thereto shall have any further claims action or proceedings against the other in respect of or arising out of the SPA, save and except for any claim arising from any antecedent breach and as provided in the SPA.

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

(i) The Vendors respectively enter into a Lease Agreement with ART as lessor and the Manager as follows:-

(a) PGHSB to enter into Lease Agreement for the lease of PGSH for a period of 15 years commencing from the date of completion of Proposed Sale of PGSH with an option to renew for another 15 years (at the discretion of the Lessor);

(b) PSHSB to enter into Lease Agreement for the lease of TMC together with its land for a period commencing from the date of completion of Proposed Sale of TMC to 30 April 2024 with an option to renew for another 15 years (at the discretion of the Lessor); and

(c) MSHSB to enter into Lease Agreement for the lease of SSH together with its land for a period commencing from the date of completion of Proposed Sale of SSH to 13 October 2024 with an option to renew for another 15 years (at the discretion of the Lessor),

(the period of the respective Lease Agreements is referred to as “**Contractual Term**”).

(ii) 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.

Conditions Precedent to Lease Agreements

The Lease Agreement is conditional upon the fulfilment of the following conditions:-

(i) the approval of the shareholders of the Lessee’s ultimate holding company, KPJ, being obtained in respect of the Proposed Leaseback;

(ii) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Leaseback; and

(iii) the completion of the SPAs.

Rent

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

PGSH

(a) Rent formula

First Rental Term	Rent Formula
1st year	5.75% per annum x the sale consideration of PGSH (“**Base Rent**”).
2nd & 3rd year	2% incremental increase x the 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
1st year of every succeeding rental term (Years 4, 7, 10 and 13)	5.75% per annum x Open Market Value of the Properties at the point of review, subject to:- (i) A minimum rent of the Base Rent; and (ii) any adjustment to the rent shall not be more than 2.0% incremental increase over the rent for the preceding year.
2nd & 3rd year of every succeeding rental term (Years 5, 6, 8, 9, 11, 12, 14, 15)	2% incremental increase over the rent for the preceding year.

<u>SSH</u>

Rental Term	Rent Formula
1st year (from the date of completion of the Proposed Sale of SSH until 13 October 2023)	5.75% per annum x the sale consideration of SSH.
2nd year (from 14 October 2023 until 13 October 2024)	2% incremental increase x the rent for the preceding year.

<u>TMC</u>

Rental Term	Rent Formula
1st year (from the date of completion of the Proposed Sale of TMC until 30 April 2023)	5.75% per annum x the sale consideration of TMC.
2nd year (1 May 2023 from until 30 April 2024)	2% incremental increase x the rent for the preceding year.

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

(iii) The Lessor shall during the Contractual Term inter alia:-

(a) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which 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; and

(e) be responsible to make good any structural repairs and works necessary to maintain the external and internal structure of the Properties or total replacement of the Lessor's fixtures and fittings attached to the Properties.

(iv) 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.

(v) The Lessees shall be given first right of refusal, should the Lessor intend to sell the Properties, by way of written notice from the Lessor to sell the Properties at the prevailing/open market value, to which notice the Lessees shall reply within 60 calendar days thereof.

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 (**this is applicable to Lease Agreement for PGSH only**).

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.

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

(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 events 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.

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1. HISTORY AND BUSINESS

Al-`Aqar was established in Malaysia under the Deed, which includes any amendment(s) and variation(s) thereof and addition(s) thereto and any other instrument(s) executed supplemental thereto or in substitution thereof from time to time and which was duly registered with the Securities Commission Malaysia on 10 January 2020, entered into between DRMSB and ART and the persons who are for the time being registered as holders of the Al-`Aqar Units. Al-`Aqar is listed on the Main Market of Bursa Securities since 10 August 2006.

Al-`Aqar is a real estate investment trust with an existing fund size of 735,985,088 Units. The investment objective of Al-`Aqar is to own and invest in Syariah-compliant healthcare related real estate and real estate-related assets whether directly or indirectly through the ownership of single-purposes companies whose principal assets comprise real estate.

As at LPD, the management company of Al-`Aqar is DRMSB. The Manager was incorporated in Malaysia under the Companies Act 1965 and deemed registered under the Companies Act 2016 under the name of Ultimate Benchmark Sdn Bhd on 8 December 2005 and assumed its present name on 15 March 2006. The issued and fully paid up share capital of the Manager as at 18 August 2022 is RM1.0 million. DRMSB is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp.

Directors of DRMSB

Name	Position
Dato' Mohd Redza Shah Bin Abdul Wahid	Chairman, Independent Non-Executive Director
Dato' Wan Kamaruzaman Bin Wan Ahmad	Independent Non-Executive Director
Abdullah Bin Abu Samah	Independent Non-Executive Director
Datuk Hashim Bin Wahir	Independent Non-Executive Director
Datuk Sr Akmal Bin Ahmad	Non-Independent Non-Executive Director
Dato' Salehuddin Bin Hassan	Non-Independent Non-Executive Director
Shamsul Anuar Bin Abdul Majid	Non-Independent Non-Executive Director

As at LPD, the substantial unitholders of Al-`Aqar are as follows:-

Substantial unitholders of Al-`Aqar

	Unitholdings			
	Direct		Indirect	
Name	No. of Units		No. of Units	
	('000)	%	('000)	%
JCorp	-	-	269,248	(i)36.6
KPJ	-	-	269,075	(ii)36.6
Lembaga Tabung Haji	105,532	14.3	-	-
Employees Provident Fund	83,228	11.3	-	-
Kumpulan Wang Persaraan (Diperbadankan)	65,391	8.9	-	-
Pusat Pakar Tawakal Sdn Bhd	54,649	7.4	-	-
Amanah Saham Bumiputera	46,000	6.3	-	-

Notes:-

(i) Deemed Interested by virtue of interest in KPJ and Johor Ventures Sdn. Bhd. under Section 8 of the Act

(ii) Deemed interested by virtue of its shareholding in several companies which are part of the KPJ Group, pursuant to Section 8 of the Act..

2. UNIT CAPITAL AND MOVEMENT IN UNIT CAPITAL

The unit capital of Al-`Aqar as at LPD is as follows:-

	No of units	RM
Existing unit capital	735,985,088	731,398,126

3. SUBSIDIARIES

As at LPD, the subsidiaries of Al-`Aqar are as follows:-

Name	Date of incorporation	Place of incorporation	Issued share capital	Ownership	Principal Activity
Al-`Aqar Capital Sdn Bhd	5 June 2006	Malaysia	RM2	100%	Special purpose company for the purpose of raising Islamic Financing for Al-`Aqar
Al-Aqar Australia Pty Ltd	22 December 2010	Australia	AUD13,071,844	100%	Special purpose company for the purpose of acquisition of Australian property for Al-`Aqar

4. PROPERTIES

The properties held by Al-`Aqar as at LPD, of which information is based on the last audited FY 31 December 2021, are as follows:-

(i) KPJ Ampang Puteri Specialist Hospital

Description	A 7-storey main building and an annexed 5-storey specialist centre purpose-built private specialist hospital with 1 level of common lower ground floor and an undeveloped portion of land being used as car park area.
Lot No.	P.T. No. 25119
Title No.	H.S. (M) 26550, Mukim Empang, District of Hulu Langat, State of Selangor.
Address	No. 1, Jalan Memanda 9, Taman Dato' Ahmad Razali, 68000 Ampang, Selangor.
Existing use	Private hospital
Rental income	RM9,683,806
Tenure	Leasehold expiring in year 2089
Age of Building	26 years

(i) KPJ Ampang Puteri Specialist Hospital

Gross floor area / land area	390,848 sq.ft / 233,254 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE Valuations Pty Limited ("**CBRE**")
Market Value @ 31 December 2021 (RM)	137,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(ii) KPJ Damansara Specialist Hospital

Description	A 6-storey purpose-built hospital building with a basement level and an open car park.
Lot No.	60950 Seksyen 39
Title No.	336358, Town of Petaling Jaya, District of Petaling State of Selangor.
Address	No 119, Jalan SS 20/10, Damansara Utama, 47400 Petaling Jaya, Selangor.
Existing use	Private hospital
Rental income	RM8,449,417
Tenure	Interest in Perpetuity
Age of Building	23 years
Gross floor area / land area	445,114 sq.ft. / 180,521 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	138,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(iii) KPJ Johor Specialist Hospital

Description	A purpose-built private hospital comprising a 7-storey main building (Inpatient & Premier Block), a 4-storey physician consulting building (Outpatient Block), built atop a 2-storey basement car park, a 5-storey Car Park Block together with a basement and several other structure which is ancillary to the hospital operations.
Lot No.	PTB No. 12319 (new Lot 19262)
Title No.	H.S. (D) 420217, Town and District of Johor Bahru, State of Johor.
Address	No. 39-B, Jalan Abdul Samad, 80100 Johor Bahru, Johor.
Existing use	Private hospital
Rental income	RM8,681,833
Tenure	Leasehold expiring in year 2079.
Age of Building	40 years
Gross floor area / land area	482,464 sq.ft / 217,800 sq.ft
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	122,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(iv) KPJ Ipoh Specialist Hospital

Description	A purpose-built private hospital comprising a 3.5-storey "Old Wing" annexed to a 5-storey "New Wing" with a basement level
Lot No.	PT 254356
Title No.	HS (D) 221754, Town of Ipoh (U), in District of Kinta, State of Perak
Address	No.26, Jalan Raja Di Hilir, 30350 Ipoh, Perak.
Existing use	Private hospital
Rental income	RM6,337,679
Tenure	Interest in Perpetuity
Age of Building	Old wing: 29 years New wing: 14 years

(iv) KPJ Ipoh Specialist Hospital

Gross floor area / land area	382,865. sq.ft. / 142,116 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	89,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(v) KPJ Puteri Specialist Hospital

Description	A 6-storey purpose-built private hospital building.
Lot No.	PTB 24134
Title No.	HSD 535599, Town and District of Johor Bahru, State of Johor.
Address	No. 33, Jalan Tun Abdul Razak (Susur 5), 80350 Johor Bahru, Johor.
Existing use	Private hospital
Rental income	RM3,150,412
Tenure	Leasehold expiring in year 2053
Age of Building	35 years
Gross floor area / land area	134,098 sq.ft / 104,109 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	40,000,000
Encumbrances	Nil

(vi) KPJ Selangor Specialist Hospital

Description	A 6-storey purpose-built hospital building with a basement and a 6-storey car park block with a basement.
Lot No.	P.T. 2 Section 20

(vi) KPJ Selangor Specialist Hospital

Title No.	H.S. (D) 112884, Town of Shah Alam, District of Petaling, State of Selangor
Address	Lot 1, Jalan Singa 20/1, Section 20, 40300 Shah Alam, Selangor
Existing use	Private hospital
Rental income	RM5,892,023
Tenure	Leasehold expiring in year 2096
Age of Building	25 year
Gross floor area / land area	314,844 sq.ft. / 204,342 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	84,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(vii) Kedah Medical Centre

Description	A purpose-built private hospital comprising a 10-storey building with an annexed 3-storey building
Lot No.	P.T. No. 35 (New Lot 9527)
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
Address	Nos. 175 & 175A, Jalan Pumpong, 05250 Alor Setar, Kedah.
Existing use	Private hospital
Rental income	RM3,609,167
Tenure	Interest in Perpetuity
Age of Building	17 years
Gross floor area / land area	215,851 sq.ft. / 83,183 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021

(vii) Kedah Medical Centre

Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	52,500,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(viii) KPJ Perdana Specialist Hospital

Description	A 5-storey purpose-built private specialist hospital with a sub-basement
Lot No.	657 Seksyen 14
Title No.	PN 4133, Bandar and Jajahan of Kota Bharu, State of Kelantan
Address	No. PT 37 and PT 600, Jalan Bayam, Section 14, 15200 Kota Bharu, Kelantan
Existing use	Private hospital
Rental income	RM3,190,503
Tenure	Leasehold expiring in year 2064
Age of Building	19 years
Gross floor area / land area	146,686 sq. ft. / 94,163 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	42,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(ix) Kuantan Care & Wellness Centre

Description	The building comprises two adjoining 3 and 5-storey blocks and identified as Blocks A and Block B, respectively
Lot No.	5885, 5886, 5888, 5889, 5890, 5891, 10747 and 10748
Title No.	GM 3441, GM 3442, GM 3466, GM 2827, GM 2823, GM 3443, GM 1575, GM 6875 Mukim of Kuala Kuantan, District of Kuantan in Pahang Darul Makmur
Address	No. 51 Jalan Alor Akar, Taman Kuantan, 25250 Kuantan, Pahang
Existing use	Wellness / Health Centre

(ix) Kuantan Care & Wellness Centre

Rental income	RM1,479,758
Tenure	Interest in Perpetuity
Age of Building	35 years
Gross floor area / land area	69,060 sq.ft / 72,322 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	16,800,000
Encumbrances	Nil

(x) KPJ Sentosa KL Specialist Hospital

Description	A 9-storey purpose-built building with a basement carpark that is currently operating as a private specialist hospital
Lot No.	671, Section 47
Title No.	GRN 43923, Town of Kuala Lumpur, District of Kuala Lumpur
Address	No. 36, Jalan Chemur, Damai Complex, 50400 Kuala Lumpur.
Existing use	Private hospital
Rental income	RM2,114,307
Tenure	Interest in Perpetuity
Age of Building	23 years
Gross floor area / land area	81,214 sq.ft. / 23,659 sq.ft
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	31,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(xi) KPJ Kajang Specialist Hospital

Description	A 7-storey purpose-built private specialist hospital with one (1) level of basement Car Park
Lot No.	42997, Section 9
Title No.	GM 2494, Mukim of Kajang, District of Hulu Langat, Selangor
Address	Jalan Cheras, 43000 Kajang, Selangor
Existing use	Private hospital
Rental income	RM3,538,991
Tenure	Interest in Perpetuity
Age of Building	15 years
Gross floor area / land area	191,142 sq.ft. / 68,932 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	52,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(xii) Taiping Medical Centre

Description	A 4-storey hospital building and a parcel of commercial land
Lot No.	3102 to 3107 and Lot 3140
Title No.	PN 235465 to PN 235468 PN, 235470, PN 235471 and PN 361304 respectively all in Bandar Taiping, District of Larut & Matang, State of Perak
Address	Nos. 39, 41, 43, 45, 47 & 49, Jalan Medan Taiping 2, Medan Taiping, 34000 Taiping, Perak.
Existing use	Private hospital
Rental income	RM738,684
Tenure	Leasehold expiring in year 2088
Age of Building	28 years
Gross floor area / land area	40,256 sq.ft. / 47,846 sq.ft.
Occupancy Rate / Tenancy	100%

(xii) Taiping Medical Centre

Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	10,000,000
Encumbrances	Nil

(xiii) Damai Wellness Centre

Description	A 5-storey purpose-built hospital which has been converting into a wellness and care centre
Lot No.	-
Title No.	Town Lease 017548828 situated at District of Kota Kinabalu, State of Sabah.
Address	Lorong Pokok Tepus 1, Off Jalan Damai, 88300 Kota Kinabalu, Sabah
Existing use	Wellness / Health Centre
Rental income	RM1,027,915
Tenure	Leasehold expiring in year 2073
Age of Building	15 years
Gross floor area / land area	44,639 sq.ft / 33,988 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	11,000,000
Encumbrances	Nil

(xiv) KPJ International College, Penang

Description	A purpose-built 6-storey building with a basement together with a parcel of vacant development land
Lot No.	55 and 10093 respectively, Section 5,Town of Bukit Mertajam, District of Seberang Perai Tengah, Penang
Title No.	HSD 63443 and GRN 41544, respectively, all in Seksyen 5, Bandar Bukit Mertajam, District of Seberang Perai Tengah, State of Pulau Pinang.

(xiv) KPJ International College, Penang

Address	No. 565, Jalan Sungai Rambai, 14000 Bukit Mertajam, Pulau Pinang
Existing use	Private nursing and health sciences college
Rental income	RM1,196,668
Tenure	Interest in Perpetuity
Age of Building	8 years
Gross floor area / land area	42,989 sq.ft. / 126,239 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	14,600,000
Encumbrances	Charged by ART to OCBC Al-Amin Bank Berhad

(xv) Tawakkal Health Centre

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
Lot No.	Freehold: Lot Nos. 78 to 91,98 to 102 Leasehold: (i) Lot 124 and 125 (expiring year 2077) (ii) Lot 2003 (Expiring year 2112)
Title No.	Geran 4413-4424, 4433-4435, 4425, 4432, 4436, 4414, PN 6271, 6272, 51156, all within Section 85A, Bandar K.L., District of K.L., Federal Territory of K.L.
Address	No. 202-A, Jalan Pahang, 53000 Kuala Lumpur.
Existing use	Wellness / Health Centre
Rental income	RM3,378,598
Tenure	(i) Lot Nos. 78 to 91,98 to 102 (Interest in Perpetuity) (ii) Lot 124 and 125 (expiring year 2077) (iii) Lot 2003 (Expiring year 2112)
Age of Building	38 years
Gross floor area / land area	121,700 sq.ft. / 30,557 sq.ft.
Occupancy Rate / Tenancy	100%

(xv) Tawakkal Health Centre

Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	48,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(xvi) KPJ Healthcare University College, Nilai

Description	A purpose-built private college comprising of administrative and academic block together with student hostel block
Lot No.	551 and 552
Title No.	H.S. (D) 246826 and H.S. (D) 246827 respectively, Bandar Baru Kota Sri Mas, District of Seremban, State of Negeri Sembilan
Address	PT 17010, Persiaran Seriemas, Kota Seriemas, 71800 Nilai, Negeri Sembilan
Existing use	Private nursing and healthcare sciences college
Rental income	RM7,263,240
Tenure	Interest in Perpetuity
Age of Building	Existing building: 15 years New building: 7 years
Gross floor area / land area	447,823 sq.ft. / 983,831 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	102,000,000
Encumbrances	Charged by ART to OCBC Al-Amin Bank Berhad

(xvii) KPJ Seremban Specialist Hospital

Description	A 5-storey purpose-built with a basement level that is currently operating as a private hospital
Lot No.	50604 Seksyen 2
Title No.	GRN 277698 Pekan Bukit Kepayang, District of Seremban, State of Negeri Sembilan
Address	Lot 6219 & 6220, Jalan Toman 1, Kemayan Square, 70200 Seremban, Negeri Sembilan

(xvii) KPJ Seremban Specialist Hospital

Existing use	Private hospital
Rental income	RM5,037,555
Tenure	Interest in Perpetuity
Age of Building	17 years
Gross floor area / land area	182,012 sq.ft. / 241,865 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	75,000,000
Encumbrances	Nil

(xiii) KPJ Penang Specialist Hospital

Description	A 5-storey main hospital building.
Lot No.	10150
Title No.	GM 1453, Mukim 07, District of Seberang Perai Tengah, State of Pulau Pinang
Address	No. 570, Jalan Perda Utama, Bandar Perda, 14000 Bukit Mertajam, Pulau Pinang
Existing use	Private hospital
Rental income	RM4,727,578
Tenure	Interest in Perpetuity
Age of Building	12 years
Gross floor area / land area	180,109 sq.ft. / 190,930 sq.ft
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	65,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(xix) KPJ Tawakkal (KL) Specialist Hospital

Description	A 13-storey purpose-built hospital building that is currently operating as a private hospital
Lot No.	522 Section 85A
Title No.	GRN 68175, Town and District of Kuala Lumpur, Wilayah Persekutuan KL
Address	No. 1, Jalan Pahang Barat/Jalan Sarikei, 53000 Kuala Lumpur
Existing use	Private hospital
Rental income	RM9,312,066
Tenure	Interest in Perpetuity
Age of Building	11 years
Gross floor area / land area	344,983 sq.ft. / 89,168 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	139,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(xx) KPJ Haemodialysis Kluang

Description	6 adjoining 3-storey terraced shop-offices (a corner and five intermediate units).
Lot No.	PTB No. 9468 – PTB No. 9473
Title No.	H.S. (D) 44911 – H.S. (D) 44916, all in Town and District of Kluang, State of Johor
Address	No. 1,3,5,7,9,11 Susur 1, Jalan Besar, 86000 Kluang, Johor
Existing use	Wellness / Health Centre
Rental income	RM304,243
Tenure	Leasehold expiring in year 2100
Age of Building	21 years
Gross floor area / land area	31,436 sq.ft. / 10,607 sq.ft
Occupancy Rate / Tenancy	100%

(xx) KPJ Haemodialysis Kluang

Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	4,700,000
Encumbrances	Nil

(xxi) KPJ Klang Specialist Hospital

Description	A 6-storey private hospital building with two (2) levels of basement car park
Lot No.	31870
Title No.	PM 648, Mukim of Kapar, District of Klang, State of Selangor
Address	No. 102, Persiaran Rajawati/KU 1, Bandar Baru Klang, 41150 Klang, Selangor
Existing use	Private hospital
Rental income	RM7,497,643
Tenure	Leasehold expiring in year 2093
Age of Building	9 years
Gross floor area / land area	353,494 sq.ft. / 117,391 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	104,000,000
Encumbrances	Charged by ART to Maybank Investment Bank Berhad

(xxii) KPJ Batu Pahat Specialist Hospital

Description	A 7-storey purpose-built private medical hospital along with an electrical and mechanical substation building and other supporting structures and facilities including surface car parking bays
Lot No.	63523
Title No.	HS (D) 69760, Mukim of Simpang Kanan, District of Batu Pahat, State of Johor Darul Takzim
Address	Lot PTD 63523, Mukim Simpang Kanan, Daerah Batu Pahat, Johor

(xxii) KPJ Batu Pahat Specialist Hospital

Existing use	Private hospital
Rental income	RM4,789,620
Tenure	Interest in Perpetuity
Age of Building	2 years
Gross floor area / land area	173,645 sq.ft. / 217,813 sq.ft.
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021
Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	80,000,000
Encumbrances	Charged by ART to OCBC Al-Amin Bank Berhad

(xxiii) Jeta Gardens Aged Care & Retirement Village

Description	An integrated aged care and retirement village consists of 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.
Lot No.	2, 3 and 4
Title No.	50855908, 50855909 and 50855910 respectively, all within Parish of Moffatt, Country of Ward, Local Government of Logan
Address	Jeta Gardens, Aged Care and Retirement Village, 27 Clarendon Avenue, Bethania and 86 Albelt Street, Waterford, Queensland 4205, Australia
Existing use	Aged care and retirement village
Rental income	RM9,826,994
Tenure	Interest in Perpetuity
Age of Building	14 years
Gross floor area / land area	121,675.24 sq.ft. / 1,287,143.09 sq.ft
Occupancy Rate / Tenancy	100%
Date of last valuation	31 December 2021

(xxiii) Jeta Gardens Aged Care & Retirement Village

Independent register valuer	Messrs. CBRE
Market Value @ 31 December 2021 (RM)	86,298,000
Encumbrances	Free from any mortgage but subject to subleases and easements

5. SUMMARY OF FINANCIAL INFORMATION.

A summary of Al-`Aqar's financial information is as follows:-

	Audited 31 December			Unaudited 6 months
	2019	2020	2021	2022
Financial Performance	**(RM'000)**	**(RM'000)**	**(RM'000)**	**(RM'000)**
Revenue	106,110	115,710	114,073	54,562
Profit before tax	76,148	13,624	72,782	37,295
Profit after tax	76,162	12,571	73,550	37,295
Earnings per unit (sen)	10.35	1.71	9.99	5.07
Financial Position				
Unit Capital	731,398	731,398	731,398	731,398
Total unitholders' fund	958,513	943,490	945,002	953,095
Total borrowings	683,436	683,587	683,877	684,407
Number of units in circulation	735,985	735,985	735,985	735,985
NAV per unit (RM)	1.30	1.28	1.28	1.29
Current ratio (times)	1.94	0.19	6.13	6.37
Gearing (times)	0.41	0.41	0.41	0.41

(Source: Annual Reports of Al-`Aqar for FY 31 December 2019, 31 December 2020, 31 December 2021 and unaudited 2nd Quarter Result ended 30 June 2022)

Commentaries on the financial performance and financial position of Al-`Aqar

FY 31 December 2019

Revenue increased by 3.4% to RM106.1 million in FY2019 from RM102.6 million in FY2018. The increase was mainly contributed by income from KPJ Healthcare University College, Nilai, where full year rental income was recorded in 2019 after settlement of deferred consideration in November 2018 as well as annual increment on rental income.

Profit for the year was RM76.1 million (FY2018: RM91.3 million) comprising realised profit of RM63.4 million (FY2018: RM61.0 million) and unrealised profit of RM12.7 million (FY2018: RM30.3 million). Realised profit increased 3.9% or RM2.4 million in FY2019 mainly due to full rental income was received upon settlement of the KPJ University College balance purchase consideration in November 2018 as well as annual increment on rental income. The unrealised profit of RM12.7 million mainly relates to fair value gains on investment properties, which was lower by RM17.6 million.

FY 31 December 2020

Revenue increased by 9.0% to RM115.7 million in FY2020 from RM106.1 million in FY2019. The increase was mainly due to the full year income contribution of RM4.8 million in lease rental from KPJ Batu Pahat Specialist Hospital which was acquired in December 2019 as well as adjustments on unbilled rental income of RM2.8 million pursuant to requirements of MFRS 16 Leases, recognised on a straight-line basis over the lease term.

Profit for the year was RM12.6 million (FY2019: RM76.2 million) comprising realised profit of RM57.0 million (FY2019: RM63.4 million) and unrealised loss of RM44.4 million (FY2019: unrealised gain of RM12.7 million). Realised profit decreased 10.1% or RM6.4 million in FY2020 mainly due to COVID-19 rental support given to assist tenants during the year. The unrealised loss of RM44.4 million mainly related to fair value adjustment on the Australian property.

FY 31 December 2021

Revenue decreased by 1.4% to RM114.1 million in FY2021 from RM115.7 million in FY2020. The decrease was mainly due to renewal of 15-year lease of 6 properties at lower rate of 5.75% on 29 June 2021 as well as rent review exercise of Jeta Gardens effective from 2 October 2021.

Profit for the year was RM73.5 million (FY2020: RM12.6 million) comprising realised profit of RM65.2 million (FY2020: RM57.0 million) and unrealised profit of RM8.3 million (FY2020: unrealised loss of RM44.4 million). Realised profit increased 14.4% or RM8.2 million in FY2021 mainly due to saving from refinancing exercise during the year. The unrealised gain of RM8.3 million mainly related to fair value adjustment of investment properties.

FP 30 June 2022

Revenue decreased by 6.6% to RM54.6 million for the period ended 30 June 2022 from RM58.4 million in the preceding period. The decrease was mainly due to renewal of 15-year lease of 6 properties at lower rate of 5.75% on 29 June 2021 as well as rent review exercise of Jeta Gardens effective from 2 October 2021.

Profit for the period ended 30 June 2022 was RM37.3 million (FY2021: RM35.4 million) comprising realised profit of RM35.9 million (FY2021: RM33.9 million) and unrealised profit of RM1.4 million (FY2021:RM1.5 million). Realised profit increased 5.9% or RM2.0 million in FY2021 mainly due to saving from refinancing exercise. The unrealised profit of RM1.4 million mainly related to adjustments on unbilled rental income pursuant to requirements of MFRS 16 Leases.

6. MATERIAL CONTRACTS

Save as disclosed below, there are no other material contracts, not being contracts entered into the ordinary course of business, which have been entered into during the 2 years preceding the LPD of this Circular:-

(i) Lease Agreement dated 22 June 2021 entered into between the Trustee, Ampang Puteri Specialist Hospital Sdn Bhd and the Manager for the lease of KPJ Ampang Puteri Specialist Hospital for contractual term commencing from 30 June 2021 to 29 June 2036 at a rental rate determined under the terms of the said lease agreement;

(ii) Lease Agreement dated 22 June 2021 entered into between the Trustee, Rawang Specialist Hospital Sdn Bhd and the Manager for the lease of KPJ Damansara Specialist Hospital for contractual term commencing from 30 June 2021 to 29 June 2036 at a rental rate determined under the terms of the said lease agreement;

(iii) Lease Agreement dated 22 June 2021 entered into between the Trustee, Ipoh Specialist Hospital Sdn Bhd and the Manager for the lease of KPJ Ipoh Specialist Hospital for contractual term commencing from 30 June 2021 to 29 June 2036 at a rental rate determined under the terms of the said lease agreement;

(iv) Lease Agreement dated 22 June 2021 entered into between the Trustee, Johor Specialist Hospital Sdn Bhd and the Manager for the lease of KPJ Johor Specialist Hospital for contractual term commencing from 30 June 2021 to 29 June 2036 at a rental rate determined under the terms of the said lease agreement;

(v) Lease Agreement dated 22 June 2021 entered into between the Trustee, PGSHSB and the Manager for the lease of KPJ Puteri Specialist Hospital for contractual term commencing from 30 June 2021 to 29 June 2036 at a rental rate determined under the terms of the said lease agreement;

(vi) Lease Agreement dated 22 June 2021 entered into between the Trustee, Selangor Specialist Hospital Sdn Bhd and the Manager for the lease of KPJ Selangor Specialist Hospital for contractual term commencing from 30 June 2021 to 29 June 2036 at a rental rate determined under the terms of the said lease agreement; and

(vii) Amendment to Lease dated 15 October 2021 between Al-'Aqar Australia Pty Ltd and Jeta Gardens (Qld) Pty Ltd to vary the existing lease agreement dated 25 October 2011 to reflect among others, the terms of the rental rate revision in respect of the Jeta Garden Aged Care Facility, Jeta Gardens Retirement Village and the development land where the rental has been revised from 8.5% per annum to 6.5% per annum to be applied on the market value of the said properties. The said revised rental rate took effect from 2 October 2021 and will end on 1 November 2026.

7. MATERIAL LITIGATION

As at LPD, Al-'Aqar is not engaged in any material litigation, claims, or arbitration, either as plaintiff or defendant, and the directors of DRMSB are not aware of any proceedings, pending or threatened, against Al-'Aqar or of any fact likely to give rise to any proceedings which might materially and adversely affect the position of Al-'Aqar group.

8. MATERIAL COMMITMENT AND CONTINGENT LIABILITIES

As at LPD, Al-'Aqar is not aware of any material capital commitments and contingent liabilities.

9. LATEST AUDITED FINANCIAL STATEMENTS TOGETHER WITH THE AUDITOR'S REPORT OF AL-`AQAR

The audited financial statements and the auditors' report for the financial year ended 31 December 2021 are set out in the ensuing pages.

AL-`AQAR HEALTHCARE REIT AND ITS SUBSIDIARIES

(Established via Trust Deed dated 27 June 2006)

Manager's Report and Audited Financial Statements
31 December 2021

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

Contents

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

Manager's report

The Manager of Al-`Aqar Healthcare REIT (the "Fund"), Damansara REIT Managers Sdn Berhad (the "Manager") have pleasure in presenting their report and the audited financial statements of the Group and of the Fund for the financial year ended 31 December 2021.

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.

On 17 April 2019, at the Annual General Meeting, the unitholders of The Fund approved the proposed amendments of the Restated Trust Deed dated 31 July 2013. The Second Restated Trust Deed was executed and lodged with the Securities Commission on 25 November 2019. The Fund will continue its operations until such time as determined by the Trustee and the Manager as provided under the provisions of the Second Restated Trust Deed.

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 corporation of the Manager, a body corporate established under the Johor Corporation Enactment No 4, 1968 (as amended by the 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.

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

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 seventy-five percent (75%) of the total assets value must be invested in Real Estate that generates recurrent rental income at all times;

(b) the Fund may invest in Real Estate where it does not have a majority ownership and control provided that the total value of these Real Estate does not exceed twenty-five percent (25%) of the total assets value at the point of acquisition, as the case may be; and

(c) the aggregate investments in Property Development Activities (Property Development Costs) and Real Estate under construction must not exceed fifteen percent (15%) of the total assets value. For avoidance of doubt, such investments cannot be accounted towards meeting the requirement under Clause 6.3.1(a) of this Deed.

(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.

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

Directors of the Manager

The directors of the Manager in office since the beginning of the financial year and to the date of this report are:

Dato' Haji Mohd Redza Shah bin Abdul Wahid	
Wan Azman bin Ismail	
Dato' Wan Kamaruzaman bin Wan Ahmad	
Shamsul Anuar bin Abdul Majid	
Datuk Sr Akmal bin Ahmad	(Appointed on 21 January 2021)
Abdullah bin Abu Samah	(Appointed on 10 March 2021)
Datuk Hashim bin Wahir	(Appointed on 24 January 2022)
Yusaini bin Sidek	(Resigned on 15 January 2021)
Zainah binti Mustafa	(Resigned on 10 March 2021)
Mohd Yusof bin Ahmad	(Resigned on 29 December 2021)

Directors of the Manager's 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 was a party, whereby the directors might 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 included in the aggregate amount of emoluments received or due and receivable by the directors of Manager or the fixed salary of a full time employee of the Fund or its related corporations) by reason of a contract made by the Fund or a related corporation with any director or with a firm of which the director is a member, or with a Fund in which the director has substantial financial interest.

Directors of the Manager's interests

According to the Register of Directors' Unitholdings kept by the Manager under Section 59 of the Companies Act 2016, none of the Directors of the Manager in office at the end of the financial year held any interest in shares in its related corporations during and at the end of the financial year.

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.

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

Manager's remuneration

Pursuant to the Second Restated Trust Deed dated 25 November 2019, the Manager is entitled to receive 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;

(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

(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.

Soft commission

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

Reserves and provisions

There was no material transfer to and from reserves or provisions during the financial year, other than those as disclosed in the statement of changes in net asset value.

Holding corporation

The ultimate holding corporation of the Fund is Johor Corporation, a body corporate established under the Johor Corporation Enactment No. 4, 1968 (as amended by the Enactment No. 5, 1995).

Other statutory information

(a) Before the statements of comprehensive income and statements of financial position of the Group and the Fund were made out, 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 provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

Other statutory information (cont'd.)

(a) (cont'd.)

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they 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) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Fund inadequate to any substantial extent; 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; and

(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.

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

Auditors

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

Auditors' remuneration is as follows:

	Group RM	Fund RM
Audit fees		
- Current year	249,614	127,000
- Other service	10,000	10,000
	259,614	137,000

To the extent permitted by law, the Manager of the Fund has agreed to indemnify its auditors, Ernst & Young PLT, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecific amount). No payment has been made to indemnify Ernst & Young PLT during or since the financial year.

Signed on behalf of the Board of the Manager in accordance with a resolution of the directors of the Manager dated 24 FEB 2022

Dato' Haji Mohd Redza Shah bin Abdul Wahid

Wan Azman bin Ismail

Kuala Lumpur

Al-`Aqar Healthcare REIT and its subsidiaries
(Incorporated in Malaysia)

Statement by the directors of the Manager

We, Dato' Haji Mohd Redza Shah bin Abdul Wahid 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 directors of the Manager, the accompanying financial statements of Al-`Aqar Healthcare REIT (the "Fund") and its subsidiaries (the "Group") set out on pages 14 to 87 are drawn up in accordance with applicable provisions of the Second Restated Trust Deed dated 25 November 2019, Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2021 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board of the Manager in accordance with a resolution of the directors of the Manager dated **24 FEB 2022**

Dato' Haji Mohd Redza Shah bin Abdul Wahid

Wan Azman bin Ismail

Statutory declaration

I, Wan Azman bin Ismail, being the Executive Director of the Manager primarily responsible for the financial management of Al-`Aqar Healthcare REIT, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 87 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.

Subscribed and solemnly declared
by the abovenamed Wan Azman bin Ismail
at Kuala Lumpur in the Federal Territory
on **24 FEB 2022**

Wan Azman bin Ismail

Before me,

PESURUHJAYA SUMPAH
W 465
KAPT (B) JASNI BIN YUSOFF
MALAYSIA

Commissioner for Oaths
Kuala Lumpur

Lot 1.08, Tingkat 1
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Independent auditors' report to the unitholders of Al-`Aqar Healthcare REIT and its subsidiaries (Incorporated in Malaysia)

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 as at 31 December 2021 of the Group and of the Fund, and 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, as set out on pages 14 to 87.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Fund as at 31 December 2021, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

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 audit 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) of the Malaysian Institute of Accountants ("By-Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the 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 Group and of the Fund for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Fund as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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Independent auditors' report to the members of
Al-`Aqar Healthcare REIT and its subsidiaries (contd.)
(Incorporated in Malaysia)

Key audit matters (cont'd.)

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Valuation of investment properties

The Group and the Fund adopt fair value model for their investment properties. As at 31 December 2021, the carrying amount of the Group's and the Fund's investment properties is RM1,538,210,398 and RM1,451,912,398 respectively, which represents 92% and 87% of the Group's and the Fund's total assets respectively.

We have identified this as an important area of our audit given the significance of the investment properties and the complex valuation method which is based on assumptions that are highly judgemental.

Our audit procedures focused on the valuations performed by independent professional valuers, which included, amongst others, the following procedures:

- We considered the objectivity, independence and expertise of the independent professional valuers;
- We obtained an understanding of the methodology adopted by the independent professional valuers in estimating the fair value of the investment properties and assessed whether such methodology is consistent with those used in the industry;
- We had discussions with the independent professional valuers to obtain an understanding of the property related data used as input to the valuation models which included, amongst others, rental income data, yield rate and discount rate;
- We tested the accuracy of rental income data applied in the valuation by comparing them with lease agreements and challenged yield rate by comparing them with available industry data, taking into consideration comparability and market factors;
- We assessed whether the discount rate used to determine the present value of the cash flows reflects the estimated market rate of return for comparable assets with similar profile; and

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Independent auditors' report to the members of
Al-`Aqar Healthcare REIT and its subsidiaries (contd.)
(Incorporated in Malaysia)

Key audit matters (cont'd.)

Valuation of investment properties (cont'd.)

- We also evaluated the Group's and the Fund's disclosures on those assumptions to which the outcome of the valuation is most sensitive. The disclosures on the valuation sensitivity and significant assumptions used are included in Notes 3.2(a) and 10 to the financial statements.

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 annual report, 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 financial statements of the Group and of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of the Group and of the Fund 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 true and fair presentation of these financial statements.