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.

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

PROPOSED LEASE RENEWAL (AS DEFINED HEREIN)

PART B

INDEPENDENT ADVICE LETTER FOR THE PROPOSED LEASE RENEWAL

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

Crowe Advisory Sdn Bhd
(Registration No. 200801005892 (807176-D))

The Extraordinary General Meeting ("**EGM**") of KPJ will be conducted entirely through live streaming from the broadcast venue at Tricor Business Centre, Manuka 2 & 3, Unit 29.01, Level 29, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, 8 Jalan Kerinchi, 59200 Kuala Lumpur on Tuesday, 22 June 2021 at 10.00 a.m. via Remote Participation and Voting ("**RPV**") Facilities, which are available at Tricor Investor & Issuing House Services Sdn. Bhd. ("**Tricor**") via its TIIH Online website at https://tiih.online.

This Circular is available at https://kpj.listedcompany.com/ar.html together with, amongst others, the Notice of EGM, Form of Proxy and Administrative Details for the EGM. Please follow the procedures in the Administrative Details for the EGM in order to submit the Form of Proxy, and to register and participate in the EGM remotely via RPV.

Last date and time for lodging the Form of Proxy	:	Monday, 21 June 2021 at 10.00 a.m.
Date and time of EGM	:	Tuesday, 22 June 2021 at 10.00 a.m.

This document is dated 21 May 2021

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 or **REIT**		Al-\`Aqar Healthcare REIT, a real estate investment trust established in Malaysia under the Deed
AmInvestment Bank or **Principal Adviser**	:	AmInvestment Bank Berhad
APSH	:	KPJ Ampang Puteri Specialist Hospital
ART or **Trustee** or **Lessor**	:	AmanahRaya Trustees Berhad, being the trustee of Al-\`Aqar
Base Rent	:	Rent payable for the first year of the First Rental Term
Board	:	The Board of Directors of KPJ
Bursa Securities	:	Bursa Malaysia Securities Berhad
Cheston or **Independent Valuer**	:	Cheston International (KL) Sdn Bhd, being the independent valuer for the Proposed Lease Renewal
Circular	:	This circular to shareholders of KPJ dated 21 May 2021 which sets out the details of the Proposed Lease Renewal
COVID-19	:	Coronavirus disease
Crowe or **Independent Adviser**	:	Crowe Advisory Sdn Bhd, being the independent adviser for the Proposed Lease Renewal
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, being the manager of Al-\`Aqar
DSH	:	KPJ Damansara Specialist Hospital
EGM	:	Extraordinary General Meeting
EPS	:	Earnings per Share
First Rental Term	:	Period between 30 June 2021 to 29 June 2024
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 Lease Renewal as disclosed in Section 8 of this Circular.
Interested Major Shareholders	:	The major shareholders of KPJ who are deemed interested in the Proposed Lease Renewal as disclosed in Section 8 of this Circular.

ISH	:	KPJ Ipoh Specialist Hospital
JCorp	:	Johor Corporation, a body corporate established under the Johor Corporation Enactment No. 4, 1968 (as amended by Enactment No. 5, 1995)
JSH	:	KPJ Johor Specialist Hospital
KPJ or **the Company**	:	KPJ Healthcare Berhad
KPJ Group or **the 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 (in its capacity as the Lessor), the respective Subsidiaries (in their capacity as the Lessees) and the Manager to renew the leases of the Properties
Letters	:	Exchange of letters entered into by ART, the Subsidiaries and the Manager
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	30 April 2021, 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 Lease Renewal, 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
NA	:	Net assets
NPI	:	Net property income
Open Market Value	:	Reasonable and fair market value of the Properties as determined by the independent valuer appointed by the parties based on valuation method without having regard to, the Rental Term(s) of the lease provided in the Lease Agreements
Properties	:	Refers to the properties owned by the Lessor as described in Section 2.3 of this Circular in relation to APSH, DSH, ISH, JSH, PSH, and SSH and shall also include the Lessor's fixtures and fittings as detailed in the Lease Agreements "Property" shall refer to any one of them

Proposed Lease Renewal	:	Proposed renewal of lease of the Properties entered into between the Subsidiaries with the Trustee and the Manager for and on behalf of Al-`Aqar
Principal Lease Agreements	:	The initial lease agreements to lease the Properties held by the Lessor dated 30 June 2006 (as amended from time to time by supplementary agreements) entered into between six subsidiaries of KPJ, with Amanah Raya Berhad as trustee of Al-`Aqar KPJ REIT) (now known as Al-`Aqar Healthcare REIT) and lessor of the properties ("**ARB**") and the Manager.
PSH	:	KPJ Puteri Specialist Hospital
RM and sen	:	Ringgit Malaysia and sen respectively
SSH	:	KPJ Selangor Specialist Hospital
Subsidiaries or **Lessee(s)**		Collectively, refers to the following subsidiaries of KPJ:- (i) Ampang Puteri Specialist Hospital Sdn Bhd; (ii) Rawang Specialist Hospital Sdn Bhd; (iii) Ipoh Specialist Hospital Sdn Bhd; (iv) Johor Specialist Hospital Sdn Bhd; (v) Pasir Gudang Specialist Hospital Sdn Bhd; and (vi) Selangor Specialist Hospital Sdn Bhd "Lessee" shall refer to any one of them
Succeeding Rental Term	:	Means the second rental term (Year 4 to Year 6), third rental term (Year 7 to year 9), fourth rental term (Year 10 to Year 12) and fifth rental term (Year 13 to Year 15)
Valuation Report(s)	:	Valuation reports of the Properties by Cheston

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.

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PART A

LETTER TO OUR SHAREHOLDERS IN RELATION TO THE PROPOSED LEASE RENEWAL

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 17
Menara KPJ
238, Jalan Tun Razak
50400 Kuala Lumpur
Wilayah Persekutuan
Malaysia

21 May 2021

Board of Directors:

Dato' Yusli Mohamed Yusoff	*(Independent Non-Executive Chairman)*
Ahmad Shahizam Mohd Shariff	*(Managing Director)*
Christina Foo	*(Independent Non-Executive Director)*
Datuk Mohd Radzif Mohd Yunus	*(Independent Non-Executive Director)*
Mohamed Ridza Mohamed Abdulla	*(Independent Non-Executive Director)*
Dato' Mohd Redza Shah Abdul Wahid	*(Independent Non-Executive Director)*
Khairuddin Jaflus	*(Independent Non-Executive Director)*
Prof Dato' Dr Azizi bin Haji Omar	*(Non-Independent Non-Executive Director)*
Dato' Dr Ngun Kok Weng	*(Non-Independent Non-Executive Director)*
Dato' Dr Sivamohan a/l S.Namasivayam	*(Non-Independent Non-Executive Director)*
Rozaini Mohd Sani	*(Non-Independent Non-Executive Director)*
Shamsul Anuar Abdul Majid	*(Non-Independent Non-Executive Director)*

To: The Shareholders of KPJ

Dear Sir/Madam,

PROPOSED LEASE RENEWAL

1. INTRODUCTION

On 6 April 2021, on behalf of the Board, AmInvestment Bank announced that the Subsidiaries of KPJ (as detailed in Section 2.1 of this Circular) proposes to enter into 6 separate lease agreements with ART, being the trustee for and on behalf of Al-`Aqar and DRMSB, being the manager of Al-`Aqar to renew the lease of the Properties.

The parties had on 6 April 2021 executed the Letters and the Lease Agreements in escrow, and agreed that the Lease Agreements are to be dated upon fulfilment of the conditions of the Lease Agreements as set out under Section 2.4.3 of this Circular.

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

2. PROPOSED LEASE RENEWAL

2.1 Details of the Proposed Lease Renewal

The Principal Lease Agreements to lease the Properties held by Al-`Aqar were originally entered into on 30 June 2006.

The initial 15-year contractual lease period under the Principal Lease Agreements will expire on 29 June 2021. As such, the respective Subsidiaries propose to enter into the Lease Agreements with ART as the trustee of Al-`Aqar to renew the lease of the Properties in relation to the following hospitals:-

	Subsidiaries	Hospital
(i)	Ampang Puteri Specialist Hospital Sdn Bhd	KPJ Ampang Puteri Specialist Hospital ("**APSH**")
(ii)	Rawang Specialist Hospital Sdn Bhd*	KPJ Damansara Specialist Hospital ("**DSH**")
(iii)	Ipoh Specialist Hospital Sdn Bhd	KPJ Ipoh Specialist Hospital ("**ISH**")
(iv)	Johor Specialist Hospital Sdn Bhd	KPJ Johor Specialist Hospital ("**JSH**")
(v)	Pasir Gudang Specialist Hospital Sdn Bhd*	KPJ Puteri Specialist Hospital ("**PSH**")
(vi)	Selangor Specialist Hospital Sdn Bhd	KPJ Selangor Specialist Hospital ("**SSH**")

Note: *: The lessee for the Properties in relation to DSH and PSH have changed from Damansara Specialist Hospital Sdn Bhd to Rawang Specialist Hospital Sdn Bhd and Puteri Specialist Hospital (Johor) Sdn Bhd to Pasir Gudang Specialist Hospital Sdn Bhd respectively as part of an internal reorganisation exercise by KPJ Group to better manage the operations and costs of operating the hospitals.

2.2 Information on Al-`Aqar

Al-`Aqar was established in Malaysia on 27 June 2006 under the Deed. Al-`Aqar was listed on the Main Market of Bursa Securities on 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.

The trustee for Al-`Aqar when the Principal Lease Agreements were first entered into was ARB and was subsequently replaced by ART, its wholly owned entity, which entered into the subsequent agreements relating to the Principal Lease Agreements.

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

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2.3 Information on the Properties

The details of the Properties are as follows:-

	APSH	DSH	ISH	JSH	PSH	SSH
Description[(i)]	A 7-storey main medical centre building and an annexed 5-storey consultant building both are with a common lower ground floor and a lower ground floor car park	A 6-storey private specialist medical centre together with a basement floor; and basement floor and ground floor car park	A 3-storey main building (old wing) and a 5-storey building with a basement (new wing) and a basement and ground floor car parks (new wing)	A 7-storey main hospital building, a 4-storey physician consulting building, a 2-level basement car parks, a 7-storey annexed building (premier block), a 5-storey car park building together with a mezzanine and basement level	A 6-storey medical centre building (left wing) and a 6-storey medical centre building (right wing)	A 6-storey main building together with a basement and a 5-storey car park block together with a half basement level and an open roof level
Address	No. 1, Jalan Memanda 9, Taman Dato' Ahmad Razali, 68000 Ampang, Selangor Darul Ehsan	No. 119, Jalan SS 20/10, Damansara Utama, 47400 Petaling Jaya, Selangor Darul Ehsan	No. 26, Jalan Raja Dihilir, 30350 Ipoh Perak Darul Ridzuan	No. 39-B, Jalan Abdul Samad, 80100 Johor Bahru, Johor Darul Takzim	No. 33, Jalan Tun Abdul Razak (Susur 5), 80350 Johor Bahru, Johor Darul Takzim	Lot 1, Jalan Singa 20/1, Section 20, 40300 Shah Alam, Selangor Darul Ehsan
Tenure	99-year leasehold interest expiring on 17 April 2089	Interest in Perpetuity	Interest in Perpetuity	99-year leasehold interest expiring on 1 March 2079	99-year leasehold interest expiring on 31 December 2053	99-year leasehold interest expiring on 1 July 2096
Gross Floor Area (sq.ft.)[(ii)]	420,294	446,493	347,189	432,585	126,754	314,844
Age of the buildings	29 years	23 years	13-40 years	10-40 years	7-35 years	9-25 years
Fair value @ 31.12.2020[(iii)]	137,000,000	135,000,000	77,000,000	122,000,000	42,000,000	82,000,000

Notes :

(i) The Properties excludes buildings and structures that have yet to be acquired by and injected into Al-`Aqar. The Properties includes properties owned by the Lessor subsequent to the initial Principal Lease Agreements of which the expiry date of the lease is the same namely, PSH's vacant lands, JSH's 7-storey annexed building (premier block) and a 5-storey car park and SSH's carpark.

(ii) The gross floor area includes carparks and other ancillary buildings.

(iii) Based on Al-`Aqar's audited financial statement for FY 31 December 2020. The fair values were determined based on the capitalisation of net income method (Investment method).

For further details on the Properties, please refer to the valuation certificate as attached in **Appendix II.**

2.4 Salient terms of the Lease Agreements

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

2.4.1 Lease of Properties

The lease of the Properties is for a period of fifteen (15) years commencing from 30 June 2021 to 29 June 2036 ("**Contractual Term**") upon the terms and conditions stipulated in the Lease Agreements with an option to renew for another fifteen (15) years.

2.4.2 Use of Properties

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.

2.4.3 Conditions of the Lease Agreements

The Proposed Lease Renewal is conditional upon the fulfilment of the following conditions ("**Conditions**"):-

(i) the approval of the shareholders of KPJ being obtained in respect of the Proposed Lease Renewal; and

(ii) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal.

2.4.4 Rental formula for rental amount

2.4.4.1 Formula for the Proposed Lease Renewal

The rent shall be denominated in RM and the formula for determination of the rent in relation to the Proposed Lease Renewal are as follows:-

(i) Rent formula

First Rental Term	Rent Formula
1st year	5.75% per annum x the Open Market Value of the Properties ("**Base Rent**").
2nd & 3rd year	2% incremental increase x the rent for the preceding year.

(ii) 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)	(10-years Malaysian Government Securities yield ("**MGS**")) + 200 basis points ("**BPS**")) x Open Market Value (as determined by an independent valuer) of the Properties, at the point of review subject to: (a) a minimum rent of 5.75% per annum x prevailing Open Market Value of the Properties or the rent payable for the 1st year of the First Rental Term of the Properties, whichever is higher; and

Succeeding Rental Terms	Rent Review Formula
	(b) any adjustment to the rent shall not be more than 2% incremental increase over the rent for the preceding year which shall be in RM.
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 which shall be in RM.

The total first-year rental amount is RM40.94 million under the Lease Agreements based on the market value of the Properties of RM712 million (as detailed in Section 2.5 below). At each of the rent review year i.e. on year 4, 7, 10 and 13 of the Lease Agreements, the rent will be reviewed based on the formula above. If there is no change in the market value and the 10-years MGS + 200BPS is equivalent to 5.75%, the rental shall remain at RM40.94 million. For illustration, assuming the 10 year MGS at the point of review is the same as the MGS as at LPD of 3.11% and the Year 3 rental is RM42.59 million, the rental for Year 4 shall be as follows:-

	Assuming 20% downward revision to Open Market Value	Assuming 20% upward revision to Open Market Value
Market Value	RM569.6 m	RM854.4million
10-years MGS + 200 BPS x Open Market Value of the Properties	(3.11%+2%)*RM569.6m= RM29.11 m	(3.11%+2%)*RM854.4m= RM43.66m
Minimum 5.75% per annum x prevailing Open Market Value of the Properties or the rent payable for the 1st year of the First Rental Term of the Properties, whichever is higher	Whichever higher:- (a)5.75%*RM569.6m =RM32.75m OR (b) RM40.94m Hence, RM40.94m	Whichever higher:- (a)5.75%*RM854.4m =RM49.13m OR (b) RM40.94m Hence, RM49.13m
Rental computed	**RM40.94m**	**RM49.13m**
Rental cap Any adjustment not more than 2% incremental increase over the rent for the preceding year which shall be in RM	RM42.59m*1.02= RM43.44m	RM42.59m*1.02= RM43.44m
Illustrative chargeable rental at Year 4	**Since the rental computed is less than the rental cap, the rental for Year 4 shall be RM40.94m**	**Since the rental computed is more than the rental cap, the rental for Year 4 shall be capped at RM43.44m**

The rental will thereon increase by 2% over the rent of the preceding year in the 2nd and 3rd year of every Succeeding Rental term. Based on the illustrative Year 4 rental above, the rental for Year 5 and 6 will be as follows:-

	Assuming 20% downward revision to Open Market Value	Assuming 20% upward revision to Open Market Value
Year 5	RM41.76m	RM44.31m
Year 6	RM42.59m	RM45.20m

For clarification, based on the rental review formula above, for each Succeeding Rental Term, the lowest rental amount that can be charged is RM40.94 million (being the Base Rent) and the maximum rental amount is 2% incremental increase over the RM value of the rent for the preceding year.

2.4.4.2 Rent Formula for 2006 – 2021 under the Principal Lease Agreements

2006- 2009 (1st rental term)

The total annual rental of the properties (as referred to in the Principal Lease Agreements) for the 1st rental term expiring December 2009 was as follows:-

	Annual Rental (RM'mil)
2006 (5 months)	14.78
2007	35.70
2008	36.43
2009	36.96

For information, the market value of the properties held by the lessor then as disclosed in the KPJ's circular dated 2 June 2006 was RM481 million. The above rental translated to yield of 2006: 7.38% (annualised), 2007: 7.42%, 2008: RM7.57% and 2009: RM7.68%.

The rental was to be reviewed on 1 January after every 3 full financial years throughout the 15 years' contractual terms.

2010-2012 (2nd rental term)

The rental review formula for the 1st year was (10year MGS +238 BPS) x market value of the properties at the point of review subject to:-

(i) a minimum rental of RM33 million per annum; and

(ii) any lease rental adjustment shall not be more than 2% incremental over the preceding year's rental amount

For the 2nd & 3rd year of the 2nd rental term thereon, the rental would be 2% incremental over the preceding year's rental.

2013-2021 (3rd to 5th rental term)

The rental review formula for the 1st year of the 3rd, 4th and 5th rental term is as follows:-

10-years MGS + 238 BPS x market value of the properties at the point of review subject to:-

(i) a minimum gross rental of 7.1% per annum x prevailing market value or purchase consideration of the properties whichever is higher*; and

(ii) any lease rental adjustment shall not be more than 2% incremental over preceding year's lease rental.

For the 2nd & 3rd year of the 3rd, 4th and 5th rental term thereon, the rental would be a 2% incremental amount over the preceding year's rental amount.

Note *: The clause stating "purchase consideration of the properties whichever is higher" was only included in the 4th and 5th rental term.

For information, the agreed yield of 5.75% and the 200 BPS in the rent formula for the next contractual term under the Proposed Lease Renewal differ from that included in the rent rental formula under the previous Principal Lease Agreements primarily due to, amongst others, the interest rate environment. The KLIBOR in June 2006 was 3.92% as compared to 1.94% as at LPD (Source: Bloomberg).

2.4.5 Lessor's and/or Manager's covenant

(A) Lessor's covenant

The Lessor shall, amongst others, during the Contractual Term:-

(i) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which are now or during the Contractual Term shall be falling due in respect of or charged, assessed or imposed upon the Properties;

(ii) pay for quit rent and assessment of the Properties;

(iii) in the event the Lessor's fixtures and fittings are irreparable through or by means of normal and routine repairs, the Lessor shall replace such items within reasonable time, at the cost and expense of the Lessor;

(iv) shall at its own cost and expense, carry out structural repairs and works necessary to maintain the external and internal structure of the Properties in good tenantable condition and such structural repairs and works as may be required by the local or relevant authorities or under relevant building regulations; and

(v) shall at its own expense maintain takaful coverage for fire, loss of rent and public liability takaful in respect of the Properties.

(B) Lessor's and/or Manager's covenant

In addition to the Lessor's covenant under Clause 2.4.5(A) above, the Lessor and/or the Manager shall, amongst others, during the Contractual Term:-

(i) effect and 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 at the Lessor's cost and expense; and

(ii) shall appoint and pay to the maintenance manager during the Contractual Term for the maintenance and management services rendered by the maintenance manager with respect to the Properties in accordance with the terms of the property management agreement or maintenance management agreement to entered into between the Lessor, the Manager and the maintenance manager.

2.4.6 Lessees' covenant in relation to repairs, cleaning, decoration & etc

The respective Lessees shall keep the Properties in good and tenantable repair and maintenance. The respective Lessees shall as and when necessary issue a notice to the maintenance manager to conduct any repairs on any part of the Properties and shall pay the maintenance manager for work done in connection thereto.

The Lessees shall during the Contractual Term, amongst others, 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.

2.4.7 Expansion

In the event that the Lessees requests and the Lessor and/or the Manager agree to meet the expansion requirements of the Lessees through expansion, the Lessees may make the necessary arrangements, coordinate, manage, monitor and supervise any major structural alterations or additions to the Properties or work which may affect or may be likely to affect the:-

(i) structure of the Properties (including but not limited to the roof and the foundation); or

(ii) mechanical or electrical installations of the Properties; or

(iii) provisions of any services in or to the Properties.

The Lessees shall bear the development costs and expenses for, and related to the expansion and shall be solely responsible to procure the financing for the expansion.

Upon completion of the expansion, the Lessees shall provide the Lessor with the breakdown of the final development costs of the expansion and the Lessor shall make full payment of the final development cost of the expansion subject to the cost to be agreed by the parties and verification by the Manager of the following items:-

(i) the Certificate of Completion and Compliance for the expansion, issued by the appropriate authority, if any;

(ii) the value of the expansion as recommended by an independent valuer (appointed by the Lessor at its own cost and expense) via the valuation report by the said independent valuer;

(iii) the report prepared by the project consultant of the expansion as verified by an independent quantity surveyor (appointed by the Lessor at the Lessor's own cost and expense); and

(iv) all supporting claims, invoices and documents verifying the final development costs of the expansion.

2.4.8 New development of the land

The Lessor grants the Lessees the right to undertake new development, including but not limited to, the planning, design, and construction of building(s), carpark and/or other structures on the Land (as defined in the Lease Agreements which refers to the respective plot of land that the Properties are situated on) or any part thereof complete with inter alia the interior design, the landscape and the infrastructures related thereto ("**New Development**") at the Lessees' own cost and expenses for the Lessees' business operations, subject to the following:-

(i) the Lessees shall provide the details of the New Development for approval of the Lessor and the Manager; and

(ii) the Lessees shall obtain the approval from the relevant appropriate authority or authority for the New Development;

prior to the commencement of the New Development.

The parties agree that the New Development may be acquired by the Lessor subject to fulfilment of the conditions in the Lease Agreements which include:-

(i) the Certificate of Completion and Compliance for the New Development has been duly issued and obtained by the Lessees;

(ii) the Lessor and the Lessees have mutually agreed on the acquisition price for the New Development to be satisfied by the Lessor based on the following:-

(a) where required, the valuation report of the New Development issued by the independent valuer(s) (appointed jointly or severally by the Lessor and/or the Lessees) pursuant to a valuation exercise on the New Development and the valuation reports shows the true and fair value or open market value of the New Development and justifies the acquisition price; and/or

(b) the documentary evidence which verifies the final construction costs incurred by the Lessees for the New Development issued by an independent quantity surveyor appointed by the Lessees; and/or

(c) the building audit report following the conclusion of a building inspection and audit exercise conducted on the New Development by a building audit consultant appointed by the Lessor at its own cost and expense to verify the condition, state, nature and character of the New Development and the Lessor is satisfied with the outcome of the building audit and the contents of the aforesaid building audit report.

(iii) approval of the board of directors of the Trustee, the Manager of the Lessor and where required, approval of the unitholders of the Lessor; and

(iv) approval of the board of directors and shareholders of the Lessees.

2.4.9 Event of Default and Termination

2.4.9.1 The Lease Agreements provide for the following events of default:-

(i) a failure or refusal on the part of the respective Lessee:-

(a) to pay the monthly rent for 2 consecutive calendar months or any other sum due under the terms of the respective Lease Agreements on the day such payment is required to be made under the terms of the respective Lease Agreements (whether the same shall have been formally demanded or not); or

(b) to duly observe or perform any of the covenants and conditions and/or agreements of the Lessee contained in the respective Lease Agreements 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 (defined in the Lease Agreements as an event or circumstance, the occurrence or effect of which (in the opinion of the Lessor and/or the Manager) is or might be likely to have a material effect on the constitution, the financial condition, business or operations of the Lessee or where applicable or the Lessee's ability to perform its obligations under any provision of the Lease Agreements) on the business and/or operations of the Lessee which affects its ability to fulfil its obligations under the Lease Agreements; 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 Companies Act 2016 and as such, the Lessee is deemed to be unable to pay its debts as they fall due or suspends or threatens to suspend it 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 Companies Act 2016 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 Agreements 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 Companies Act 2016 which inability may in the opinion of the Lessor may have a Material Adverse Effect;

2.4.9.2 The occurrence and continuation of any of the above sub-paragraphs (i) to (vi) entitles the Lessor 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 deemed that the period stipulated in the forfeiture notice shall be thirty (30) calendar days for the occurrence of the events under Section 2.4.9.1 above unless otherwise stated in the respective Lease Agreements as capable of being remedied, where the breach has not been remedied within the stipulated time of thirty (30) calendar days, to re-enter upon the Properties or any part thereof in the name of the whole, and thereupon the respective Lease Agreements shall absolutely terminate;

(ii) to claim for the monthly rent and all sums due and payable as stipulated in the respective Lease Agreements;

(iii) the Lessor shall be entitled to utilise the security deposits and utilities deposit as described in Section 2.4.11 below towards payment or reduction of all sums payable by the Lessee under the respective Lease Agreements without prejudice to the Lessee's liability for any shortfall;

(iv) 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 the Lessee's default or unilateral termination by the Lessee; or

(v) to sue and take any other action 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.

Exercise of remedies

The Lessor shall be at liberty to exercise any one or more of the remedies mentioned above at its sole and absolute discretion in any manner it deems fit. Any action taken by the Lessor to exercise any one or more of the above remedies shall not prejudice or affect any other remedies, claims or rights which it may have under the terms hereof.

2.4.9.3 Unilateral termination and consequence of early termination of the expiry of the Contractual Term.

2.4.9.3.1 In the event of early termination where if at any time during the Contractual Term the Lessee shall attempt to abandon or quit or redeliver possession of the Property, prior to the expiry of the Contractual Term, for any reason whatsoever, then it shall be lawful for the Lessor, immediately or at any time thereafter, to serve a forfeiture notice to the Lessee.

2.4.9.3.2 Upon the issuance of the forfeiture notice, the Lessee is required to remedy the subject matter of the forfeiture notice within thirty (30) calendar days from the date of such forfeiture notice.

2.4.9.3.3 On the expiration of the thirty (30) calendar day period and in the event that the Lessee fails to remedy such subject matter of the forfeiture notice, the Lessor is at liberty, within thirty (30) calendar days thereafter, to give to the Lessee a written notice of its intention to determine and terminate the respective Lease Agreements ("**Termination Notice**") and the Lessee shall within seven (7) calendar days from the date of the Termination Notice:-

(i) remove all of the Lessee's asset(s) (including the Lessee's fixtures and fittings) and other articles brought on to the respective Property by the Lessee and shall do so without damaging the said Property and shall immediately make good any damage which occurs thereby; and

(ii) surrender and peacefully yield up the Property.

2.4.9.4 In the event the Lessee fails or refuses to comply, the Lessor may in its absolute discretion:-

(i) remove and dispose of the Lessee's asset(s) (including the Lessee's fixtures and fittings) and other articles in the Property and the Lessee shall indemnify the Lessor for any cost and expenses incurred by the Lessor for such removal or disposal; and/or;

(ii) commence, proceed with and undertake all action as may be necessary to enforce the Lessee's obligation to surrender and yield up the Property and to enforce the Lessor's rights to re-enter, repossess and enjoy the same.

2.4.9.5 The Lessor shall in addition be entitled to exercise all its rights, powers and remedies (conferred by law or otherwise) against the Lessee, including the right to recover from the Lessee the lost of rent suffered by the Lessor for the unexpired period of the Contractual Term (or any part thereof) as liquidated damages subject to the Lessor taking all reasonable efforts to lease or let the Property to any other lessees or tenants.

2.4.9.6 In the event that the Lessor is unable to lease or let the Property to any other lessees and tenants and/or as the case may be, the Lessee shall compensate the Lessor for the deficiency between the originally scheduled rent under the respective Lease Agreements 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.

2.4.9.7 In the event a Termination Notice is issued by the Lessor, the Lessee shall have an option to source, within six (6) calendar months of the Lessee's receipt of such Termination Notice, for a replacement lessee or tenant acceptable 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 failing which the security deposit and the utilities deposit paid by the Lessee in favour of the Lessor shall be forfeited. If the Property is leased or tenanted to a replacement lessee or tenant, the Lessee shall compensate the Lessor for any deficiency between the originally scheduled rent under the respective Lease Agreements and the rent received or to be received from the replacement lessee or tenant for the Property for the unexpired period of the Contractual Term.

2.4.9.8 At the end of the Contractual Term or upon the termination of the respective Lease Agreements for any reason whatsoever, the Lessor shall be entitled to deal with the Property in any manner whatsoever and howsoever including but not limited to leasing out the Property to any other person whomsoever.

Save as otherwise stipulated under Section 2.4.9.2 and 2,4.9.3.3 above, neither the Lessee nor the Lessor and/or the Manager shall be entitled to terminate the respective Lease Agreements without the written consent of the other party.

2.4.10 Late Payment Penalty

In the event that the respective Lessee fails to pay the monthly rent on the due date, the Lessor shall be entitled to charge and the Lessee shall pay the Lessor late payment penalty at the rate of five percent (5%) per annum on any sums of the monthly rent reserved by the respective Lease Agreements remaining unpaid from its due date until the date of actual payment.

If for any reason whatsoever, the respective Lessee fails to pay the monthly rent for two (2) consecutive calendar months or any part thereof on the due date, whether formally demanded or not, and if the respective Lessee fails to rectify such breach or default after the Lessor or its agent has given thirty (30) calendar days' notice in writing to the Lessee to rectify such breach or default, Section 2.4.9.1 above shall be invoked.

2.4.11 Deposits

(i) Security Deposit

The Lessees shall on or before 30 June 2021, being the date of commencement of the lease, or such other date to be mutually agreed by the Parties, pay the security deposit to the Lessor for an aggregate sum equivalent to two (2) times of the prevailing monthly rent which shall be revised accordingly for every rental term, such deposit being security for the due observance and performance by the Lessee of any terms and conditions of the Lease Agreements.

(ii) **Utilities Deposit**

The Lessees shall on or before 30 June 2021, being the date of commencement of the lease, or such other date to be mutually agreed by the Parties, pay to the Lessor a sum to be mutually agreed by the Parties, which shall be revised accordingly for every rental term, such sum being the deposit for electricity, water, solid waste and other utilities services provided by the relevant utilities service providers to the Properties.

2.4.12 Variation of rental

The Lessor shall have the right to vary the rent of the Properties occupied and used by the Lessees, at the recommendation of the Manager due to the following:-

(i) **Increase in gross floor area**

If the gross floor area of the Properties increases pursuant to the expansion (as described under Section 2.4.7 of this Circular) undertaken by the Lessees in respect of the Properties, the rent shall be increased corresponding with the increase in gross floor area of the Properties but always subject to the reimbursement costs paid by the Lessor to the Lessees and the increase in the monthly rent shall be computed as follows:

Formula: (5.75% per annum x reimbursement costs)/12 months

For avoidance of doubt, in the event the rent has been increased pursuant to the abovementioned clause, 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 for determination of the rent for the relevant Succeeding Rental Terms.

In the event the increase in the rent was incurred during mid of the relevant year of the First Rental Term or Succeeding Rental Term(s) rental year, such rent shall be prorated to full financial year before applying it in the rent review formula.

(ii) **Installation of new Lessor's fixtures and fittings**

The Lessor and/or the Manager incur costs and incidental costs for installation of new Lessor's fixtures and fittings at the Properties in which the increase in rent shall be mutually agreed between the parties prior to the installation of the said new Lessor's fixtures and fittings. The Lessee shall furnish copies of the relevant documentary evidence, including but not limited to quotations, tender documents, price list, invoices to and for the Lessor and/or the Manager's verification of the costs and incidental costs for installation of the new Lessor's fixtures and fittings.

2.4.13 First right of refusal to purchase the Properties

In the event that the Lessor during the Contractual Term intends to sell the Properties, the respective Lessees shall be given the first right of refusal to purchase the Properties by way of a written notice from the Lessor to the respective Lessees offering to sell the Properties to the respective Lessees on such terms and at the reasonable and fair prevailing/open market value in respect of the Properties and in accordance with the applicable laws and requirements including the Listed Real Estate Investment Trust Guidelines, the relevant guidelines issued by the Securities Commission Malaysia ("**SC**"), the Capital Markets and Services Act 2007 and the listing requirements of Bursa Securities, to which notice the respective Lessees shall reply within 60 calendar days thereof.

The first right of refusal granted shall be valid but shall not be applicable and shall not extend beyond the Contractual Term. For the avoidance of doubt, the right of first refusal granted shall not be enforceable and no longer applicable if the Lease Agreements are terminated pursuant to the terms and conditions under the lease Agreements.

2.4.14 Extended Contractual Term

If the respective Lessees wishes to take a further extension of the lease of the Properties for another fifteen (15) years from the expiry of the Contractual Term ("**Extended Contractual Term**"), the respective Lessees shall give a written notice to the Lessor of its intention to extend the lease of the Properties not less than twelve (12) calendar months prior to the expiry of the Contractual Term.

The Lessor may at its sole and absolute discretion grant to the Lessees a further lease of the Properties for the Extended Contractual Term at the rental terms and revised rental rate to be mutually agreed by the Lessor, the Manager and the Lessees but with otherwise upon the same terms and conditions of the Lease Agreements with the exception of this provision for renewal, the revised rental rate and the topping up of the security deposit and the utilities deposit to correspond with the revised rental rate, which shall be mutually agreed upon by both parties, variations to the terms and conditions of the Lease Agreements mutually agreed upon in writing by the parties during the Contractual Term and any changes in the applicable laws and requirements.

The parties will use their best endeavours to reach an agreement on the rent for the Extended Contractual Term by the date which is six (6) calendar months prior to the expiry of the Contractual Term.

2.5 Basis and justification in arriving at the rental rate

The rental was negotiated between the parties. The total gross rental for the first year of the renewed Contractual Term amounted to RM40.94 million based on 5.75% of the market value of the Properties. For information, the net rental yield of the Properties is approximately 5.4% after taking into consideration direct expenses to the Properties which include, amongst others, assessment, takaful, maintenance and quit rent.

KPJ and Al-`Aqar had jointly appointed Cheston as the independent valuer for the Proposed Lease Renewal. In arriving at the market value of the Properties, Cheston had adopted the Income Approach by Profits Method (Discounted Cash Flow) as the primary approach and the Cost Method as the secondary approach for cross checking. The market value of the Properties which are subject to the Proposed Lease Renewal are as follows:-

Properties	Market Value (RM'mil)	Date of Valuation
APSH	157	22 January 2021
DSH	135	27 January 2021
ISH	122	29 January 2021
JSH	147	25 January 2021
PSH	51	25 January 2021
SSH	100	26 January 2021
Total	**712**	

The gross rental rate of the initial term of (5.75% x market value of the Properties) was arrived at after taking into consideration of the following:-

(i) The NPI of commercial properties acquired by Malaysian real estate investment trusts in year 2020 up to 31 March 2021, being the latest practicable date prior to the date of the announcement which ranges from 4.96% and 6.28%;

(ii) The performance of the Malaysian real estate investment trusts. The NPI for real estate investment trusts (excluding foreign properties) listed on Bursa Securities ranges from 1.79% to 7.00% in year 2020 and 3.16% to 8.04% in year 2019; and

(iii) The current state of the Malaysian economy and property market which have been impacted by the COVID-19 pandemic.

In addition, as stated in the valuation certificate as attached in Appendix II, the Independent Valuer observed that based on their analysis of the latest rental yield of the investment properties comprising UOA Corporate Tower, The Pinnacle Sunway and Menara Guoco, the rental yields range from 4.96% to 6.28%. The performance of various real estate investment trusts for the year ending 2019 and 2020 revealed that the current rental yield trends are within the range of 1.79% to 8.04% depending on the type of property, location, characteristics, tenure, nature and risk profile of the investment.

In light of the above, taking into consideration of the current state of the Malaysian economy and property market which have been impacted by the COVID-19 pandemic, the Independent Valuer is of the view that the fair rental yields of the Properties are within the abovementioned ranges.

For information, the total rental for the first year of the renewed Contractual Term amounted to RM40.94 million (existing 30 June 2020 – 29 June 2021: RM42.79 million). The renewed rental amount is a reduction of RM1.85 million or 4.3% as compared to existing rent.

<u>Rental rate for the subsequent terms</u>

The basis for the rental rate for the subsequent terms ((10-years MGS + 200 BPS) of the market value of the Properties) was arrived at after taking into consideration, the difference between Al`Aqar's cost of equity ("**COE**") and the 10-year MGS as shown below:-

As at	***31.3.2021**	**31.12.2020**	**31.12.2019**	**31.12.2018**	**31.12.2017**
	(%)	**(%)**	**(%)**	**(%)**	**(%)**
Al`Aqar's COE	5.05	5.07	5.30	7.28	6.72
10-year MGS	3.15	2.65	3.30	4.07	3.91
Difference	1.90	2.42	2.00	3.21	2.81

Note ** : Being the latest practicable date prior to the announcement.*

(Source: Bloomberg and BNM website)

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)*

For clarification, the rent review formula of ((10-years MGS + 200 BPS) x Open Market Value of the Properties) is a basis for determining the rental amount. At each Succeeding Rental Term, the lowest rental amount that can be charged is RM40.94 million (being the Base Rent) and the maximum rental amount is 2% incremental increase over the RM value of the rent for the preceding year.

2.6 Transacted amount for the preceding 12 months

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. **IMPACT OF COVID-19 ON KPJ GROUP'S FINANCIALS AND OPERATIONS**

The audited financial performance of the Group for the past 2 financial years are set out below:-

FY 31 December	**2019**	**2020**
	(RM'000)	(RM'000)
Revenue	2,737,919	2,397,443
Profit before tax ("**PBT**")	275,393	150,810
Profit for the financial year attributable to:-		
- Owners of the Company	211,368	110,443
- Non-controlling interest	15,329	369
Profit for the year	226,697	110,812

The Group's revenue, PBT and profit for the year has decreased by 12%, 45% and 51% respectively in FY 2020 as compared to FY 2019.

In view of the Covid-19 pandemic, the Malaysian Government has imposed a series of movement restriction through-out the year 2020 which has directly impacted the operations of KPJ Group. Patients has opted to postpone non-urgent and non-essential treatments and defer visits to hospitals and healthcare facilities. This has resulted in lower average bed occupancy rate ("**BOR**") in FY 2020 at 48% as compared to 66% in FY 2019 while the number of inpatients fell 26% to 246,529 patients.

In addition to the impact of the Covid-19 pandemic, the decrease in the profits for FY 2020 was also attributable to impairment loss primarily from the RM16.2 million loss from the revaluation of land at Jeta Gardens in Australia and an equity investment loss of RM3.6 million.

For the latest financial information of the Group, please refer to the financial results as announced by KPJ which is available on www.bursamalaysia.com.

4. **RATIONALE FOR THE PROPOSED LEASE RENEWAL**

The Proposed Lease Renewal will ensure that KPJ Group's on-going operations are not disrupted and that the Properties shall continue its operations at the existing location.

5. **RISKS OF THE PROPOSED LEASE RENEWAL**

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

The non-renewal of the Lease Agreements will result in the Subsidiaries not being able to continue its on-going operations at the Properties. In such event, KPJ Group would use its best endeavor to identify other properties to carry out its operations. However, as the properties must be purpose built as a 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 LEASE RENEWAL

6.1 Share capital and substantial shareholder's shareholdings

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

6.2 NA and gearing

Based on KPJ's consolidated audited statement of financial position as at 31 December 2020 and on the assumption that the Proposed Lease Renewal had been effected on that date, there will be no impact on the consolidated NA per share and gearing of KPJ.

6.3 Earnings and EPS

The proforma effects of the Proposed Lease Renewal on the earnings and EPS of KPJ assuming that the Proposed Lease Renewal had been effected at the beginning of FY 31 December 2020 are as follows:-

	RM'000
Audited profit after tax attributable to owners of KPJ	110,443
Less: Additional depreciation and finance charge – MFRS 16 (lease impact)	(7,426)
Less: Estimated expenses (includes professional fees and stamp duties)	(1,200)
Proforma profit	101,817
Existing	
Basic EPS (sen)	2.58
Diluted EPS (sen)	2.48
Proforma	
Basic EPS (sen)	2.38
Diluted EPS (sen)	2.28

7. PERCENTAGE RATIO

The highest percentage ratio applicable for the Proposed Lease Renewal pursuant to Paragraph 10.02(g) of the Listing Requirements is 35% based on total rental income for 15 years (assuming 2% increase per annum) compared with the net assets attributable to shareholders of KPJ Group.

8. APPROVALS REQUIRED

The Proposed Lease Renewal is subject to the following approvals:-

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

(ii) the approval of the unitholders of Al-`Aqar at its EGM to be convened for the Proposed Lease Renewal.

The Proposed Lease Renewal is not conditional upon any other corporate exercise which has been announced but not yet completed and/or any other corporate exercise by KPJ.

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

Save as disclosed below, none of the Directors, Major Shareholders of the Company and/or persons connected to them have any interest, either direct or indirect, in the Proposed Lease Renewal.

9.1 Interested Directors' Interest

The following directors are deemed interested by virtue of the following:-

(i) Dato' Mohd Redza Shah Abdul Wahid, is an Independent Non-Executive Director of KPJ and also an Independent Non-Executive Chairman of DRMSB, the manager of Al-`Aqar;

(ii) Rozaini Mohd Sani is a Non-Independent Non-Executive Director of KPJ and also a senior management of JCorp; and

(iii) Shamsul Anuar Abdul Majid is a Non-Independent Non-Executive Director of KPJ, a Non-Independent Non-Executive Director of DRMSB and also a senior management of JCorp.

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

The Interested Directors and persons connected to the Interested Directors do not have any direct and indirect shareholdings in KPJ as at LPD.

Accordingly, the Interested Directors have abstained and will continue to abstain from all deliberations, votings and decisions at the Board meetings relating to the Proposed Lease Renewal. The Interested Directors will also abstain from the voting in respect of their direct and indirect shareholdings in KPJ on any resolution in relation to the Proposed Lease Renewal 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 resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming EGM of KPJ.

9.2 Interested Major Shareholders' Interest

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

	Direct		Indirect	
	No. of Units	%	No. of Units	%
	'000		'000	
JCorp	1,545,916	36.07	109,404	(i)2.56

Note:-

(i) Deemed interested by virtue of its interest in JCorp Capital Solutions Sdn. Bhd., Kulim (Malaysia) Berhad, Johor Ventures Sdn. Bhd. and Johor Land Berhad under Section 8 of the Companies Act 2016

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

	Direct		Indirect	
	No. of Units	%	No. of Units	%
	'000		'000	
JCorp Capital Solutions Sdn. Bhd.	88,000	2.05	-	-
Kulim (Malaysia) Berhad	18,939	0.44	-	-
Johor Ventures Sdn Bhd	2,449	0.06	-	-
Johor Land Berhad	16	-	-	-

JCorp is a Major Shareholder of KPJ. JCorp is deemed interested in the Proposed Lease Renewal ("**Interested Major Shareholder**") in view of JCorp being a major shareholder of KPJ and also the holding company of DRMSB. DRMSB is a wholly-owned subsidiary of Damansara Assets Sdn Bhd, which in turn is a wholly-owned subsidiary of JCorp.

Accordingly, JCorp shall abstain from voting in respect of its direct and indirect shareholdings in KPJ on the resolution pertaining to the Proposed Lease Renewal 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 resolution pertaining to the Proposed Lease Renewal 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 Lease Renewal, including the rationale and financial effects of the Proposed Lease Renewal, valuation of the Properties as ascribed by the Independent Valuer as well as the independent advice by the Independent Adviser for the Proposed Lease Renewal, is of the opinion that the Proposed Lease Renewal is fair, reasonable and on normal commercial terms and are in the best interests of the Company and not detrimental to the interest of the minority shareholders.

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

11. AUDIT COMMITTEE'S STATEMENT

The Audit Committee (save for Dato' Mohd Redza Shah Abdul Wahid), after having considered all aspects of the Proposed Lease Renewal, including the rationale and financial effects of the Proposed Lease Renewal, valuation of the Properties as ascribed by the Independent Valuer as well as the independent advice by the Independent Adviser for the Proposed Lease Renewal), is of the opinion that the Proposed Lease Renewal is fair, reasonable and on normal commercial terms and are in the best interests of the Company and not detrimental to the interest of the minority shareholders.

12. INDEPENDENT ADVISER

The Proposed Lease Renewal is deemed as a related party transaction pursuant to the Listing Requirements. In view of the interest of the interested parties in the Proposed Lease Renewal, the Board had, on 15 February 2021, appointed the Independent Adviser to undertake the following:-

(i) comment as to whether the Proposed Lease Renewal 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 Lease Renewal, and whether the non-interested shareholders of KPJ should vote in favour of the Proposed Lease Renewal; 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, 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.

14. TENTATIVE TIMETABLE FOR COMPLETION

Barring any unforeseen circumstances, subject to the required shareholders' approvals being obtained, the Proposed Lease Renewal is expected to be completed by the end of the 2nd quarter of 2021 and the Lease Agreements shall commence on the 30 June 2021.

The estimated timeframe for the Proposed Lease Renewal is as follows:-

Date	Events
22 June 2021	- EGM to approve the Proposed Lease Renewal
30 June 2021	- Commencement of the Lease Agreements - Completion of the Proposed Lease Renewal

15. EGM

The EGM (the notice of which is enclosed in this Circular) will be conducted entirely through live streaming from the Broadcast Venue on Tuesday, 22 June 2021 at 10.00 a.m. for the purpose of considering, and if thought fit, passing the resolution to give effect to the Proposed Lease Renewal. If you are unable to attend and vote in person at the EGM, you may complete and return the Form of Proxy via TIIH Online website at https://tiih.online in accordance with the procedures as set out in in the Administrative Guide latest by Monday, 21 June 2021 at 10.00 a.m. The lodging of a Form of Proxy does not preclude you from attending 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

CHRISTINA FOO
Independent Non-Executive Director

PART B

INDEPENDENT ADVICE LETTER BY CROWE TO THE NON-INTERESTED SHAREHOLDERS OF KPJ IN RELATION TO THE PROPOSED LEASE RENEWAL

EXECUTIVE SUMMARY

All definitions used in this Executive Summary shall have the same meaning as the words and expressions provided in the "Definitions" section of Part A of the Circular and as defined in the IAL, except where the content otherwise requires or where defined herein.

The executive summary represents only a summary of the IAL and is not intended to substitute the full text of this IAL by Crowe as the Independent Adviser to provide the Board (save for the Interested Directors) and the non-interested shareholders of KPJ with an independent evaluation of the Proposed Lease Renewal and our recommendation thereon. The non-interested shareholders of KPJ are advised to read carefully and understand fully the contents of this IAL, which is to be read in conjunction with Part A of the Circular and the accompanying appendices, before voting on the resolution pertaining to the Proposed Lease Renewal at the forthcoming EGM.

1 INTRODUCTION

On 6 April 2021, AmInvestment Bank Berhad, on behalf of the Board, announced that the Subsidiaries of KPJ proposed to enter into six (6) separate lease agreements with ART, on behalf of Al-`Aqar and DRMSB, being the manager of Al-`Aqar to renew the lease of the Properties.

The Lease Agreements were executed in escrow on 6 April 2021 and are to be dated upon fulfilment of the Conditions. The Lease Agreements is for a period of fifteen (15) years commencing from 30 June 2021 to 29 June 2036 with an option to renew for another fifteen (15) years.

In view of the deemed interests of JCorp as the Major Shareholder of KPJ and also the holding company of DRMSB, as set out in Section 9 of Part A of this Circular, Crowe was appointed by KPJ on 15 February 2021 as the Independent Adviser in relation to the Proposed Lease Renewal.

2 EVALUATION OF THE PROPOSED LEASE RENEWAL

In evaluating the Proposed Lease Renewal, we have considered the following:-

2.1 Rationale for the Proposed Lease Renewal

The Proposed Lease Renewal would allow the KPJ Group to continue operating the Properties from the existing locations with minimal to no disruption, where they had over the years, built their brand and reputation as healthcare provider serving the surrounding communities.

These Properties are also located strategically in urban and suburban towns in Peninsular Malaysia and the locations are deliberate as being part of the KPJ Group's strategic investments to a diversified portfolio reach of a network of specialist hospitals. Hence, it is only practical and reasonable that the Properties continue to operate from their existing locations in strengthening the KPJ Group's position.

Therefore, we are of the opinion that the rationale for the Proposed Lease Renewal is reasonable.

2 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

2.2 Basis and Justification of the Rental Rate

- First Rental Term

Pursuant to the Lease Agreements, the rent together with the rental formula for the First Rental Term is as summarised below:

Period covered (Year)	Rent Formula
1	5.75% of the Open Market Value (as ascribed by Cheston in the Valuation Reports).
2 and 3	2% increase from preceding year's rental.

We are of the opinion that the considerations used to determine the rental rate are fair and reasonable due to our following observations below:-

(i) The rental yield of 5.75% applied in the 1st year is fair – it is within the range of gross yield derived from single-tenanted properties in Malaysia held by Malaysian REITs ranging from 5.71% to 8.73%;

(ii) We have relied upon the Valuation Reports issued by Cheston in relation to the market value of the Properties and after due review and enquiries, we are satisfied that:

- the valuation approach used by Cheston – profit method (discounted cash flow) as the primary valuation methodology with cost approach as check to derive the market values for the Properties is fair and reasonable from the perspective of the single (sole) trading activity of the Properties as private medical hospitals; and
- the parameters and key determinants applied by Cheston in valuing the Properties are fair and reasonable; and

(iii) The 2% annual increase in rental amount in the 2nd and 3rd year is fair and reasonable from the perspective of the overall resultant effect as compared to rental yield derived by comparable properties in the Malaysian market.

- Succeeding Rental Term

Pursuant to the Lease Agreements, the rent together with the rental formula for the Succeeding Rental Term is as summarised below:

Rental Term	Period covered (Year)	Rent Review Formula
1st year of every Succeeding Rental Term	4, 7, 10 and 13	(a) Minimum lease rental determined at the higher of: (i) MGS add 200 BPS (or 5.75%; whichever higher) of the prevailing Open Market Value (as determined by an independent valuer) of the Properties; or (ii) Base Rent. (b) Adjustment to the lease rental shall not exceed 2% of the preceding year's lease rental in RM.
2nd and 3rd year of every Succeeding Rental Term	5, 6, 8, 9, 11, 12, 14 and 15	2% increase from preceding year's rental in RM.

2 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

2.2 Basis and Justification of the Rental Rate (Cont'd)

- Succeeding Rental Term (Cont'd)

  We are of the opinion that the considerations used to determine the rent review formula are fair and reasonable due to our following observations below:-

  (i) For the rent review formula applied to every 1st year of the Succeeding Rental Term, we noted that the gross rental yield of 5.75% is within the 10-year historical range of aggregate MGS add 200 BPS for the period from year 2010 to LPD of 4.65% to 6.22%; and

  (ii) For the rent review formula applied to the subsequent 2nd and 3rd year of the Succeeding Rental Term, the maximum lease rental adjustment pegged at 2% of the precedent year's rental amount serves as a safeguard to KPJ against potential upward fluctuation exceeding the MGS determinant's threshold.

Accordingly, overall we are of the view that the basis and justification of the rental rate are fair and reasonable and not to the detriment to the KPJ Group and its shareholders.

2.3 Salient Terms of the Lease Agreements

Below are highlight points for your information pertaining to the Lease Agreements:-

- Conditions of the Lease Agreements

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

  (i) the approval of the shareholders of KPJ being obtained in respect of the Proposed Lease Renewal; and

  (ii) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal.

  The Conditions are ordinary terms that are typical to the transaction of such nature to ensure the necessary compliance with the requirements imposed by the relevant regulatory authorities to give effect to the Proposed Lease Renewal.

- Termination

  Save as otherwise stipulated in the Lease Agreements, neither KPJ nor Al-`Aqar shall be entitled to terminate this Lease Agreements at its discretion without the written consent of the other party.

  This is to safeguard the interest of both parties for the continuity of the lease terms as agreed upon by the Lessor and Lessee. It is the intention of both parties to continue the lessor-lessee relationships for the long-term.

Based on our review of the salient terms of the Lease Agreements, we are of the opinion that the overall terms of the Lease Agreements are fair, reasonable and not detrimental to the interest of the non-interested shareholders of KPJ.

2 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

2.4 Effects of the Proposed Lease Renewal

The Proposed Lease Renewal has no effects to the share capital and substantial shareholders' shareholdings; and the impact to NA per share, gearing, earnings and EPS are not expected to be material to KPJ Group for the FY 31 December 2020 on the assumption that the Proposed Lease Renewal had been effected on that date.

We are of the view that the overall financial effects of the Proposed Lease Renewal are not detrimental to the interests of the non-interested shareholders of KPJ.

2.5 Risk Factors in Relation to the Proposed Lease Renewal

The Proposed Lease Renewal is conditional upon obtaining approval of the shareholders of KPJ and the approval of the unitholders of Al-`Aqar as highlighted above in Section 2.3 of this executive summary of IAL. In the event that these Conditions are not met, the non-renewal of the leases will render the KPJ Group unable to continue with its on-going operations at the locations of the Properties and to surrender the Properties to ART which would adversely affect the financial performance of KPJ.

Nonetheless, it is the intentions of the Lessees and the Lessor to continue the lessee-lessor relationships for the Properties as the non-renewal of the Lease Agreements will both impact the financial performance of KPJ and Al-`Aqar in the immediate effect and hence, the parties will endeavour to ensure in facilitating the completion of the Proposed Lease Renewal.

However, the non-interested shareholders of KPJ should take note that no assurance can be given that the risk will not crystallise for measures beyond the control of the Board and may give rise to material and adverse impact on the financial position or the prospects of KPJ.

3 CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposed Lease Renewal and have set out our evaluation in **Section 5 of this IAL**. The non-interested shareholders should consider the merits and demerits of the Proposed Lease Renewal carefully based on all relevant and pertinent factors including those and other considerations as set out in this IAL, the Circular and other publicly available information prior to making a decision to vote on the resolution pertaining to the Proposed Lease Renewal.

Premised on our overall evaluation and assessment of the Proposed Lease Renewal based on the information available to us up to LPD, we are of the opinion that the Proposed Lease Renewal are **fair and reasonable** and **not detrimental** to the non-interested shareholders of KPJ.

Accordingly, we recommend that you **vote in favour** of the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming shareholder's EGM.

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Crowe

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Wilayah Persekutuan

21 May 2021

To: The non-interested shareholders of KPJ Healthcare Berhad

Dear Sir / Madam

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

INDEPENDENT ADVICE LETTER IN RELATION TO THE PROPOSED LEASE RENEWAL

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*This independent advice letter ("**IAL**") is prepared for inclusion in the circular to the shareholders of KPJ dated 21 May 2021 in relation to the Proposed Lease Renewal ("**Circular**") and should be read in conjunction with the same. All definitions used in this IAL shall have the same meaning as the words and expressions provided in the "Definitions" section of the Circular, except where the content otherwise requires or where defined herein.*

1 INTRODUCTION

On 6 April 2021, AmInvestment Bank Berhad, on behalf of the board of directors of KPJ ("**Board**"), announced that KPJ's subsidiaries, namely Ampang Puteri Specialist Hospital Sdn Bhd, Selangor Specialist Hospital Sdn Bhd, Pasir Gudang Specialist Hospital Sdn Bhd, Ipoh Specialist Hospital Sdn Bhd, Johor Specialist Hospital Sdn Bhd and Rawang Specialist Hospital Sdn Bhd (collectively as "**Subsidiaries**" or "**Lessees**") propose to enter into six (6) separate lease agreements with ART, being the trustee for and on behalf of Al-`Aqar and DRMSB, being the manager of Al-`Aqar to renew the lease of the Properties (as defined in the Circular) ("**Proposed Lease Renewal**"). The Lease Agreements (as defined in the Circular) are executed in escrow on 6 April 2021 and are to be dated upon fulfilment of the conditions of the Lease Agreements as set out in Section 2.4.3 Part A of the Circular.

In view of the deemed interests of JCorp as the Major Shareholder of KPJ and also the holding company of DRMSB, as set out in Section 9 Part A of the Circular, the Board had on 15 February 2021 appointed Crowe Advisory Sdn Bhd ("**Crowe**") to act as the Independent Adviser in relation to the Proposed Lease Renewal.

The purpose of this IAL is to provide our comments to the non-interested shareholders of KPJ as to whether the Proposed Lease Renewal are fair and reasonable, and whether the Proposed Lease Renewal are to the detriment of the non-interested shareholders of KPJ, and to provide our recommendation on the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming shareholders' EGM, subject to the limitation of our role and evaluation as explained herein. You should nonetheless, rely on your own evaluation of the merits and demerits of the Proposed Lease Renewal before making a decision on the course of action to be taken.

Crowe

1 INTRODUCTION (CONT'D)

THIS IAL IS PREPARED SOLELY FOR THE USE OF THE NON-INTERESTED SHAREHOLDERS FOR THE PURPOSES OF CONSIDERING THE MERITS OF THE PROPOSED LEASE RENEWAL AND SHOULD NOT BE USED OR RELIED UPON BY ANY OTHER PARTY.

THE NON-INTERESTED SHAREHOLDERS ARE ADVISED TO READ BOTH THIS IAL AND PART A OF THE CIRCULAR TOGETHER WITH THE ENCLOSED APPENDICES THEREIN AND TO CONSIDER CAREFULLY OUR EVALUATION AND RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED LEASE RENEWAL TO BE TABLED AT THE FORTHCOMING SHAREHOLDERS' MEETING.

IF THE NON-INTERESTED SHAREHOLDERS ARE IN DOUBT AS TO THE COURSE OF ACTION BE TAKEN, PLEASE CONSULT STOCKBROKER, BANK MANAGER, ACCOUNTANT, SOLICITOR OR OTHER PROFESSIONAL ADVISORS IMMEDIATELY.

1.1 Declaration of Conflict of Interest and Our Credentials, Experience and Expertise

Crowe has conducted its own conflict of interest check in accordance with the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC) and By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (MIA) and confirms that there are no existing or potential conflict of interest situations arising from Crowe carrying out its role as an Independent Adviser. Save for our role as the independent adviser for the Proposed Lease Renewal, there were no other professional relationship between us and KPJ in the past two (2) years prior to the date of this IAL.

Crowe is a licensed corporate finance adviser by the Securities Commission of Malaysia and provides a range of corporate finance services which include provision of independent advice, fairness opinions, advice on initial public offerings and debt restructuring exercises, valuation exercises and transaction services.

Crowe had in the past, provided and issued independent advice opinions and fairness opinion reports, amongst others, the following transactions:-

Report or Letter Issuance Date	Description of the Corporate Exercise
4 September 2020	Expert's report on the fairness of the purchase considerations for the proposed acquisition by a wholly-owned subsidiary of LYC Healthcare Berhad, of 51% equity interest each in T&T Medical Group Pte Ltd and HC Orthopaedic Surgery Pte Ltd for the purchase consideration of Singapore Dollar ("**SGD**") 7.3 million and SGD6.9 million, respectively.
28 November 2019	IAL pertaining to the proposed acquisition by ART, on behalf of Al-'Aqar, of a hospital together with land from Johor Land Berhad ("**JLB**") for a total consideration of RM78.0 million and the proposed novation of lease of the hospital from JLB to ART.
7 December 2018	Expert's report on the fairness of the purchase consideration for the proposed acquisition by Straits Inter Logistics Berhad ("**Straits**") of 1,444,000 ordinary shares in Banle Energy International Limited, Hong Kong ("**Banle**"), representing 38% equity interest in Banle from CBL (Asia) Limited, Hong Kong, for the purchase consideration of United States Dollar ("**USD**") 3,605,250 to be satisfied entirely via issuance of 63,820,595 ordinary shares in Straits at RM0.235 per ordinary shares.

1 INTRODUCTION (CONT'D)

1.1 Declaration of Conflict of Interest and Our Credentials, Experience and Expertise (Cont'd)

Report or Letter Issuance Date	Description of the Corporate Exercise
3 July 2018	IAL pertaining to the proposed ratification of the acquisition by Advance Information Marketing Berhad of 6,132,000 ordinary shares in Jiakun International Berhad which were acquired in several tranches via the open market for a cash consideration of RM1,485,894.
30 November 2017	IAL pertaining to the proposed acquisition by Mieco Chipboard Berhad of the entire equity interest of Great Platform Sdn Bhd ("**GPSB**"), a wholly-owned subsidiary of SYF Resources Berhad ("**SYF**"), comprising 5,000,000 ordinary shares for a Purchase Consideration of RM7,063,341 and the proposed assumption of liabilities owing by GPSB to SYF of RM51,528,809 to be settled entirely via cash.
25 November 2016	Expert's report on the fairness of the purchase consideration for the proposed acquisition by N2N Connect Berhad of the entire equity interest in AFE Solutions Limited from Reuters International Holding S.A.R.L. and Systex Capital Group Inc for an initial purchase consideration of USD 20,597,300 to be fully satisfied in cash.
20 October 2016	Expert's report on the fairness of the purchase consideration for the proposed acquisition by OCK Vietnam Towers Pte Ltd, an indirect 60%-owned subsidiary of OCK Group Berhad, of 42,042,702 ordinary shares in Southeast Asia Telecommunication Holdings Pte Ltd ("**SEATH**"), representing the entire equity interest in SEATH from Vietnam Infrastructure Limited for the indicative Purchase Consideration of USD50,000,000 to be satisfied entirely via cash.

Premised on the foregoing, Crowe has the capability and competency to carry out its role as the Independent Adviser of KPJ to advise the non-interested shareholders of KPJ in relation to the Proposed Lease Renewal and is able to discharge its duties and responsibilities.

2 SCOPE, LIMITATIONS AND ASSUMPTIONS TO THE EVALUATION AND OPINION

Crowe was not involved in the formulation of, or any deliberation and negotiation on, the terms and conditions of the Proposed Lease Renewal. Our scope as the Independent Adviser is limited to expressing an independent opinion on the fairness and reasonableness of the Proposed Lease Renewal and whether the transaction is to the detriment of the non-interested shareholders of KPJ, subject to the limitations stated herein.

It is not within our terms of reference to express any opinion on the commercial merits of the Proposed Lease Renewal although we may draw upon its views to our overall evaluation in arriving at our opinion. Further, our terms of reference do not include us rendering an expert opinion on legal, accounting and taxation issues relating to the Proposed Lease Renewal.

In preparing this IAL, we had relied on the following sources of information:-

(a) information contained in Part A of the Circular and the accompany appendices in the Circular;

(b) the Lease Agreements;

2 SCOPE, LIMITATIONS ASSUMPTIONS TO THE EVALUATION AND OPINION (CONT'D)

(c) the valuation reports dated 2 April 2021 in relation to the Properties pursuant to the Proposed Lease Renewal ("**Valuation Reports**") and the valuation certificate dated 2 April 2021 ("**Valuation Certificate**") prepared by Cheston International (KL) Sdn Bhd ("**Cheston**" or the "**Valuer**");

(d) information contained in the annual report of KPJ for the financial year ended 31 December ("**FY**") 2019;

(e) discussions and relevant information, documents and/or representations provided by the management of KPJ ("**Management**"); and

(f) other publicly available information which we deemed relevant.

We have not independently verified such information, whether written or verbal, and shall not assume responsibility for the accuracy and/or completeness of such information. Nevertheless, we have performed reasonableness check and corroborated the information with independent sources, where possible. In addition, the Board has, collectively and individually, confirmed to us that all relevant material facts and information essential to the Proposed Lease Renewal have been disclosed to us.

The Board have also accepted full responsibility for the accuracy, completeness and validity of the information provided and given herein (except for our evaluation and opinion as contained herein), and confirmed that after making all reasonable enquiries and to the best of their knowledge and belief, there are no other information and/or facts, the omission of which would make any information supplied to us misleading, incomplete or inaccurate, or would materially affect our evaluation, views and recommendations in this IAL.

We are satisfied with the information provided by the Board and the Management, and based on all information made available for purposes of our evaluation of the Proposed Lease Renewal, after making all reasonable enquiries and to the best of our knowledge and belief, the information provided to us is reasonable, accurate, complete and free from material omission and this IAL constitutes a full and true disclosure of all material facts concerning the Proposed Lease Renewal and there are no false or misleading statements or other facts, the omission of which would make any statement herein false or misleading.

In our evaluation, we have only taken into consideration pertinent matters which we believe are of importance in enabling us to form an opinion as a whole to the fairness and reasonableness of the Proposed Lease Renewal in so far as the non-interested shareholders of KPJ are concerned and whether the Proposed Lease Renewal are to the detriment of the non-interested shareholders of KPJ. Hence:-

(a) the scope of our responsibilities with regard to our evaluation and opinion contained herein does not address the underlying commercial decision undertaken by KPJ, and as such, we shall not express any opinion on the commercial justification of the Proposed Lease Renewal. Any commercial justification with regard to the Proposed Lease Renewal shall be the sole responsibility of the Board. Our comments or considerations which may be commercially oriented are included to our overall evaluation as we deem it necessary as part of disclosure purposes to enable the non-interested shareholders of KPJ to consider and form their views in a more holistic manner;

2 SCOPE, LIMITATIONS ASSUMPTIONS TO THE EVALUATION AND OPINION (CONT'D)

(b) our view and recommendation contained in this IAL are for the non-interested shareholders of KPJ at large and not to any shareholder individually. Crowe has not taken into consideration any specific investment objective(s), financial situation(s) and particular need(s) of any shareholder or any specific group of shareholders who are independent to the Proposed Lease Renewal. We therefore recommend that any individual shareholder or specific group of shareholders who may require advice in relation to the Proposed Lease Renewal within the context of their objective, financial situation and particular needs to consult their stockbroker, bank manager, solicitor, accountant and other professional advisers. We shall not be liable for any damage or loss of any kind sustained or suffered by any individual shareholder or any group of shareholders in reliance of the opinion and/or information stated in this IAL for any purpose which is particular to any individual shareholder or group of shareholders;

(c) our evaluation and recommendation as set out in this IAL are based upon market, industry, economic, regulatory and other conditions (if applicable) prevailing on the information or documents made available to us at the LPD. Such conditions may change significantly over a short period of time. As such, our evaluation and recommendation in this IAL do not take into consideration the information, events and conditions arising after the LPD. In this regard, our advice should be considered in the context of the entirety of this IAL and the Circular.

After the despatch of this IAL, should we become aware of any significant change affecting the information contained in this IAL or have reasonable grounds to believe that any statement in this IAL is misleading or deceptive or have reasonable grounds to believe that there is material omission in this IAL, we will immediately notify the shareholders. If circumstances require, a supplementary IAL will be sent accordingly to the shareholders.

3 INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS OF KPJ AND PERSONS CONNECTED

The interests of the Interested Directors and Interested Major Shareholder (as defined in Part A of the Circular) (collectively, referred to as "**Interested Parties**") are set out in Section 9 of Part A of the Circular.

The Interested Parties had abstained and will continue to abstain from all deliberations and voting at the relevant Board meetings of KPJ pertaining to the Proposed Lease Renewal. The Interested Parties will also abstain from voting in respect of their direct and/or indirect shareholdings in KPJ, if any, on the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming shareholders' EGM.

The Interested Parties have also undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in KPJ, if any, on the resolution pertaining to the Proposed Lease Renewal to be tabled at the forthcoming shareholders' EGM.

Save as disclosed in Section 9 of Part A of the Circular, none of the other directors of KPJ, major shareholders of KPJ and/or persons connected with them have any interest, direct or indirect, in the Proposed Lease Renewal.

4 DETAILS OF THE PROPOSED LEASE RENEWAL

On 30 June 2006, the six (6) subsidiaries (as set out in Section 2.1 of Part A of the Circular) had originally entered into lease arrangements with Amanah Raya Berhad, on behalf of Al-`Aqar (*then known as Al`-Aqar KPJ REIT*) as the trustee for the REIT, and DRMSB, as the manager of the REIT for six (6) properties ("**Principal Lease Agreements**"):

KPJ's Subsidiaries	Hospitals
Ampang Puteri Specialist Hospital Sdn Bhd	KPJ Ampang Puteri Specialist Hospital ("**APSH**")
Rawang Specialist Hospital Sdn Bhd *	KPJ Damansara Specialist Hospital ("**DSH**")
Ipoh Specialist Hospital Sdn Bhd	KPJ Ipoh Specialist Hospital ("**ISH**")
Johor Specialist Hospital Sdn Bhd	KPJ Johor Specialist Hospital ("**JSH**")
Pasir Gudang Specialist Hospital Sdn Bhd **	KPJ Puteri Specialist Hospital ("**PSH**")
Selangor Specialist Hospital Sdn Bhd	KPJ Selangor Specialist Hospital ("**SSH**")

* *Previously the Damansara Specialist Hospital Sdn Bhd under the Principal Lease Agreements*
** *Previously the Puteri Specialist Hospital (Johor) Sdn Bhd under the Principal Lease Agreements*

The Principal Lease Agreements had a contractual term of fifteen (15) years with an option to renew for another fifteen (15) years. The initial 15-year contractual term of the Properties will expire on 29 June 2021 ("**Previous Contractual Term**"). The parties agreed for further extension of the lease for a period of fifteen (15) years commencing from 30 June 2021 to 29 June 2036 ("**Contractual Term**") and therefore, the respective Subsidiaries proposes to enter into new lease agreements with ART and DRMSB to renew the lease of the Properties.

The respective Subsidiaries are referred to as "**Subsidiary**" or "**Lessee**" and the respective Properties are referred to as "**Property**".

The full details of the Proposed Lease Renewal are set out in Section 2 of Part A of the Circular and should be read in its entirety by the shareholders of KPJ.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL

In evaluating the Proposed Lease Renewal, we have taken into consideration the following aspects together with the details of our evaluation as set out in the ensuing sections:-

Factors		Sections of this IAL
(a)	Rationale for the Proposed Lease Renewal	5.1
(b)	Basis and justification of the rental rate	5.2
(c)	Salient terms of the Lease Agreements	5.3
(d)	Effects of the Proposed Lease Renewal	5.4
(e)	Risk factors in relation to the Proposed Lease Renewal	5.5

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.1 Rationale for the Proposed Lease Renewal

We take cognisance of the rationale for the Proposed Lease Renewal as set out in Section 4 of Part A of the Circular.

The Lessees have been operating from the Properties since commencing operation which imprints KPJ and its group of companies ("**KPJ Group**") as the healthcare provider in their surrounding neighbourhood. The KPJ Group through the existence of the Properties in their respective localities, has built their brand and reputation, assimilating themselves as being part of the larger community for the past decades where the Properties are located.

This is also in cohort with the KPJ Group's intention in establishing themselves as Malaysia's preferred healthcare provider where one of their core value creation input is *'social and relationship'* activities to cultivate long-term relationships with stakeholders - i.e. patients, community. KPJ Group had continuously invest in community development - for the FY 2019, KPJ had invested RM10.3 million for community outreach programmes *(Source: KPJ's Annual Report 2019)*.

Further, these Properties are located strategically in urban and suburban towns in Peninsular Malaysia and these locations are deliberate as being part of the KPJ Group's strategic investments to a diversified portfolio reach of a network of specialist hospitals. Hence, it is only practical and reasonable that the Properties continue to operate from their existing locations with minimal to no disruption to their on-going operations in strengthening the KPJ Group's position.

<u>Our Opinion</u>

Premised on the above, we are of the opinion that the rationale of the Proposed Lease Renewal is reasonable and not detrimental to the non-interested shareholders of KPJ.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate

As mentioned in Section 2.4.4 and 2.5 of Part A of the Circular, the rental formula together with the rent under the Proposed Lease Renewal's 15-year term is determined as summarised below:-

Rental Term	Period covered (Year)	Rent and Rent Review Formula
First Rental Term	1	5.75% per annum of the Open Market Value (as ascribed by Cheston in the Valuation Reports).
	2 and 3	2% increase from preceding year's rental.
1st year of every Succeeding Rental Term	4, 7, 10 and 13	(a) Minimum lease rental determined at the higher of:- (i) 10-years MGS add 200 basis points (or 5.75%; whichever higher) of the prevailing Open Market Value (as determined by an independent valuer) of the Properties; or (ii) Year 1's rent payable ("**Base Rent**"). (b) Adjustment to the lease rental shall not exceed 2% of the preceding year's lease rental in RM.
2nd and 3rd year of every Succeeding Rental Term	5, 6, 8, 9, 11, 12, 14 and 15	2% increase from preceding year's rental in RM.

In evaluating the rent under the Proposed Lease Renewal under the First Rental Term and the Succeeding Rental Term, we applied the following as laid out in the ensuing sections:-

(A) For the First Rental Term:-

▪ considered Cheston's valuation of the Properties;	Section 5.2.1
▪ compared the rental yield of 5.75% against selected rental yield derived by Malaysian REITs from leases of single-tenanted properties in Malaysia; and	Section 5.2.2
▪ evaluated effects from the 2% annual increment to rental amount after Year 1.	Section 5.2.3

(B) For the Succeeding Rental Term:-

▪ considered the parameters applied to rent review formula in the Succeeding Rental Term after the First Rental Term.	Section 5.2.4 and Section 5.2.5

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) <u>First Rental Term</u>

5.2.1 Valuation of the Properties

The Properties were appraised by Cheston as follows:-

Properties	District, State	Tenure (unexpired term [1])	Gross floor area (sq. ft.) [2]	Market value (RM)
APSH	Hulu Langat, Selangor	Leasehold (68.28 years)	420,294	157,000,000
DSH	Petaling, Selangor	Interest in perpetuity	446,493	135,000,000
JSH	Johor Bahru, Johor	Leasehold (58.13 years)	432,585	147,000,000
PSH	Johor Bahru, Johor	Leasehold (32.95 years)	126,754	51,000,000
SSH	Petaling, Selangor	Leasehold (75.47 years)	314,844	100,000,000
ISH	Kinta, Perak	Interest in perpetuity	347,189	122,000,000
				712,000,000

(Source: Valuation Reports)

(1) Only applicable for leasehold properties.
(2) Includes carparks and other ancillary buildings as detailed in Section 2.3 of Part A of Circular.

5.2.1.1 Valuation Approach

Cheston applied the profits method (discounted cash flow ("**DCF**")) under the income approach of valuation as the primary valuation methodology to value the Properties on the following bases:-

(a) The Properties are valued on a going concern basis as a fully operational private specialist hospital; and

(b) The Properties are open for business and trades to date of sale and has the benefit of, and conforms to, all necessary permits, licenses, certificates etc.

The market value of the Properties obtained from using the profits method (DCF) was cross-

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term

5.2.1 Valuation of the Properties

5.2.1.1 Valuation Approach (Cont'd)

Our Opinion

We note from paragraph 60.2 of the International Valuation Standards 400 Real Property Interests which specified that the income to the owner of a building which is suitable for only a particular type of trading activity is often related to the actual or potential cash flows accrued to the owner from the trading activity – applying the property's trading potential as indication of its value is frequently referred to as the profits method.

Based on the foregoing, we view that the profits method (DCF) adopted by Cheston for the Properties' valuation is reasonable from the perspective of the existing single-use of the Properties as private medical hospitals and the cost approach as a guide for check to the market value of the Properties.

5.2.1.2 DCF Parameters

We summarised below the following parameters under the profits method applied by Cheston:-

(a) 5-year profit forecast for the Properties calculated by Cheston based on the following key parameters:-

Area	Parameters applied by Cheston
Bed capacity and patients' turnover:	
(1) Available beds	▪ Based on the number of operational beds and 365 (366 for leap year) days per year.
(2) Bed occupancy rate ("**BOR**")	▪ Based on the Properties' 4-year BOR from year 2017 to year 2020 – lowest BOR reported in year 2020 by the Properties due to movement restrictions imposed by the Malaysian Government pursuant to the COVID-19 pandemic. ▪ Applied lower BOR base in the first (1st) year of the profit forecast in year 2021 on the basis that effects from the ongoing COVID-19 pandemic on the Properties' operations will continue in year 2021. ▪ Estimated BOR growth by 3.5% to 5% annually after year 2021.
(3) No. of inpatient days; and (4) Outpatients/ Inpatient ratio	▪ Based on the Properties' 3-year average number of inpatient days and outpatients-to-inpatients ratio from year 2017 to year 2019. ▪ Exempted year 2020 as benchmark for calculation.
Revenue	▪ Comprised consultant's and hospital's inpatient and outpatient revenue. ▪ Based on the Properties' 3-year average revenue per patient (inpatient or outpatient) from year 2017 to year 2019. ▪ Exempted year 2020 as benchmark for calculation.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term

5.2.1 Valuation of the Properties

The Properties were appraised by Cheston as follows:-

Properties	District, State	Tenure (unexpired term [1])	Gross floor area (sq. ft.) [2]	Market value (RM)
APSH	Hulu Langat, Selangor	Leasehold (68.28 years)	420,294	157,000,000
DSH	Petaling, Selangor	Interest in perpetuity	446,493	135,000,000
JSH	Johor Bahru, Johor	Leasehold (58.13 years)	432,585	147,000,000
PSH	Johor Bahru, Johor	Leasehold (32.95 years)	126,754	51,000,000
SSH	Petaling, Selangor	Leasehold (75.47 years)	314,844	100,000,000
ISH	Kinta, Perak	Interest in perpetuity	347,189	122,000,000
				712,000,000

(Source: Valuation Reports)

(1) Only applicable for leasehold properties.
(2) Includes carparks and other ancillary buildings as detailed in Section 2.3 of Part A of Circular.

5.2.1.1 Valuation Approach

Cheston applied the profits method (discounted cash flow ("**DCF**")) under the income approach of valuation as the primary valuation methodology to value the Properties on the following bases:-

(a) The Properties are valued on a going concern basis as a fully operational private specialist hospital; and

(b) The Properties are open for business and trades to date of sale and has the benefit of, and conforms to, all necessary permits, licenses, certificates etc.

The market value of the Properties obtained from using the profits method (DCF) was cross-checked against the market value of the Properties using the cost approach. The cost approach adopted by Cheston involves:-

(a) Deriving the market value of the land component using the comparison method – based on transactions of similar type of commercial land in terms of localities to that of the Properties';

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

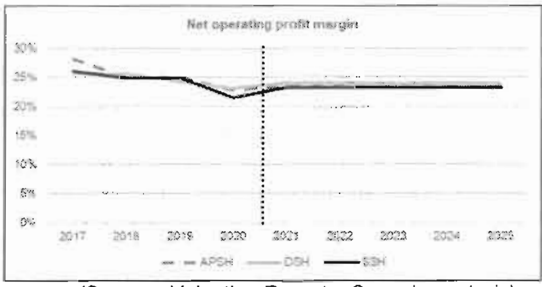
(A) First Rental Term (Cont'd)

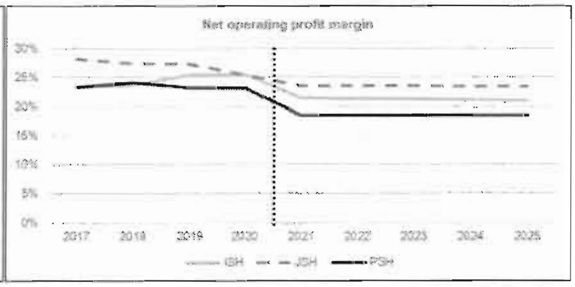
5.2.1.2 DCF Parameters (Cont'd)

Profit forecast parameters

Based on Cheston's key parameters, we note the following:

(a) Overall, the parameters applied to the profit forecast implied net operating profit margins which approximate the lower range of the Properties' historical net operating profit margins as shown below:-





(Source: Valuation Reports; Crowe's analysis)

Note:
For margin comparisons' consistency, net operating profit margins shown exclude allocation for incentive management fee and capital reserve fund for asset replacement.

(b) The comparatively lower net operating profit margins derived for the Properties over the 5-year projected period from year 2021 to 2025 ("**Projected Period**") as compared to their historical net operating profit margins before year 2020 is due to lower revenue from inpatients expected over the Projected Period – where a lower base BOR was applied at the onset of the Projected Period in year 2021 compared to historical BOR prior to year 2020 as shown below:-

	BOR				Estimated BOR
Properties	**2017**	**2018**	**2019**	**2020**	**2021 to 2025**
APSH	80%	73%	71%	45%	60% to 73%
DSH	57%	57%	62%	39%	51% to 62%
JSH	75%	70%	73%	49%	62% to 75%
PSH	72%	74%	82%	60%	59% to 72%
SSH	66%	64%	75%	46%	62% to 75%
ISH	91%	85%	79%	74%	67% to 77%

(Source: Valuation Reports - BOR rounded to nearest whole percentage)

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.2 DCF Parameters (Cont'd)

(c) The lower BOR base applied in year 2021 concurs with the Properties' inpatients' and outpatients' growth trend from year 2017 to 2020, where the Properties recorded marked decline in inpatients' traffic in year 2020 which may be due to effects from the movement restrictions imposed by the Malaysian Government to control the spread of COVID-19. We note further that whilst the Properties recorded an overall decline in patients' numbers in year 2020 as compared to the previous year, the decline in the number of inpatients is higher as compared to the decline in the number of outpatients across the Properties – hence resulting in higher outpatient-to-inpatient ratio in year 2020 as compared to the prior 3 years from year 2017 to 2019, as shown below:-

	2017	2018	2019	2020
APSH				
Y-o-y inpatients growth	-0.7%	0.3%	0.8%	-20.4%
Y-o-y outpatients growth	-2.9%	1.1%	0.4%	-0.3%
Outpatient : Inpatient	*7.9*	*7.9*	*7.9*	*9.9*
DSH				
Y-o-y inpatients growth	-1.7%	-2.6%	3.8%	-26.3%
Y-o-y outpatients growth	-6.5%	-7.1%	-1.2%	-4.8%
Outpatient : Inpatient	*11.2*	*10.7*	*10.2*	*13.1*
JSH				
Y-o-y inpatients growth	-2.3%	3.4%	7.2%	-28.0%
Y-o-y outpatients growth	2.8%	2.1%	0.8%	-10.8%
Outpatient : Inpatient	*8.0*	*7.9*	*7.4*	*9.2*
PSH				
Y-o-y inpatients growth	n/a	-1.5%	-2.3%	-32.6%
Y-o-y outpatients growth	n/a	4.6%	0.0%	-23.2%
Outpatient : Inpatient	*7.4*	*7.8*	*8.0*	*9.1*
SSH				
Y-o-y inpatients growth	0.2%	-4.9%	12.3%	-31.3%
Y-o-y outpatients growth	1.1%	0.3%	-3.2%	-2.5%
Outpatient : Inpatient	*9.6*	*10.2*	*8.8*	*12.4*
ISH				
Y-o-y inpatients growth	n/a	-0.8%	-2.5%	-22.7%
Y-o-y outpatients growth	n/a	4.5%	-2.1%	-17.6%
Outpatient : Inpatient	*9.5*	*10.1*	*10.1*	*10.8*

(Source: Valuation Reports; Crowe's analysis)
Legend: Y-o-y – Year-on-year

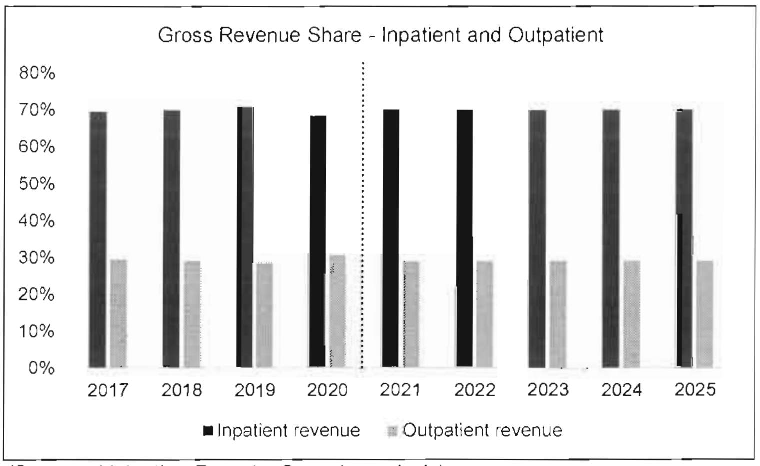
5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.2 DCF Parameters (Cont'd)

(d) We note that inpatient revenue contributed approximately 70% of the aggregate annual gross revenue for the Properties historically from year 2017 to 2020 – this trend is expected to remain over the Projected Period as shown below:-



(Source: Valuation Reports; Crowe's analysis)

Our Opinion

We view the bases applied by Cheston to derive the Properties' 5-year profit forecast are reasonable from our following considerations:-

(a) As at Cheston's valuation period in January 2021 on the Properties, movement restrictions were placed by the Malaysian Government to contain the spread of COVID-19. There is limitation as to the expected recovery in patients' patronage to the Properties in view of the prevailing COVID-19 pandemic. It would be reasonable to expect a gradual growth in the number of patients to the Properties after year 2020 as compared to patients' trend prior to year 2020.

(b) Based on the foregoing, the parameters used in the 5-year profit forecast over the Projected Period are reasonable from the financial perspective of the Properties.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.2 DCF Parameters (Cont'd)

Terminal capitalisation rate ranging from 8% to 11.25%

The longer the rights / lease to utilise a particular Property, the lower the discount rate applied to capitalise expected net income, as shown below:-

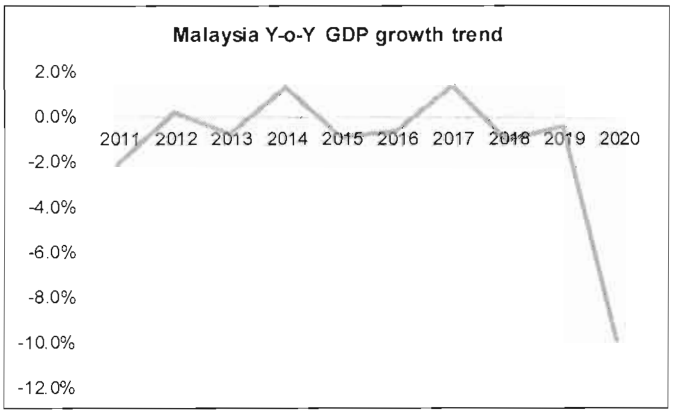
Properties	Tenure	Unexpired term [1] (years)	Terminal capitalisation rate
APSH	Leasehold	68.28	9.75%
DSH	Interest in perpetuity	n/a	8.00%
JSH	Leasehold	58.13	10.25%
PSH	Leasehold	32.95	11.25%
SSH	Leasehold	75.47	9.25%
ISH	Interest in perpetuity	n/a	8.00%

(Source: Valuation Reports)
(1) Only applicable for leasehold properties.
Legend: n/a – Not applicable

Discount rate

We note that the Malaysian annual gross domestic product ("**GDP**") growth over 10 years up to year 2020 implied an average contraction of 1.3% y-o-y, as shown below:-

Year	GDP growth	y-o-y GDP growth trend
2011	5.3%	-2.1%
2012	5.5%	0.2%
2013	4.7%	-0.8%
2014	6.0%	1.3%
2015	5.1%	-0.9%
2016	4.4%	-0.6%
2017	5.8%	1.4%
2018	4.8%	-1.0%
2019	4.3%	-0.5%
2020	-5.6%	-9.9%
Low	**-5.6%**	**-9.9%**
Average	**4.0%**	**-1.3%**
High	**6.0%**	**1.4%**



(Source: World Bank Group; Crowe's analysis)

The upward adjustment of 200 BPS (or 2%) applied by Cheston to derive discount rates used in the Properties' valuation is higher as compared to the average y-o-y contraction of 1.3% implied from the 10-year Malaysian annual GDP growth up to year 2020. We view that the 2% upward adjustment reasonably resonates the additional risk assumed in terms of the achievability of the Properties' future profits in relation to macroeconomic conditions which are not within the Lessees' control – it is reasonable to reflect a higher risk factor to account for the additional risk to the business (specifically) on the back of existing macroeconomic conditions.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.2 DCF Parameters (Cont'd)

Our Opinion

Based on the foregoing, we are of the view that the key determinants applied by Cheston in valuing the Properties are fair and reasonable.

5.2.1.3 Cost method

The valuation results from using the profits method were cross-checked using the cost approach. The cost approach applied by Cheston involved comparing the market value of the Properties derived from the profits method against the summation of the Properties' market values derived from:-

(a) the market value of the land component using the comparison method; and

(b) the market value of the building component calculated based on the DRC of the building.

Cheston noted that whilst the cost approach is based on costs which do not reflect the investment characteristics of the Properties and often do not reflect the highest and best use value of the Properties, it can provide a guide on the market value of the Properties – there are comparable properties for the land component and accurate cost of development available for the specific design and construction of private specialist medical centre. We view that as differences between the Properties as compared to the benchmark parameters (i.e. comparable properties for the land components and reference costs for the building components) might be significant and any adjustments are difficult, it is reasonable that the cost approach serves as a guide to the market value of the Properties and not as the primary approach to the valuation of the Properties.

The table below summarises the comparison between the market values of the Properties derived using the profits method (DCF) with market values derived based on the cost approach:-

Properties	Based on the profits method (RM)	Based on the cost approach (RM)
APSH	157,000,000	160,000,000
DSH	135,000,000	140,000,000
JSH	147,000,000	121,000,000
PSH	51,000,000	41,000,000
SSH	100,000,000	98,000,000
ISH	122,000,000	80,000,000
Total	**712,000,000**	**640,000,000**

(Source: Valuation Reports)

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

APSH

(a) Comparison method – Land component valuation

The transactions of commercial properties comparable to the Property is set out below:-

Description	APSH	<------ Comparable properties ------> 1	2	3	4
Location	Jalan Mamanda 9, Taman Dato' Ahmad Razali, 68000 Ampang, Selangor.	Jalan Metropolitan, Off Middle Ring Road 2	Jalan 3/50C, Off Jalan Genting Kelang, Kuala Lumpur	Fronts onto SILK Highway, Balakong Business Centre	Fronts onto Jalan 2, Chan Sow Lin
Land tenure	Leasehold (unexpired term 68.28 years)	Leasehold (unexpired term 94.25 years)	Leasehold (unexpired term 66.76 years)	Interest in perpetuity	Leasehold (unexpired term 79.33 years)
Land area (sq. ft.)	233,189 (surveyed land area)	238,098	26,738	102,569	37,900
Date of transaction/ Valuation	22 January 2021	23 July 2019	3 June 2019	16 November 2018	3 April 2017
Property type	A parcel of commercial land (Corner)	A parcel of commercial land (End)	A parcel of commercial land (Intermediate)	2 adjoining parcels of commercial land (Intermediate)	A parcel of development land potential for commercial use (Intermediate)
Base value (RM per sq. ft.)		398.00	488.10	414.35	480.00
Total adjustments [(1)]		20.3%	-1.8%	14.1%	-0.3%
Adjusted value (RM per sq. ft.)		**478.85**	**479.29**	**472.87**	**478.37**

(Source: Valuation Reports)

(1) Adjustment factors include amongst others, market condition, location and accessibility, corner/end premium, category of land use/express condition, planning approval/development order, size, tenure, and restriction in interest.

We note the lack of homogeneity from the comparable properties in terms of amongst others, location, land area and property type, as compared to the Property. Cheston selected Comparable 4 as benchmark to derive the market value of the land component for the Property on the basis that it has the least dissimilarities to the Property – we note that Comparable 4 has the lowest adjustment factor (i.e. least variance to the base value per sq. ft.) as compared to the other comparable properties. Based on the adjusted land value of RM478.37 per sq. ft., the market value for the **land** component for the Property is **RM111,550,365**.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) <u>First Rental Term (Cont'd)</u>

5.2.1.3 Cost method (Cont'd)

<u>APSH</u>

(b) Cost method – Building component valuation

Cheston calculated the DRC of the Property's **building** component at **RM48,177,230** based on the gross current reproduction / replacement cost new ("**GCRCN**") for the building component estimated at RM114,707,690, and depreciated at 2% per annum based on the estimated building life of 50 years. We note that the 2% depreciation rate applied to derive the DRC for the Property's building component approximates KPJ's depreciation policy (*Source: KPJ's Annual Report 2019*). The market value for the Property based on the cost approach is thereby RM159,727,595 (i.e. Land component (RM111,550,365) add Building component (RM48,177,230)), rounded up to **RM160,000,000**.

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Crowe

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

DSH

(a) Comparison method – Land component valuation

The transactions of commercial properties comparable to the Property is set out below:-

Description	DSH	<------------ Comparable properties ------------> 1	2	3	4
Location	Jalan SS 20/10, Damansara Utama, Petaling Jaya, Selangor	Jalan 21/21, Section 21, Petaling Jaya, Selangor	Jalan Bukit Mayang Emas, Dataran Prima, Petaling Jaya, Selangor	Jalan 51A/223, Section 51A, Petaling Jaya	Jalan SS 2/113, SS 2, Petaling Jaya, Selangor
Land tenure	Interest in perpetuity	Interest in perpetuity	Interest in perpetuity	Leasehold (unexpired term 82 years)	Interest in perpetuity
Land area (sq. ft.)	180,521.53	149,597	35,930	420,912	44,143
Date of transaction/ Valuation	27 January 2021	6 December 2018	30 November 2018	22 December 2017	7 November 2017
Property type	A parcel of commercial land (Corner)	3 contiguous parcels of commercial land (Corner)	A parcel of commercial land (Corner)	2 parcels of commercial land (Corner)	A parcel of commercial land (Corner)
Base value (RM per sq. ft.)		334.23	600.00	380.13	557.00
Total adjustments [(1)]		20.0%	-27.5%	21.1%	-25.0%
Adjusted value (RM per sq. ft.)		**401.08**	**435.00**	**460.30**	**417.75**

(Source: Valuation Reports)

(1) Adjustment factors include amongst others, market condition, location and accessibility, corner/end premium, category of land use/express condition, planning approval/development order, size, tenure and restriction in interest.

We note the lack of homogeneity from the comparable properties in terms of amongst others, land area, as compared to the Property. Cheston selected Comparable 1 as benchmark to derive the market value of the land component for the Property on the basis that it has the least dissimilarities to the Property – we note that Comparable 1 has the lowest adjustment factor (i.e. least variance to the base value per sq. ft.) as compared to the other comparable properties. Based on the adjusted land value of RM401.08 per sq. ft., the market value for the **land** component for the Property is **RM72,403,256**.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

DSH

(b) Cost method – Building component valuation

Cheston calculated the DRC of the Property's **building** component at **RM67,422,877** based on the GCRCN for the building component estimated at RM124,857,179, and depreciated at 2% per annum based on the estimated building life of 50 years – the depreciation parameter approximates KPJ's depreciation policy (*Source: KPJ's Annual Report 2019*). The market value for the Property based on the cost approach is thereby RM139,826,133 (i.e. Land component (RM72,403,256) add Building component (RM67,422,877)), rounded up to **RM140,000,000**.

JSH

(a) Comparison method – Land component valuation

Transactions of commercial properties comparable to the Property is set below:-

		<---------- Comparable properties --------->			
Description	**JSH**	**1**	**2**	**3**	**4**
Location	Jalan Abdul Samad, Johor Bahru, Johor	Off Jalan Tampoi, Damansara Aliff, Johor Bahru, Johor	Off Persisiran Perling, Taman Perling, Johor Bahru, Johor	Jalan Tampoi, Bandar Baru Uda, Johor Bahru, Johor	Jalan Ah Siang, Taman Stualang Laut, Johor Bahru, Johor
Land tenure	Leasehold (unexpired term 58.13 years)	Interest in perpetuity	Interest in perpetuity	Leasehold (unexpired term 84.32 years)	Interest in perpetuity
Land area (sq. ft.)	217,800	486,988	223,900	255,320	22,216
Date of transaction/ Valuation	25 January 2021	28 November 2018	16 October 2018	26 April 2018	14 February 2018
Property type	A parcel of commercial land (Intermediate)	A parcel of commercial land (Intermediate)	A parcel of commercial land (Corner)	2 adjoining parcels of commercial land (Corner)	A parcel of commercial land (Intermediate)
Base value (RM per sq. ft.)		133.47	133.99	149.99	250.00
Total adjustments[(1)]		14.9%	10.0%	8.5%	-38.2%
Adjusted value (RM per sq. ft.)		**153.35**	**147.36**	**162.79**	**154.42**

Source: Valuation Reports)

(1) Adjustment factors include amongst others, market condition, location and accessibility, corner/end premium, category of land use/express condition, planning approval/development order, size, tenure and restriction in interest.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

JSH

(a) Comparison method – Land component valuation (Cont'd)

We note the lack of homogeneity from the comparable properties in terms of amongst others, location, land tenure, land area and property type, as compared to the Property. Cheston selected Comparable 3 as benchmark to derive the market value of the land component for the Property on the basis that it has the least dissimilarities to the Property – we note that Comparable 3 has the lowest adjustment factor (i.e. least variance to the base value per sq. ft.) as compared to the other comparable properties. Based on the adjusted land value of RM162.79 per sq. ft., the market value for the **land** component for the Property is **RM35,455,941**.

(b) Cost method – Building component valuation

Cheston calculated the DRC of the Property's **building** component at RM85,233,916 based on the GCRCN for the building component estimated at RM116,542,366, and depreciated at 2% per annum based on the estimated building life of 50 years – the depreciation parameter approximates KPJ's depreciation policy (*Source: KPJ's Annual Report 2019*). The market value for the Property based on the cost approach is thereby RM120,689,857 (i.e. Land component (RM35,455,941) add Building component (RM85,233,916)), rounded up to **RM121,000,000**.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

PSH

(a) Comparison method – Land component valuation

The transactions of commercial properties comparable to the Property is set out below:-

Description	PSH	<---------- Comparable properties ---------> 1	2	3	4
Location	Jalan Tun Abdul Razak (Susur 5), Johor Bahru, Johor	Off Jalan Tampoi, Taman Damansara Aliff, Johor Bahru, Johor	Off Persisiran Perling, Taman Perling, Johor Bahru, Johor	Jalan Tampoi, Bandar Baru Uda, Johor Bahru, Johor	Jalan Ah Siang, Taman Stualang Laut, Johor Bahru, Johor
Land tenure	Leasehold (unexpired term 32.95 years)	Interest in perpetuity	Interest in perpetuity	Leasehold (unexpired term 84.32 years)	Interest in perpetuity
Land area (sq. ft.)	104,109.58	486,988	223,900	255,320	22,216
Date of transaction/ Valuation	25 January 2021	28 November 2018	16 October 2018	26 April 2018	14 February 2018
Property type	A parcel of commercial land (Corner)	A parcel of commercial land (Intermediate)	A parcel of commercial land (Corner)	2 adjoining parcels of commercial land (Corner)	A parcel of commercial land (Intermediate)
Base value (RM per sq. ft.)		133.47	133.99	149.99	250.00
Total adjustments [(1)]		25.0%	17.6%	20.0%	-17.4%
Adjusted value (RM per sq. ft.)		**166.85**	**157.61**	**180.01**	**206.63**

Source: Valuation Reports)

(1) Adjustment factors include amongst others, market condition, location and accessibility, corner/end premium, category of land use/express condition, planning approval/development order, size, tenure and restriction in interest.

We note the lack of homogeneity from the comparable properties in terms of amongst others, location, land tenure, land area and property type, as compared to the Property. Cheston selected Comparable 4 as benchmark to derive the market value of the land component for the Property on the basis that it has the least dissimilarities to the Property – we note that Comparable 4 has similar adjustment factor (i.e. in terms of variance to the base value per sq. ft.) as compared to the other comparable properties. Based on the adjusted land value of RM206.63 per sq. ft., the market value for the **land** component for the Property is **RM21,512,294**.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

PSH

(b) Cost method – Building component valuation

Cheston calculated the DRC of the Property's **building** component at **RM19,505,396** based on the GCRCN for the building component estimated at RM39,400,245, and depreciated at 2% per annum based on the estimated building life of 50 years – the depreciation parameter approximates KPJ's depreciation policy *(Source: KPJ's Annual Report 2019)*. The market value for the Property based on the cost approach is thereby RM41,017,690 (i.e. Land component (RM21,512,294) add Building component (RM19,505,396)), rounded down to **RM41,000,000**.

SSH

(a) Comparison method – Land component valuation

The transactions of commercial properties comparable to the Property is set out below:-

Description	SSH	<------ Comparable properties			------>
		1	2	3	4
Location	Jalan Singa 20/1, Section 20, Shah Alam, Selangor	Along Persiaran Perbandaran	Along Jalan Rugbi 13/30 at Persiaran Sukan	Along Jalan 14/3	Along Jalan 3/9A
Land tenure	Leasehold (unexpired term 75.47 years)	Leasehold (unexpired term 78.94 years)	Leasehold (unexpired term 81.04 years)	Leasehold (unexpired term 78.94 years)	Leasehold (unexpired term 64.16 years)
Land area (sq. ft.)	204,342	111,557	134,893	107,413	32,421
Date of transaction/ Valuation	26 January 2021	8 May 2020	28 May 2019	31 December 2018	28 February 2018
Property type	A parcel of commercial land (Corner lot) with single access	A parcel of commercial land (Intermediate lot) with dual access	A parcel of commercial land (Corner lot) with dual access	A parcel of commercial land (Corner lot) with triple access	A parcel of commercial land (Intermediate lot) with single access
Base value (RM per sq. ft.)		286.85	281.70	316.54	234.42
Total adjustments [1]		-5.9%	-9.0%	-20.8%	6.1%
Adjusted value (RM per sq. ft.)		**269.91**	**256.41**	**250.64**	**248.77**

Source: Valuation Reports)

(1) Adjustment factors include amongst others, market condition, location and accessibility, corner/end premium, category of land use/express condition, planning approval/development order, size, tenure and restriction in interest.

Crowe

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

SSH

(a) Comparison method – Land component valuation (Cont'd)

We note the lack of homogeneity from the comparable properties in terms of amongst others, land area and property type, as compared to the Property. Cheston selected Comparable 1 as benchmark to derive the market value of the land component for the Property on the basis that it has the least dissimilarities to the Property – we note that Comparable 1 has the lowest adjustment factor (i.e. least variance to the base value per sq. ft.) as compared to the other comparable properties. Based on the adjusted land value of RM269.91 per sq. ft., the market value for the **land** component for the Property is **RM55,154,160**.

(b) Cost method – Building component valuation

Cheston calculated the DRC of the Property's **building** component at **RM43,101,781** based on the GCRCN for the building component estimated at RM76,944,472, and depreciated at 2% per annum based on the estimated building life of 50 years – the depreciation parameter approximates KPJ's depreciation policy (*Source: KPJ's Annual Report 2019*). The market value for the Property based on the cost approach is thereby RM98,255,941 (i.e. Land component (RM55,154,160) add Building component (RM43,101,781)), rounded down to **RM98,000,000**.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.1.3 Cost method (Cont'd)

ISH

(a) Comparison method – Land component valuation

The transactions of commercial properties comparable to the Property is set out below:-

Description	ISH	<------------------------ Comparable properties		---------------------->	
		1	2	3	4
Location	Jalan Raja Dihilir, Ipoh, Perak	Off Jalan Sultan Abdul Jalil	Along Jalan Sultan Nazrin Shah	Along Jalan Sultan Nazrin Shah	Along Jalan Raja Dihilir
Land tenure	Interest in perpetuity	Interest in perpetuity	Interest in perpetuity	Leasehold (unexpired term 85 years)	Interest in perpetuity
Land area (sq. ft.)	142,116	21,834	41,627	73,834	46,963
Date of transaction/ Valuation	25 January 2021	6 March 2019	8 August 2018	10 April 2018	10 July 2017
Property type	A parcel of commercial land (Intermediate)	A parcel of development land potential for commercial use (Intermediate)	A parcel of development land potential for commercial use currently being used as car park (Corner)	A parcel of commercial land (Corner)	A parcel of development land potential for commercial use (Intermediate)
Base value (RM per sq. ft.)		165.00	211.40	185.81	190.00
Total adjustments [(1)]		22.5%	-7.5%	6.0%	2.5%
Adjusted value (RM per sq. ft.)		**202.12**	**195.55**	**196.91**	**194.75**

Source: Valuation Reports)

(1) Adjustment factors include amongst others, market condition, location and accessibility, corner/end premium, category of land use/express condition, planning approval/development order, size, tenure and restriction in interest.

We note the lack of homogeneity from the comparable properties in terms of amongst others, land area and property type, as compared to the Property. Cheston selected Comparable 4 as benchmark to derive the market value of the land component for the Property on the basis that it has the least dissimilarities to the Property – we note that Comparable 4 has the lowest adjustment factor (i.e. least variance to the base value per sq. ft.) as compared to the other comparable properties. Based on the adjusted land value of RM194.75 per sq. ft., the market value for the **land** component for the Property is **RM27,677,119**.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) <u>First Rental Term (Cont'd)</u>

5.2.1.3 Cost method (Cont'd)

<u>ISH</u>

(b) Cost method – Building component valuation

Cheston calculated the DRC of the Property's **building** component at RM52,147,300 based on the GCRCN for the building component estimated at RM97,417,113, and depreciated at 2% per annum based on the estimated building life of 50 years – the depreciation parameter approximates KPJ's depreciation policy *(Source: KPJ's Annual Report 2019)*. The market value for the Property based on the cost approach is thereby RM79,824,419 (i.e. Land component (RM27,677,119) add Building component (RM52,147,300)), rounded up to **RM80,000,000**.

We noted that the market value for the Property based on the cost approach at RM80,000,000 is considerably lower as compared to the market value for the Property derived from using the profits method of RM122,000,000. This reasonably resonates concerns in terms of the lack of homogenous assets to compare against the Property which in turn renders difficulty in adjusting base values of transacted properties used as a measure for comparison – the comparable properties used in the comparison method for the Property lacks similarity in terms of land size and property type.

<u>Our Opinion</u>

Based on the foregoing, we opine that:

(a) the valuation approach used by Cheston – profits method (DCF) as the primary valuation methodology with cost approach as check to derive the market values for the Properties is fair and reasonable from the perspective of the single tenancy and usage of Properties by the Lessee, where the expected income (returns) to the Lessor from owning the Properties are influenced by the expected profits (net cash flow) from the Properties' activity as private medical hospitals; and

(b) the parameters and key determinants applied by Cheston in valuing the Properties are reasonable and as such, we are satisfied with market value appraisements of the Properties conducted by Cheston.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.2 Evaluation on Rental Yield of 5.75%

The minimum rental yield of 5.75% under the Proposed Lease Renewal represents the gross yield to Al-'Aqar – the net yield to Al-'Aqar is approximately 5.40% as laid out in Section 2.5 of Part A of Circular, after deducting expenses relating to the Properties such as quit rent and assessment, takaful and property management expenses. We compared the gross rental yield of 5.75% from the Proposed Lease Renewal against gross yields for REITs listed on Bursa Securities with the following key criteria:-

(a) focus on REITs profile with single-tenanted properties in Malaysia – on basis that the nature of these assets are applied towards a specific type of trading activity and of single use; and

(b) that these properties are located in Malaysia.

Our observation is shown below:-

REITs	Year end	Portfolio description	Gross yield	Net yield
Proposed Lease Renewal	**n/a**	**Portfolio of 6 Properties.**	**5.75%**	**5.40%**
Al-'Aqar REIT	31 December 2020	Property portfolio comprised healthcare assets.	7.18%	6.77%
Axis REIT	31 December 2020	74% of property portfolio comprised single-tenanted properties, specifically logistics warehouse, manufacturing facility and hypermarket.	8.73%	7.97%
Atrium REIT	31 December 2020	Holds industrial properties where 6 out of 7 properties are single-tenanted.	7.42%	6.95%
YTL Hospitality REIT	30 June 2020	Property portfolio mainly comprised hotels – 10 hotels out of 15 hotels held are located in Malaysia.	6.32%	5.99%
Sunway REIT	30 June 2020	53% of property portfolio comprised single-tenanted properties, specifically medical centres, hotels, education asset and industrial property.	5.71%	5.58%
		Minimum	**5.71%**	**5.58%**
		Average	**7.07%**	**6.65%**
		Maximum	**8.73%**	**7.97%**

(Source: Latest annual reports for the respective REITs; Crowe's analysis based on key criteria ascribed above)

The gross rental yield of 5.75% is within the range of gross yield of 5.71% to 8.73% registered for single-tenanted properties in Malaysia held by Malaysian REITs as derived from these portfolios.

Pursuant to the Lease Agreements, quit rent and assessments of the Properties are payable by Al-'Aqar, hence we view that the gross rental yield of 5.75% applied to the Proposed Lease Renewal is fair – it is within the range of gross yields generated from single-tenanted properties in Malaysia which are used for a specific type of trading activity.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(A) First Rental Term (Cont'd)

5.2.3 Evaluation on 2% incremental of Rent amount for Year 2 and Year 3

The amount of rental to be paid in the second (2nd) year and third (3rd) year in the First Rental Term is 2% higher as compared to in the precedent year (in RM) where the basis of the 2% incremental was arrived at to consider for inflation (consumer price index used as indicator as laid out in Section 2.5 of Part A of Circular). Based on the aggregate market value of the Properties ascribed by Cheston using the profits method of RM712,000,000, the aggregate effects from this annual 2% increase in rental payment in Year 2 and Year 3 of the First Rental Term is shown below:-

First Rental Term	Rental payment (RM)	Yield (3)
Year 1	40,940,000 (1)	5.75%
Year 2	41,758,800 (2)	5.87%
Year 3	42,593,976 (2)	5.98%

(Source: Crowe's analysis)

(1) Calculated at 5.75% of the Properties' aggregate market value of RM712,000,000.
(2) Calculated at 2% increase of rental paid in the precedent year.
(3) Gross yield based on the Properties' aggregate market value of RM712,000,000.

The gross yield of 5.87% and 5.98% implied from Year 2 and Year 3 respectively is within the range of gross yield of 5.71% to 8.73% registered by single-tenanted properties held by Malaysian REITs specified in Section 5.2.2 of the IAL and is below the average gross yield of 7.07% derived from these portfolios.

Based on our assessment above, we view that the 2% annual increase in rental amount after Year 1 of the First Rental Term is fair, reasonable and not detrimental to KPJ Group and its shareholders from the perspective of the rental yields generated by comparable assets in the Malaysian market.

Our Opinion – First Rental Term

We opine that the considerations used to determine the rental rate for the First Rental Term of the Proposed Lease Renewal are fair and reasonable from our following observations:-

(a) The valuation approach used by Cheston to derive the market values for the Properties is fair and reasonable from the perspective of the single (sole) trading activity of the Properties as private medical hospitals;

(b) The rental yield of 5.75% applied in the first year of the First Rental Term is fair – it is within the range of gross yield derived from single-tenanted properties in Malaysia held by other Malaysian REITs; and

(c) The 2% annual increase in rental amount in the 2nd and 3rd year of the First Rental Term is reasonable from the perspective of the overall resultant effect as compared to rental yield derived by comparable properties in the Malaysian market.

Crowe

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(B) <u>Succeeding Rental Term</u>

5.2.4 Comparing the minimum rental yield of 5.75% against the aggregate of MGS

The base rate applied towards the prevailing Open Market Value of the Properties at every 1st year of Succeeding Rental Term is based on the higher of either rate:-

(i) MGS + 200 BPS; or
(ii) 5.75%.

The minimum rental yield of 5.75% within the mid-range of the aggregate of 10-year MGS yield (last reported in each year) add 200 BPS over the last 10 years up to the LPD of 30 April 2021 as shown below:-

As at	MGS yield	MGS yield add 200 BPS
30 December 2010	4.00%	6.00%
30 December 2011	3.69%	5.69%
31 December 2012	3.48%	5.48%
31 December 2013	4.11%	6.11%
31 December 2014	4.08%	6.08%
31 December 2015	4.17%	6.17%
30 December 2016	4.22%	6.22%
29 December 2017	3.91%	5.91%
31 December 2018	4.07%	6.07%
31 December 2019	3.30%	5.30%
31 December 2020	2.65%	4.65%
30 April 2021	3.11%	5.11%
	Minimum	**4.65%**
	Average	**5.73%**
	Maximum	**6.22%**

(Source: Bloomberg; Crowe's analysis)

The gross rental yield of 5.75% is within the range of aggregate MGS add 200 BPS calculated over 10 years up to the LPD of 4.65% to 6.22%.

The prevailing Open Market Value of the Properties applied at the 1st year of every Succeeding Rental Term is fair and reasonable as it considers any changes in the condition of the Properties to reflect market conditions impacting the Properties' value at the point of review every three (3) years.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.2 Basis and Justification of the Rental Rate (Cont'd)

(B) Succeeding Rental Term (Cont'd)

5.2.5 Maximum lease rental adjustment of 2% increase

We observed also that excluding annual cut-off periods where the aggregate MGS add 200 BPS fell as compared to the precedent annual cut-off, any upward movement in this parameter over the last 10 years up to the LPD was between 0.81% to 11.50% as shown below:-

As at	MGS yield add 200 BPS	y-o-y fluctuation
30 December 2010	6.00%	n/a
30 December 2011	5.69%	-5.17%
31 December 2012	5.48%	-3.69%
31 December 2013	6.11%	11.50%
31 December 2014	6.08%	-0.49%
31 December 2015	6.17%	1.48%
30 December 2016	6.22%	0.81%
29 December 2017	5.91%	-4.98%
31 December 2018	6.07%	2.71%
31 December 2019	5.30%	-12.69%
31 December 2020	4.65%	-12.26%
30 April 2021	5.11%	9.89%
Excluding downward fluctuations:		
Minimum		**0.81%**
Average		**5.28%**
Maximum		**11.50%**

(Source: Crowe's analysis)

The maximum lease rental adjustment for each year rental amount pegged at 2% of the precedent year's rental amount serves as a safeguard to KPJ against potential upward fluctuation to the aggregate determinant of 10-year MGS yield add 200 BPS used in the Proposed Lease Renewal – it is lower as compared to the historical average increase registered by this parameter of 5.28%.

Our Opinion – Succeeding Rental Term

Based on the foregoing, we opine that the parameters used to determine the rental rate for the Succeeding Rental Term of the Proposed Lease Renewal are fair, reasonable and not detrimental to KPJ Group and its shareholders.

5.2.6 Conclusion

Based on our assessments in Section 5.2.1 to Section 5.2.5 of the IAL, we opine that the rental rate under the Proposed Lease Renewal is fair and reasonable from the financial perspective of the Properties and the determinants used are within the available market benchmarks.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements

The salient terms of the Lease Agreements are set out in Section 2.4 of this Circular. Our comments on the salient terms are as follows:-

Salient Terms	Crowe's Comments
Lease of Properties The Lessor agrees to lease the Properties to the Lessees and the Lessees agree to accept the lease of the Properties over the Contractual Term with an option to renew for another fifteen (15) years ("**Extended Contractual Terms**") on 'as is where is' basis together with the use and enjoyment of the assets listed in the Lease Agreements.	We noted that the tenure of the contractual period of fifteen (15) years with an option to renew for another fifteen (15) years are similar to the previous arrangement under the Principal Lease Agreements. We are of the view that the long-term nature of the contractual period is reasonable and not detrimental to the KPJ Group with due consideration that:- (i) it provides long-term commitment by Al-`Aqar to make available the locations where the Properties are strategically in line with the KPJ Group's diversified portfolio reach as a healthcare provider (as detailed in Section 5.1 of this IAL) and this acts as a form of security to the benefit of the KPJ Group's operations that are already in existence and embedded into the surrounding communities where the Properties are located; and (ii) over the years of occupying the premises, the KPJ Group had also invested in expansion and renovation costs on the Properties for the expansions of their businesses - of which the KPJ Group is still utilising in benefitting their operations.
Use of Properties The parties hereby 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.	At present, the Properties are operating as hospitals and the Management has no intention for the Properties to be utilised as any other purpose other than as healthcare facilities hence it is fair and reasonable that the parties stipulated the permitted use as such in the Lease Agreements.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
<u>Conditions of the Lease Agreements</u>	
The parties hereby acknowledge and agree that notwithstanding the date of execution of the Lease Agreements, the lease is conditional whereby the lease commencement date of 30 June 2021 shall be effective upon the occurrence of the following:- (a) the approval of the unitholders of Al-`Aqar being obtained in respect of the Proposed Lease Renewal; and (b) the approval of the shareholders of the Lessee's ultimate holding company, KPJ, being obtained in respect of the Proposed Lease Renewal. The Parties hereby agree that the Lease Agreements will be executed in escrow and will only be dated upon fulfilment of the conditions set out above. The Parties hereby authorise the solicitors for the solicitors of the Lessor and the Manager to hold copies of the Lease Agreements duly executed by the parties in escrow in its custody until such time the conditions set out above are fulfilled, and thereafter, the Lessor's solicitors shall forward the copies of the agreements duly executed by the parties in escrow to the solicitors for the Lessees for them to arrange the adjudication and stamping of the same.	The Conditions are ordinary terms that are typical to the transaction of such nature to ensure the necessary compliance with the requirements imposed by the relevant regulatory authorities to give effect to the Proposed Lease Renewal. Through an exchange of letter dated 6 April 2021 between KPJ, ART and DRMSB that constituted as binding obligations of the parties, it is agreed that the Lease Agreements are executed in escrow and for the Lease Agreements to take effect only upon such time that the conditions of the Lease Agreements ("**Conditions**") are fulfilled. The parties had on even date, executed the Lease Agreements in escrow. In the event that the Proposed Lease Renewal materialises, this is to facilitate KPJ's stamp duty arrangement to present the Lease Agreements for stamping within the required thirty (30) days as laid out in the Stamp Act, 1949 without needlessly incurring penalties due to timing technicalities. Due to the nature of due process required in compliance with regulatory requirements, there will be a time gap of exceeding the thirty (30) days stipulated under the Stamp Act, 1949. Based on the above, we are of the opinion that the Conditions and the terms of which the Lease Agreements are executed in escrow were reasonable and not detrimental to the non-interested shareholders of KPJ.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

<table>
<tr><th>Salient Terms</th><th>Crowe's Comments</th></tr>
<tr>
<td>
<u>Rental Formula for Rental Amount</u>
The rent shall be denominated in RM and the formula for determination of the rent in relation to the Proposed Lease Renewal are as follow:-
<u>Rent formula for First Rental Term</u>
<table>
<tr><td>1st year</td><td>5.75% per annum x Open Market Value of Properties</td></tr>
<tr><td>2nd and 3rd year</td><td>2% incremental increase x the rent for the preceding year</td></tr>
</table>
<u>Rent review formula for every Succeeding Rental Terms</u>
<table>
<tr><td>1st year of every Succeeding Rental Term

(Years 4, 7, 10 and 13)</td><td>MGS + 200 BPS x Open Market Value of the Properties, at the point of review subject to:

(a) a minimum rent of five point seven five percent (5.75%) per annum x prevailing Open Market Value of the Properties or the rent payable for the 1st year of the first rental term of the Properties, whichever is higher; and
(b) any adjustment to the rent shall not be more than 2.0% incremental increase over the rent for the preceding year which shall be in RM</td></tr>
<tr><td>2nd & 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 which shall be in RM</td></tr>
</table>
</td>
<td>
The rent formula and the rent review formula throughout the Contractual Term were mutually agreed between the parties.
<u>Rent formula for First Rental Term</u>
For the first year, the total rent amounted to RM40.94 million based on rent formula where:
(a) 5.75% per annum denotes the gross rental yield; and
(b) the Open Market Value being the market value of the Properties as ascribed by Cheston in the Valuation Reports.
The gross rental yield of 5.75% is within the range of 5.7% to 8.7% of selected single-tenanted properties for a specific type of use in Malaysia as set out in further details in Section 5.2.2 of this IAL. The use of fair value of the Properties in the rent formula is reasonable to reflect the current market rental rate.
It is common market practice for transactions of such nature for increase in rental rates from the Base Rent. It is reasonable that the 2% incremental increase represents the maximum limit of percentage increase yearly to the Lessees as further set out in Section 5.2.3 of this IAL for details of our evaluation. We are of the view that the 2% annual increase from the preceding year's rent in the 2nd and 3rd year is fair, reasonable and not detrimental to KPJ Group and its shareholders.
<u>Rent review formula for every Succeeding Rental Terms</u>
We noted that the formula for Succeeding Rental Terms is similar to the Principal Lease Agreements, save for:
(a) MGS + 200 BPS at the point of review instead of MGS + 238 BPS for the 1st year to reflect the current inflationary rate of change at present time; and
</td>
</tr>
</table>

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
Rental Formula for Rental Amount (Cont'd)	Rent review formula for every Succeeding Rental Terms (Cont'd) (b) the minimum rental yield of 5.75% per annum to reflect the current market rental yield when the Lease Agreements are entered into as compared to 7.10% per annum. We are of the view that the rent review formula employed in the Lease Agreements is fair and reasonable with our evaluation on the basis and justification of the rent review formula as set out in Sections 5.2.4 to Section 5.2.5 of this IAL. We would also highlight that the base of which the rent review formula is used where the prevailing Open Market Value of the Properties are applied to at 1st year of every Succeeding Rental Term is fair and reasonable to reflect the market conditions of the Properties at the point of review (every three (3) years). Based on the above, we are of the opinion that the rent formula for First Rental Term and the rent review formula for every Succeeding Rental Terms are fair, reasonable and not detrimental to the KPJ Group and its shareholders.
Lessor's and/or Manager's Covenant (1) Lessor's Covenant The Lessor shall, amongst others, during the Contractual Term:- (a) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which are now or during the Contractual Term shall be falling due in respect of or charged, assessed or imposed upon the Properties; (b) pay for quit rent and assessment of the Properties;	This term on the Lessor's covenant, and where relevant, the Manager's covenant, in relation to outgoing charges is fair and reasonable as the Lessor is the registered owner of the Properties and hence the responsibilities for the charges pertaining to the land and building of the Properties lie with the Lessor. For avoidance of doubt, the general upkeep and maintenance of the Properties such as, amongst others, interior flooring, walls and ceiling surface, light fittings and general cleaning are the responsibilities of the Lessees at their own cost and expense.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
<u>**Lessor's and/or Manager's Covenant (Cont'd)**</u> (c) pay for all rates, taxes, assessments, duties, charges, impositions, levies and outgoings which are now or during the Contractual Term shall be falling due in respect of or charged, assessed or imposed upon the Properties; (d) pay for quit rent and assessment of the Properties; (e) upon receipt of the notice from the Lessees specifying the item(s) required for total replacement, be responsible to make good any major repair or total replacement of the Lessor's fixtures and fittings attached to the Properties; (f) in the event the Lessor's fixtures and fittings are irreparable through or by means of normal and routine repairs, the Lessor shall replace such items within reasonable time, at the cost and expense of the Lessor; and (g) shall at its own cost and expense, carry out structural repairs and works necessary to maintain the external and internal structure of the Properties in good tenantable condition and such structural repairs and works as may be required by the local or relevant authorities or under relevant building regulations; and (h) shall at its own expense maintain takaful coverage for fire, loss of rent and public liability takaful in respect of the Properties.	

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
<u>Lessor's and/or Manager's Covenant (Cont'd)</u> (2) <u>Lessor's and/or Manager's Covenant</u> In addition to the Lessor's covenant under above, the Lessor and/or the Manager shall, amongst others, during the Contractual Term:- (a) effect and 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 at the Lessor's cost and expense; and (b) shall appoint and pay to the maintenance manager during the Contractual Term for the maintenance and management services rendered by the maintenance manager with respect to the Properties in accordance with the terms of the property management agreement or maintenance management agreement to entered into between the Lessor, the Manager and the maintenance manager.	
<u>Lessees' Covenant in relation to repairs, cleaning, decoration & etc</u> The Lessees shall keep the Properties in good and tenantable repair and maintenance. The Lessees shall also be responsible for all costs of all services and maintenance charges (where applicable) related to the Properties that the Lessees are responsible for during the Contractual Term.	The terms of Lessees' covenants in relation to outgoing charges as detailed out in Section 2.4.6 of Part A of the Circular are typical and a norm in transactions of similar nature. We would like to also highlight that the Lessees are liable to pay for the ad valorem stamp duty in relation to the Lease Agreements which is a common industry practice for transactions of such nature.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
Expansion In the event that the Lessees requests and the Lessor and/or the Manager agree to meet the expansion requirements of the Lessees through expansion, the Lessees may make the necessary arrangements, coordinate, manage, monitor and supervise any major structural alterations or additions to the Properties or work which may affect or may be likely to affect the:- (a) structure of the Properties (including but not limited to the roof and the foundation); or (b) mechanical or electrical installations of the Properties; or (c) provisions of any services in or to the Properties. The Lessees shall bear the development costs and expenses for, and related to the expansion and shall be solely responsible to procure the financing for the expansion. Upon completion of the expansion, the Lessees shall provide the Lessor with the breakdown of the final development costs of the expansion and the Lessor shall make full payment of the final development cost of the expansion subject to the cost to be agreed by the parties and verification by the Manager of the following items:- (a) the Certificate of Completion and Compliance for the expansion issued by the appropriate authority, if any; (b) the value of the expansion as recommended by an independent valuer (appointed by the Lessor at its own cost and expense) via the valuation report by the said independent valuer;	The expansion term provides the Lessees an avenue for renovation and/or refurbishment works within the buildings and/or attached to the buildings of the Properties. This is to the benefit of the Lessees to cater for any possible future expansions to increase hospitals' capacities that may be required in supporting the Lessees' operations at the Properties. The Lessees are entitled to be reimbursed on the final development costs by Al-`Aqar immediately after the completion of the expansion, subject to verification by DRMSB of the development costs and pertinent documentations as summarised below: (a) where applicable, the certificate of completion and compliance for the expansion; (b) the development costs of the expansion that shall be agreed by both parties as supported by: - the recommendation by an independent valuer appointed by the Lessor at Lessor's own costs on the value of the expansion; - the report by the project consultant of the details of the expansion together with the final development costs as verified by an independent quantity surveyor appointed by the Lessor at the Lessor's own costs; and any other supporting documentary evidence required in relation to the claims for the final development costs. Upon reimbursement by Al-`Aqar to the Lessees, the development costs of the expansion will be taken in as variation of rental.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
<u>**Expansion (Cont'd)**</u> (c) the report prepared by the project consultant of the expansion as verified by an independent quantity surveyor (appointed by the Lessor at the Lessor's own cost and expense); and (d) all supporting claims, invoices and documents verifying the final development costs of the expansion.	(Cont'd) We are of the view that this term is fair and reasonable given that it is to the choice of the Lessees in the event they require the expansion and any development costs will be subsequently reimbursed and embedded in the rent payable by the Lessees which will be utilising the expansion.
New Development of the Land The Lessor grants the Lessees the right to undertake new development, including but not limited to, the planning, design, and construction of building(s), carpark and/or other structures on the Land (as defined in the Lease Agreements) or any part thereof complete with inter alia the interior design, the landscape and the infrastructures related thereto ("**New Development**") at the Lessees' own cost and expenses for the Lessees' business operations, subject to the following:- (a) the Lessees shall provide the details of the New Development for approval of the Lessor and the Manager; and (b) the Lessees shall obtain the approval from the relevant appropriate authority or authority for the New Development; prior to the commencement of the New Development.	Before commencing the New Development, it is deemed fair that the Lessees are to obtain approvals from Al-`Aqar and DRMSB, as the rightful owner and manager of the Properties as well as from the relevant authorities required.  In the event that the New Development is to be acquired by Al-`Aqar, subject to the fulfilment of the conditions as set out in the Lease Agreements, the acquisition price shall be mutually agreed by both the Lessor and Lessee, hence it is fair and reasonable for all parties involved. Upon the completion of the acquisition of the New Development, a new lease agreement or supplemental lease agreement will be entered into with the Lessor and the Manager for the lease back of the New Development where the rent payable by the Lessees shall be revised to include the New Development. It is fair and reasonable to reflect the additional floor space arising from the New Development.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
New Development of the Land (Cont'd) The parties agree that the New Development may be acquired by the Lessor subject to fulfilment of the conditions in the Lease Agreements as set out in:- (a) the Certificate of Completion and Compliance for the New Development has been duly issued and obtained by the Lessees; (b) the Lessor and the Lessees have mutually agreed on the acquisition price for the New Development to be satisfied by the Lessor based on the following:- (i) where required, the valuation report of the New Development issued by the independent valuer(s) (appointed jointly or severally by the Lessor and/or the Lessees) pursuant to a valuation exercise on the New Development and the valuation reports shows the true and fair value or open market value of the New Development and justifies the acquisition price; and/or (ii) the documentary evidence which verifies the final construction costs incurred by the Lessees for the New Development issued by an independent quantity surveyor appointed by the Lessees; and/or (iii) building audit report following the conclusion of a building inspection and audit exercise conducted on the New Development by a building audit consultant appointed by the Lessor at its own cost and expense to verify the condition, state, nature and character of the New Development and the Lessor is satisfied with the outcome of the building audit and the contents of the aforesaid building audit report;	(Cont'd) In the event that the acquisition of the New Development does not materialise, the Lessees will continue to benefit from utilisation of the new development without a variation to the rent payable, until the completion of the acquisition of the New Development by Al-`Aqar.

Crowe

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
New Development of the Land (Cont'd) (c) approval of the board of directors of the Trustee, the Manager and where required, approval of the unitholders of the Lessor; and (d) approval of the board of directors and shareholders of the Lessees.	
Event of Default and Termination Event of Default Section 2.4.9.1 of Part A of the Circular set out the detailed list of the events of default provided under the Lease Agreements – the pertinent information, as briefly summarised below: (a) Lessees' failure or refusal: ▪ to pay for 2 consecutive calendar months of the monthly rent; or ▪ to remedy within 30 calendar days upon receipt of written notice of breach from the Lessor for action to remedy; or (b) Lessees' ability to fulfill its obligations under the Lease Agreement from the breach of any agreement which has a Material Adverse Effect (as defined in the Lease Agreement and described in Section 2.4.9.1 (ii) of Part A of the Circular) to Lessees' operations/ business; or (c) Lessor's and/or Manager's rights are prejudiced due to Lessees' actions; or (d) In general, Lessees' deemed inability to pay its debts with circumstances as laid out in detail in Section 2.4.9.1 (iv) of Part A of the Circular; or (e) Lessees' winding up notice; or	Event of Default and Exercise of Remedies These clauses laid out the events that would constitute as default by the Lessees' failure in observing its obligations under the terms and conditions of the Lease Agreements, of which the Lessor has the rights to exercise for remedies from the Lessees. The term is customary in transactions of similar nature for actionable avenues by the Lessor in the event of breach to the Lease Agreements and hence, it is reasonable. Other than the legal recourse, claims and forfeiture of deposits remedies available to the Lessor in such event of breach, we would like to highlight that one of the remedies exercisable by the Lessor is the rights of the Lessor to recover sum of rent for the remaining unexpired period of the Contractual Term as liquidated damages from the Lessees. We note 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, hence, we are of the opinion that the rights of the Lessor exercisable as liquidated damages to this term is fair and reasonable.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
<u>Event of Default and Termination (Cont'd)</u> (f) Lessees' inability to pay its debts within the meaning of the Companies Act 2016, rendering a Material Adverse Effect in the opinion of the Lessor. <u>Exercise of Remedies</u> Any of the above occurrence entitles the Lessor to take any one or more of the following remedies as briefly summarised below (for full details, refer to Section 2.4.9.2 of Part A of the Circular):- (a) Serve a forfeiture notice pursuant to Section 235 of the National Land Code and if not remedied as provided for under part (a) above, Lessor to retake possession of the Properties and the Lease Agreement shall absolutely terminate; (b) Claim for the monthly rent and all sums due and payable by the Lessees; (c) Shall be entitled to utilise the security and utilities deposits towards any shortfall to Lessees' payment or reduction of sum payable; (d) Rights for loss of rent suffered from Lessees' default or unilateral termination by the Lessee where Lessee shall be liable to pay the sum of rent for the remaining unexpired period of the Contractual Term as liquidated damages; (e) To sue or any other actions, including remedy of specific performance against Lessees to recover moneys due and owing by Lessees. It is to the liberty of the Lessor to exercise any one or more of the above at its sole discretion.	

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
<u>Event of Default and Termination (Cont'd)</u>	
<u>Unilateral Termination and Consequence of Early Termination/ Expiry of the Contractual Term</u> The key terms of this clause are set out in detail in Section 2.4.9.3 to Section 2.4.9.8 of Part A of the Circular. Below are only the extract of some of the pertinent points for highlight in our comments column on the right:- (a) In the event of early termination for any reasons prior to the expiry of the Contractual Term: ▪ Lessee shall be liable to pay Lessor the sum of rent for the remaining unexpired period of the Contractual Term; and ▪ The Lessor to serve a forfeiture notice to the Lessee immediately or anytime thereafter. (b) The Lessor is at liberty to give Termination Notice (as defined in Section 2.4.9.3.3 of Part A of the Circular) if Lessee fails to remedy matters raised in forfeiture notice within 30 calendar days. Within 7 calendar days from the Termination Notice, Lessee shall: ▪ remove all Lessees' assets from the Properties without damaging the Properties; and ▪ peacefully vacate the Properties. When a Termination Notice is issued by the Lessor as above, the Lessee have an option to source for a replacement tenant (acceptable by the Lessor) for the unexpired period of the Contractual Term within 6 months from the Termination Notice. Any shortfall in rent arising from the replacement tenant shall be compensated by the Lessee.	This term sets out to administer the order when termination event occurs. We are of opinion that the terms are fair and reasonable with the details arrived at on a negotiated basis between both parties in providing the Lessees the necessary time periods for opportunities to remedy, alternative choice to source for replacement tenants and surrender the Properties in the event that the termination clause applies. This termination term also works to safeguard the interest of both parties for the continuity of the lease terms as agreed upon by the Lessor and Lessee. It is the intention of both parties to continue the lessor-lessee relationships for the long-term where for the Lessees' purposes are as detailed in the rationale for the Proposed Lease Renewal in Section 5.1 of this IAL. As such, we are of the opinion that it is fair and reasonable.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
Event of Default and Termination (Cont'd) Unilateral Termination and Consequence of Early Termination/ Expiry of the Contractual Term (Cont'd) (b) (Cont'd) If Lessee fails to source for a replacement tenant within the stipulated terms as above, the Lessor is entitled to forfeit the security and utilities deposits of the Lessees. Save as otherwise stated in the Lease Agreements, neither the Lessee nor the Lessor and/or the Manager shall be entitled to terminate the Lease Agreements without the written consent of the other party.	
Late Payment Penalty In the event that the Lessees fail to pay the monthly rent on the due date, the Lessor shall be entitled to charge late payment penalty at the rate of five percent (5%) per annum on any sums of the monthly rent remaining unpaid from its due date until the date of actual payment.	It is common practice by some Lessors to charge late payment for overdues and 5% per annum rate is within the norm in such a transaction. We are of the view that this is fair and reasonable.
Deposits (a) Security deposit - Amount equivalent to 2 months prevailing rent and shall be revised accordingly for every rental term (b) Utilities deposit – Amount to be mutually agreed by the parties and shall be revised accordingly for every rental term. The Lessees shall pay the security and utilities deposits on or before 30 June 2021, being the date of commencement of the lease.	It is acceptable practice by the Lessor requiring 2 months security deposit and utilities deposit that will be mutually agreed upon by the parties prior to the commencement of the lease for the purpose of security of Lessees' performance to the terms and conditions of the Lease Agreements. The deposits are refundable upon expiration of the Contractual Term, subject to no breach to the terms and conditions as laid out in the Lease Agreements. We are of the view that this clause is reasonable.

Crowe

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
<u>Variation of Rental</u> The Lessor shall have the right to vary the rent of the Properties occupied and used by the Lessees, at the recommendation of the Manager due to the following:- (1) <u>Increase in gross floor area</u> If the gross floor area of the Properties increases pursuant to the expansion (as described under Section 2.4.7 of Part A of Circular) undertaken by the Lessees in respect of the Properties, the rent shall be increased corresponding with the increase in gross floor area of the Properties but always subject to the reimbursement costs paid by the Lessor to the Lessees and the increase in the monthly rent be computed as follows:- ***Formula: (5.75% per annum x Reimbursement Costs)/12 months*** For avoidance of doubt, in the event the rent has been increased pursuant to the abovementioned clause, 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 for determination of the rent for the relevant Succeeding Rental Terms. In the event the increase in the rent was incurred during mid of the relevant year of the first rental term or Succeeding Rental Term(s) rental year, such rent shall be prorated to full financial year before applying it in the rent review formula.	(1) <u>Increase in gross floor area</u> The terms to adjust the rent in the event of increase in gross floor area in relation to Expansion is deemed fair and reasonable as the change to the Properties' element with additional features over the lease period should be reflected accordingly in the rent payable. Furthermore, the increase in gross floor area from the expansion will only materialise upon completion and full reimbursement of the costs by Al-`Aqar to effect the variation of rent as laid out above in the 'Expansion' section of this IAL, hence it is fair. The manner as to which the variation is to be computed is fair and reasonable to reflect the actual costs incurred for the expansion (as indicative benchmark to market value) at 5.75% per annum, which is the base rental yield of the Lease Agreements. (2) <u>Installation of new Al-`Aqar's fixtures and fittings</u>  We are of the opinion that this term to vary the rent is fair and reasonable in consideration that the costs of any installation of new fixtures and fittings:-  (a) will need to be mutually agreed between the Lessees and Al-`Aqar/ DRMSB prior to the installation; and (b) the costs are borne by the Lessor as the rightful owner to the fixtures and fittings attached to the Properties.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
Variation of Rental (Cont'd) (2) Installation of new Al-`Aqar's fixtures and fittings The Lessor and/or the Manager incur costs and incidental costs for installation of new Lessor's fixtures and fittings at the Properties in which the increase in rent shall be mutually agreed between the parties prior to the installation of the said new Lessor's fixtures and fittings. The Lessees shall furnish copies of the relevant documentary evidence, including but not limited to quotations, tender documents, price list, invoices to and for the Lessor and/or the Manager's verification of the costs and incidental costs for installation of the new Lessor's fixtures and fittings.	
First Right of Refusal to Purchase the Properties In the event that the Lessor during the Contractual Term intends to sell the Properties, the respective Lessees shall be given the first right of refusal to purchase the Properties by way of a written notice from the Lessor to the respective Lessees offering to sell the Properties to the respective Lessees on such terms and at the reasonable and fair prevailing/open market value in respect of the Properties and in accordance with the applicable laws and requirements including the Listed Real Estate Investment Trust Guidelines, the relevant guidelines issued by the SC, the Capital Markets and Services Act 2007 and the listing requirements of Bursa Securities, to which notice the respective Lessees shall reply within 60 calendar days thereof. The first right of refusal hereby granted shall be valid but shall not be applicable and shall not extend beyond the Contractual Term. For the avoidance of doubt, the right of first refusal hereby granted shall not be enforceable and no longer applicable if the Lease Agreements are terminated pursuant to the terms and conditions as set out.	This term gives the Lessees the contractual right to be the first party to put an offer on the Properties to Al-`Aqar at market value, in the event Al-`Aqar intends to sell the Properties. The first right of refusal term only applies during the Contractual Term or as long as the Lease Agreements are still enforceable. During the Contractual Term, neither the Lessor nor the Lessee are given the liberty to terminate the Lease Agreements at its discretion (save for terms as provided for in the Lease Agreements). Hence, contractually, it is only fair and reasonable that the Lessees, as the sole parties occupying the Properties over the Contractual Term, be given the first right of refusal to purchase the Properties if Al-`Aqar intends to sell the Properties.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.3 Salient Terms of the Lease Agreements (Cont'd)

Salient Terms	Crowe's Comments
Extended Contractual Term	
If the respective Lessees wishes to take a further extension of the lease of the Properties for Extended Contractual Term, the respective Lessees shall give a written notice to shall give a written notice to the Lessor of its intention to extend the lease of the Properties not less than twelve (12) calendar months prior to the expiry of the Contractual Term. The Lessor may at its sole and absolute discretion grant to the Lessees a further lease of the Properties for the Extended Contractual Term at the rental terms and revised rental rate to be mutually agreed by the Lessor, the Manager and the Lessees but with otherwise upon the same terms and conditions of the Lease Agreement with the exception of this provision for renewal, the revised rental rate and the topping up of the security deposit and the utilities deposit to correspond with the revised rental rate, which shall be mutually agreed upon by both parties, variations to the terms and conditions of the Lease Agreement mutually agreed upon in writing by the parties during the Contractual Term and any changes in the applicable laws and requirements. The parties will use their best endeavours to reach an agreement on the rent for the Extended Contractual Term by the date which is six (6) calendar months prior to the expiry of the Contractual Term.	The Lessees are presented with the opportunity to renew the lease for another fifteen (15) years upon the expiry of the Contractual Term. If the Lessees wish for the Extended Contractual Term, a notice given by the Lessees to Al-`Aqar one (1) year before the expiry of the Contractual Term is sufficient timeframe for both parties to renegotiate the terms and strive to reach an agreement to the renegotiated terms of new lease of the Properties within six (6) months before the Contractual Term expires. The option to extend granted to the Lessee by the Lessor is common for transactions of such nature and therefore is deemed reasonable.

Our Opinion

Premised on the above, we are of the opinion that the overall terms of the Lease Agreements are fair and reasonable and not detrimental to the non-interested shareholders of KPJ.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.4 Effects of the Proposed Lease Renewal

In our evaluation, we have considered the financial effects arising from the Proposed Lease Renewal as set out in Section 6 of Part A of the Circular as follows:

5.4.1 Share Capital and Substantial Shareholder's Shareholdings

The Proposed Lease Renewal does not involve any issuance of new ordinary shares of KPJ and hence, will not result in any change to KPJ's share capital and substantial shareholders' shareholdings.

5.4.2 Net Asset ("NA") and Gearing

On the assumption that the Proposed Lease renewal had been effected at the beginning of FY 31 December 2020, the Proposed Lease Renewal is not expected to have a material impact to the net assets of KPJ (other than the decrease in earnings per Section 5.4.3 of this IAL), NA per share and gearing ratio of the KPJ Group.

5.4.3 Earnings and Earnings Per Share ("EPS")

Earnings is expected to decrease mainly due to additional depreciation and finance charge to KPJ arising from Malaysian Financial Reporting Standards (MFRS) 16 as a result of the revised lease terms, in addition to the estimated expenses pertaining to the Proposed Lease Renewal of approximately RM1.2 million. Correspondingly, EPS is expected to decrease. However, the impacts to earnings and EPS of KPJ are not expected to be material for the financial year ending 31 December 2021.

Our Opinion

Premised on the above, we are of the view that the financial effects of the Proposed Lease Renewal are not detrimental to the interests of the non-interested shareholders of KPJ.

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5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.5 Risk Factors in Relation to the Proposed Lease Renewal

In evaluating the Proposed Lease Renewal, you should carefully consider the potential risk factor(s) as highlighted under Section 5 of Part A of the Circular before voting on the resolution to the Proposed Lease Renewal at the forthcoming EGM.

We take cognisance of the risk of non-renewal of Lease Agreements and our comments as below:

5.5.1 Non-renewal of Lease Agreements

Pursuant to the Lease Agreements that were executed in escrow, the Proposed Lease Renewal is conditional upon obtaining approval of the shareholders of KPJ and the approval of the unitholders of Al-`Aqar. In the event that the said Conditions are not fulfilled, the Lease Agreements will not take effect and the Proposed Lease Renewal will not materialise - the Lessees are thereby required to vacate the Properties at the end of the Previous Contractual Term under the terms of the Principal Lease Agreements.

Below is a summary extract from the Principal Lease Agreements on the obligations of the Lessees at the end of the Previous Contractual Term:-

(a) deliver vacant possession of and yield up the Properties to the Lessor and/or the Manager in repaired condition as to the state and condition the Properties were in when from the Properties were first occupied by the Lessees;

(b) give up all keys of the Properties to the Lessor and/or the Manager;

(c) remove fixtures and fittings belonging to the Lessee, unless otherwise required by the Lessor and/or the Manager; and

(d) remove all signs erected in, upon or near the Properties and immediately make good any damage caused by such removal and during occupancy of the Lessees.

(Source: Management)

The non-renewal of the leases will render the KPJ Group unable to continue with their on-going operations at the Properties' locations and to fulfil its obligations under the Principal Lease Agreements to surrender the Properties to the Lessor in the manner as stipulated. In that circumstance, if the KPJ Group is to resume with the operations of the six (6) hospitals, the Board will need to seek alternative avenues by other means of corporate implementation and/or to relocate to new locations which will be expected to disrupt the businesses considerably and in turn affect the financial performance of the KPJ Group. For information purposes, the Lessees collectively contributed approximately 39% of the total revenue generated by the KPJ Group in the audited FY 2020 *(Source: Management)*.

Further, in vacating the Properties as compelled above under the terms of the Previous Lease Agreements, the Lessees shall make good the conditions at its own cost and expense. Considering that the Lessees have been occupying the Properties for their operations for more than a decade with several expansions and renovations to the Properties over the years, the costs to remove and to reinstate the Properties to their original state and condition would be expected to be material to the KPJ Group.

5 EVALUATION OF THE PROPOSED LEASE RENEWAL (CONT'D)

5.5.1 Non-renewal of Lease Agreements (Cont'd)

Nonetheless, it is the intentions of the Lessees and the Lessor to continue the lessee-lessor relationships for the Properties as the non-renewal of the Lease Agreements will both impact the financial performance of KPJ and Al-`Aqar in the immediate effect and hence, the parties will endeavour to ensure in facilitating the completion of the Proposed Lease Renewal.

However, we wish to highlight to the non-interested shareholders of KPJ that although measures may be taken by the Board to attempt to limit the risk factor above (which are not meant to be exhaustive), no assurance can be given that the risk will not crystallise for measures beyond the control of the Board and give rise to material and adverse impact on the financial position or the prospects of KPJ.

6 FURTHER INFORMATION

We advise the non-interested shareholders of KPJ to refer to Part A of the Circular and the appendices contained in the Circular for further information on the Proposed Lease Renewal.

7 CONCLUSION AND RECOMMENDATION

The non-interested shareholders of KPJ should consider carefully the terms and conditions of the Proposed Lease Renewal based on all relevant and pertinent factors including those which are in Part A of the Circular and the appendices, and this IAL and other publicly available information before making a decision to vote on the resolution pertaining to the Proposed Lease Renewal.

We have duly assessed and evaluated the Proposed Lease Renewal after taking into consideration the various factors discussed above, and have summarised the pertinent factors which you should consider carefully as follows:-

(a) Rationale for the Proposed Lease Renewal (Section 5.1 of the IAL)

Over the decades, the KPJ Group through the existence of the Properties in their respective localities, has built their brand and reputation and the Proposed Lease Renewal would allow the KPJ Group to continue operating the Properties from the existing locations with minimal to no disruption. Hence, we are of the opinion that the rationale for the Proposed Lease Renewal is reasonable.

(b) Basis and Justification of the Rental Rate (Section 5.2 of the IAL)

On the First Rental Term, we are of the opinion that the considerations used to determine the rental rate are fair and reasonable due to our following observations below:-

(i) The valuation approach used by Cheston – profit method (DCF) as the primary valuation methodology with cost approach as check to derive the market values for the Properties is fair and reasonable from the perspective of the single (sole) trading activity of the Properties as private medical hospitals;

(ii) the parameters and key determinants applied by Cheston in valuing the Properties are fair and reasonable;

7 CONCLUSION AND RECOMMENDATION (CONT'D)

(b) Basis and Justification of the Rental Rate (Section 5.2 of the IAL) (Cont'd)

(iii) The rental yield of 5.75% applied in the first year is fair – it is within the range of gross yield derived from single-tenanted properties in Malaysia held by other Malaysian REITs ranging from 5.71% to 8.73%; and

(iv) The 2% annual increase in rental amount in the 2nd and 3rd year is reasonable from the perspective of the overall resultant effect as compared to rental yield derived by comparable properties in the Malaysian market.

On the Succeeding Rental Term, we are of the opinion that the considerations used to determine the rent review formula are fair and reasonable due to our following observations below:-

(i) For the rent review formula applied to every 1st year of the Succeeding Rental Term, we noted that the gross rental yield of 5.75% is within the 10-year historical range of aggregate MGS add 200 BPS for the period from year 2010 to LPD of 4.65% to 6.22%; and

(ii) For the rent review formula applied to the subsequent 2nd and 3rd year of the Succeeding Rental Term, the maximum lease rental adjustment pegged at 2% of the precedent year's rental amount serves as a safeguard to KPJ against potential upward fluctuation exceeding the MGS determinant's threshold.

Accordingly, we are of the view that the basis and justification of the rental rate are fair and reasonable and not to the detriment to the KPJ Group.

(c) Salient Terms of the Lease Agreements (Section 5.3 of the IAL)

Based on our review of the salient terms of the Lease Agreements, we are of the opinion that the overall terms of the Lease Agreements are fair, reasonable and not detrimental to the interest of the KPJ Group.

(d) Effects of the Proposed Lease Renewal (Section 5.4 of the IAL)

The Proposed Lease Renewal has no effects to the share capital, substantial shareholders' shareholdings, NA per share and gearing; and the impact to earnings and EPS is not expected to be material to KPJ for FY 31 December 2020 on the assumption that the Proposed Lease Renewal had been effected on that date. We are of the view that the overall financial effects of the Proposed Lease Renewal are not detrimental to the interests of the non-interested shareholders of KPJ.

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7 CONCLUSION AND RECOMMENDATION (CONT'D)

(e) Risk Factors in Relation to the Proposed Lease Renewal (Section 5.5 of the IAL)

The Proposed Lease Renewal is conditional upon obtaining approval of the shareholders of KPJ and the approval of the unitholders of Al-`Aqar and in the event that these Conditions are not met, the non-renewal of the leases will render the KPJ Group unable to continue with its on-going operations at the locations of the Properties and to surrender the Properties to ART which would adversely affect the financial performance of KPJ.

Nonetheless, it is the intentions of the Lessees and the Lessor to continue the lessee-lessor relationships for the Properties as the non-renewal of the Lease Agreements will both impact the financial performance of KPJ and Al-`Aqar in the immediate effect and hence, the parties will endeavour to ensure in facilitating the completion of the Proposed Lease Renewal. However, no assurance can be given that the risk will not crystallise for measures beyond the control of the Board and give rise to material and adverse impact on the financial position or the prospects of KPJ.

Based on the evaluation as set out in this IAL, and the information available to us up to the LPD, we are of the opinion that the terms of the Proposed Lease Renewal are **fair and reasonable** and **not detrimental** to the non-interested shareholders of KPJ.

In this regard, we recommend that you **vote in favour** of the resolutions pertaining to the Proposed Lease Renewal to be tabled at the forthcoming shareholders' EGM of KPJ.

Yours faithfully
For and on behalf of
Crowe Advisory Sdn Bhd

Phoon Foong-Yi
Director, Advisory

Leow Sue Fern
Associate Director, Advisory

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

1. **Principal Lease Agreements**

The initial lease agreements to lease the properties held by Al-`Aqar, in relation to the hospitals below, were originally entered into on 30 June 2006 (as amended from time to time by supplementary agreements) between the following subsidiaries of KPJ with Amanah Raya Berhad as trustee of Al-`Aqar KPJ REIT) (now known as Al-`Aqar Healthcare REIT) and lessor of the Properties ("**ARB**") and the Manager ("**Principal Lease Agreements**"):

	Subsidiaries	Hospitals
(i)	Ampang Puteri Specialist Hospital Sdn. Bhd.	APSH
(ii)	Damansara Specialist Hospital Sdn. Bhd.	DSH
(iii)	Ipoh Specialist Hospital Sdn. Bhd.	ISH
(iv)	Johor Specialist Hospital Sdn. Bhd.	JSH
(v)	Selangor Specialist Hospital Sdn. Bhd.	SSH
(vi)	Puteri Specialist Hospital (Johor) Sdn. Bhd.	PSH

(collectively known as the "**Previous Lessees**")

The trustee for Al-`Aqar when the Principal Lease Agreements were first entered into was ARB and was subsequently replaced by ART, its wholly owned entity, which entered into the subsequent agreements relating to the Principal Lease Agreements.

For the purposes of the remaining sections under this Appendix II, the term "Previous Lessor" shall refer to ARB; and subsequently, ART as successor trustee of Al-`Aqar and as the lessor of the Properties during the Previous Contractual Term (as hereinafter defined).

2. **Information on the Properties**

The properties are more particularly described in the respective Principal Lease Agreements, which are available for inspection at the registered office of KPJ. Although differently specified, the subject matter of the lease is the same hospitals as that in the Lease Agreements which are APSH, DSH, ISH, JSH, PSH and SSH respectively.

3. **Lease Term**

Fifteen (15) years expiring on 29 June 2021, with an option to renew for another fifteen (15) years subject to the terms and conditions to be agreed upon by the Parties ("**Previous Contractual Term**").

For clarity, the lease is renewable every three (3) years, up to the expiry of the Previous Contractual Term.

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

4. Rent Formula for 2006 - 2021

2006- 2009 (1st rental term)

The total annual rental for the first term ending December 2009 is as follows:-

	Annual Rental (RM'mil)
2006 (5 months)	14.78
2007	35.70
2008	36.43
2009	36.96

The rental was to be reviewed on 1 January after every 3 full financial years throughout the 15 years contractual terms.

2010-2012 (2nd rental term)

The rental review formula for the 1st year is (10year MGS +238 BPS) x market value of the properties at the point of review subject to:-

(i) a minimum rental of RM33 million per annum; and

(ii) any lease rental adjustment shall not be more than 2% incremental over the preceding year's rental amount

For the 2nd & 3rd year of the 2nd rental term thereon, the rental would be 2% incremental over the preceding year's rental.

2013-2021 (3rd to 5th rental term)

The rental review formula for the 1st year of the 3rd, 4th and 5th rental term is as follows:-

10-years MGS + 238 BPS x market value of the properties, at the point of review subject to:-

(i) a minimum gross rental of 7.1% per annum x prevailing market value or purchase consideration of the properties whichever is higher*; and

(ii) any lease rental adjustment shall not be more than 2% incremental over preceding year's lease rental.

For the 2nd & 3rd year of the 3rd, 4th and 5th rental term thereon, the rental would be a 2% incremental amount over the preceding year's rental amount.

Note *: The clause stating "purchase consideration of the properties whichever is higher" was only included in the 4th and 5th rental term.

5. Security Deposit and Utilities Deposit

Security Deposit

Shall refer to such amount equivalent to one (1) month rent which had been mutually agreed by the parties and such amount shall be deposited with/retained by the Previous Lessor on trust for Al-`Aqar.

Utilities Deposit

Shall refer to such amount which had been mutually agreed by the parties

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

6. **Previous Lessees' covenants**

The Previous Lessees' covenants with the Previous Lessor and/or the Manager, includes amongst others:-

Rent

To pay the rent payable during the Previous Contractual Term without any deduction by monthly payments in advance on the first day of every month and proportionately for any period of less than a month.

To pay the rent on the days and in the manner set out in the Principal Lease Agreements and not to exercise or seek to exercise any right or claim to withhold the rent or any right or claim to legal or equitable set-off.

Repair, cleaning, decoration etc

The Previous Lessees shall keep the properties in good and tenantable repair and maintenance. The Previous Lessees shall as and when necessary issue a notice to the maintenance manager to conduct any repairs on any part of the properties and shall pay the maintenance manager for work done in connection thereto.

The Previous Lessee shall bear and pay or otherwise be responsible for all costs of all services and maintenance charges (where applicable) including without limitation services charges, statutory payments (save for quit rent and assessment), insurance, capital expenditure and/or other payments/ costs related to the properties during the lease term.

7. **The Previous Lessor and/or the Manager covenants**

The Previous Lessor and/or the Manager's covenants with the Previous Lessees, includes amongst others: -

Taxes

To pay for:-

(i) all rates, taxes, assessments, duties, charges, impositions, levies and outgoings during the Previous Contractual Term; and

(ii) any service tax chargeable in respect of any payment made by the Previous Lessor and/or the Manager under any of the terms of or in connection with the Principal Lease Agreements or in respect of any payment made by the Previous Lessees where the Previous Lessor and/or Manager agreed in the Principal Lease Agreements to reimburse the Previous Lessees for such payment.

Quit rent and assessment

To pay all quit rent and assessment which are now or during the Previous Contractual Term shall be falling due in respect of the land.

Takaful

To effect and maintain Takaful coverage in respect of the structure of the properties and the Previous Lessor's assets, equipment and machinery in the properties against fire and allied perils at the Previous Lessor's cost and expense.

Services of Maintenance Manager

The Previous Lessor and/or the Manager shall appoint and pay to the maintenance manager during the Previous Contractual Term for the maintenance and management services rendered by the maintenance manager with respect to the properties in accordance with the maintenance management agreement.

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

Repair and maintenance

The Previous Lessor and/or the Manager:-

(i) appoint the maintenance manager and pay for the services rendered by the maintenance manager based on the recommendation of and subject to verification by the Manager of the services rendered as follows:

(a) To maintain in reasonably good and tenantable repair and maintenance (fair preventive and/or fair corrective maintenance excepted) the structure of the properties including the main walls structural slabs of the floor boundary, walls beams and columns (other than in respect of those parts of the properties for which the respective Previous Lessees or occupier is responsible); and

(b) To operate service and maintain in reasonably good and tenantable repair and maintenance (fair preventive and/or fair corrective maintenance excepted) the electrical, mechanical and other equipment and assets for common benefit including the lift and fire-fighting installations (other than in respect of those parts of the properties for which the respective Previous Lessees or occupier is responsible).

(ii) carry out any work which may affect or may be likely to affect the structure of the properties (including but not limited to the roof and the foundation) or the mechanical or electrical installations of the properties or the provision of any services in or to the properties.

Repair, cleaning, decoration etc

The Previous Lessor and/or the Manager, shall as and when required by the Previous Lessees based on the advice and recommendation of the maintenance manager, issue a notice to the maintenance manager to coordinate or arrange for any repairs on any part of the properties on any of the assets in the properties.

If so required by the Previous Lessees, based on the proposal and/or at the advise of the maintenance manager, to replace from time to time the properties the assets in the properties which may be or become beyond repair, at any time during or at the end of the Previous Contractual Term, in accordance with the planned budget prepared by the maintenance manager which shall be approved by the Previous Lessor and/or the Manager at any time during the Previous Contractual Term.

8. Expansion

In the event the Previous Lessees requests and the Previous Lessor and/or the Manager desire to meet the expansion requirements of the Previous Lessees through expansion, refurbishment and renovation of the properties, the Previous Lessor shall through the Manager, instruct the maintenance manager to make the necessary arrangements, coordinate, manage, monitor and supervise any major structural alterations or additions to the properties or work which may affect or may be likely to affect the structure of the properties (including but not limited to the roof and the foundation) or the mechanical or electrical installations of the properties or the provisions of any services in or to the properties. The Previous Lessor shall then reimburse the Previous Lessees based on the recommendation of the Manager according to the work done and subject to verification by the Manager of all costs incurred by the Previous Lessees as recommended by the auditors of Al-'Aqar for the expansion, refurbishment and renovation of the properties at such dates and/or amount to be agreed mutually by the Previous Lessor and/or the Manager and the Previous Lessees.

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

9. Forfeiture and termination

The forfeiture and termination of the Principal Lease Agreements shall take place if and whenever during the Previous Contractual Term:-

(i) the rent or any other sum due under the Principal Lease Agreements shall be in arrear and shall remain unpaid for thirty (30) working days after becoming payable (whether formally demanded or not); or

(ii) there shall be any breach non-performance or non-observance by the Previous Lessees of any of the covenants and conditions contained in the Principal Lease Agreements of which is not capable of being remedied or if capable of being remedied such breach is not remedied within a reasonable time stipulates by the Previous Lessor in its notices to the Previous Lessees requesting action to remedy the same; or

(iii) the Previous Lessees are in breach of any agreement which has a material adverse effect on the business and/or operations of the Previous Lessees which affects its ability to fulfil its obligations under the Principal Lease Agreements; or

(iv) any provision of the Principal Lease Agreements is, or becomes for any reason whatsoever, invalid or unenforceable; or

(v) the Previous Lessees cease or threaten to cease to carry on its business; or

(vi) the Previous Lessees are unable to pay its debts as they become due or commits an act of bankruptcy or insolvency, as the case may be, or any act analogous thereto; or

(vii) a trustee or administrator or receiver or manager or liquidator or bailiff or similar officer is appointed in respect of the Previous Lessees or in respect of its assets; or

(viii) the Previous Lessees enter into or proposes to enter into, or there is declared by any competent court or authority, a moratorium on the payment of indebtedness or other suspensions of payments generally; or

(ix) any step is taken for the winding up or dissolution (whether compulsory or voluntary) or bankruptcy, as the case may be, of the Previous Lessees or a petition for winding up or bankruptcy, as the case may be, is presented against the Previous Lessees; or

(x) a compromise or arrangement is proposed or is intended to be proposed between the Previous Lessees and its creditors; or

(xi) the Previous Lessees enter into or proposes to enter into an arrangement or composition for the benefit of its creditors; or

(xii) the Previous Lessees have or suffer any distress, execution, attachment or other legal process to be levied, enforced or sued out against its assets; or

(xiii) the Previous Lessees shall suffer or do any act or thing whereby the Previous Lessor's and/or the Manager's rights shall or may be prejudiced; or

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

(xiv) in the event that the properties or any part thereof shall at any time during the Previous Contractual Term be damaged or destroyed by fire or by any event so as to become unfit for occupation or use then and provided always that such aforesaid fire or event shall not have been cause by the wilful and malicious acts of the Previous Lessees, its servants and agents, the rent reserved or a fair and just proportion thereof according to the nature and extent of the damage sustained shall be suspended and cease to be payable until the properties shall have been rendered fit for occupation and use provided always that in the event that the Previous Lessor shall be unable to restore or render the properties fit for occupation within three (3) months from the date of occurrence of the events stated under this clause, the Previous Lessees shall have an option either to terminate the Principal Lease Agreements or to continue suspending and ceasing payment of the rent reserved or proportionate part thereof according to the extent of damage or destruction until the date of the properties shall be rendered fit for occupation or used by the Previous Lessor. In the event the Previous Lessees decide to terminate the Principal Lease Agreements, the Previous Lessor shall within fourteen (14) days thereof, refund the security deposit to the Previous Lessees less all payment due and payable under the Principal Lease Agreements.

Any demand for or acceptance of any rent or any other payment by the Previous Lessor after the happening of any of the events specified above or the exercise by the Previous Lessor of any of its rights under the Principal Lease Agreements shall not prejudice the exercise by the Previous Lessor of any of its rights or, as the case may be, the further exercise of its rights under the Principal Lease Agreements nor shall it constitute an election by the Previous Lessor to exercise or to not exercise any of the rights, powers or privileges under the Principal Lease Agreements.

In addition to the Previous Lessor's and/or the Manager's right of specific performance and right of termination specified above, the Previous Lessees shall compensate the Previous Lessor for any breach by the Previous Lessees of any term of the Principal Lease Agreements and the Previous Lessor shall at all times be entitled to sue for and recover all losses, damages, costs and expenses of whatever nature from the Previous Lessees in respect of any and all such breaches.

Notwithstanding the termination of the Principal Lease Agreements by the Previous Lessor, the obligations and liabilities of the Previous Lessees and the rights of the Previous Lessor under the Principal Lease Agreements which are to apply upon the termination of the Principal Lease Agreements or at or after the end of the Previous Contractual Term shall survive such termination until the Previous Lessees shall have fully and finally satisfied all of such obligations and liabilities and the Previous Lessor shall have full and finally exercised all of such rights.

If the Previous Lessees vacate the properties during the Previous Contractual Term (whether or not the Previous Lessees cease to pay any rent or other moneys payable):-

(i) acceptance of the keys or entry into the properties by the Previous Lessor or by any person on the Previous Lessor's and/or the Manager's behalf or the advertising of the properties for re-leting will not constitute a re-entry forfeiture or waiver of the Previous Lessor's and/or the Manager's rights to recover in full all rent and other moneys from time to time due or payable under the Principal Lease Agreements;

(ii) in the absence of a written agreement by the Previous Lessor to accept the surrender of the Previous Lessees' interest under the Principal Lease Agreements or a formal notice of forfeiture or re-entry by the Previous Lessor, the Principal Lease Agreements shall be deemed to continue in full force and effect until the date from which a new Previous Lessee actually commences to occupy the whole of the properties or until the expiry of the Previous Contractual Term, whichever may be the earlier.

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

Save as otherwise provided above or any other provision of the Principal Lease Agreements, neither party shall be entitled to terminate the Principal Lease Agreements during the Previous Contractual Term without the written consent of the other party. However, in the event of termination of the lease by the Previous Lessees, prior to the expiry of the Previous Contractual Term, the Previous Lessees shall be liable to pay to the Previous Lessor all rent due and payable for the remaining and unutilised/unexpired period of the Previous Contractual Term as liquidated damages without prejudice to the other rights to claim by the Previous lessor for any antecedent breach by the Previous Lessees.

At the end of the Previous Contractual Term or upon the termination of the Principal Lease Agreements for any reason whatsoever, the Previous Lessor shall be entitled to deal with the properties in any manner whatsoever and howsoever including but not limited to letting out the properties to any other person whomsoever.

10. **Variation of Rental**

The Previous Lessor and/or the Manager shall have the right to vary the rent of the nett lettable area occupied and used by the Previous Lessees, at the recommendation of the Manager due to the occurrence of any of the following future events:-

(i) if the nett lettable area of the properties increases arising from the renovations or refurbishments undertaken by the Previous Lessor and/or the Manager, the rent shall be increased corresponding with the increase in the Previous Lessees' nett lettable area of the properties;

(ii) The Previous Lessor and/or the Manager incurs maintenance costs as determined from time to time by the Previous Lessor and/or the Manager for the maintenance upkeep and management of the properties, the land and the common areas and includes the costs of electric power for and the costs of maintenance and upkeep of the lifts and main air-conditioning plant, payment for electricity and water supplied and used in the common areas of the properties the employment and other expenses incidental to the employment of personnel engaged in and about the provision of services and maintenance and upkeep of the common areas of the properties;

(iii) The Previous Lessor and/or the Manager incurs costs for the refurbishment or renovation of the properties for the purposes of expansion and to increase the capacity of the properties;

for the purposes of increasing the capacity and future expansion of the properties.

11. **First Right of Refusal to Purchase**

In the event the Previous Lessor and/or the Manager intends to sell or dispose the properties at any time during the Previous Contractual Term, the first right of refusal to purchase the properties shall be given to the Previous Lessees.

12. **Option to renew**

If the respective Previous Lessees wish to take a further extension of the lease of the properties from the expiry of the Previous Contractual Term, the Previous Lessees shall give a written notice to the Previous Lessor not less than twelve (12) calendar months prior to the expiry of the Previous Contractual Term. However, the parties agreed that such extension may also be made by way of the parties executing a new lease agreement to effect the same.

If the Previous Lessees shall be desirous of renewing the lease of the properties for a further rental term as the Previous lessees may determine and require from the expiry of the rental term, the Previous Lessees shall give to the Lessor a notice in writing of its intention to renew the lease of the properties, of not less than three (3) calendar months prior to the expiry of the rental term.

No	SALIENT TERMS OF THE PRINCIPAL LEASE AGREEMENTS

Subject to the Previous Lessees on the expiry of the rental term or the Previous Contractual Term (as the case may be) having paid the rent reserved by and performed and observed the covenants contained in the Principal Lease Agreements, the Previous Lessor shall grant to the Previous Lessees a further lease of the properties for the renewed contractual term commencing on the day immediately following the last day of the Previous Contractual Term but otherwise upon the same terms and conditions of the Principal Lease Agreements with the exception of this provision for renewal, the new rental rate which shall be mutually agreed upon by both parties and the topping up of the security deposit and the utilities deposit to correspond with the new rental rate. The stamp duty (if any) payable on the renewal notice and/or in respect of the renewed contractual term shall be borne and paid by the Previous Lessees.

13. **Future Development**

The Previous Lessor hereby grants to the Previous Lessees the right to undertake future development on the land or any part thereof ("**New Development**") at the Previous Lessees' own cost and expenses for the expansion of the Previous Lessees' business operations, subject to the following:

(i) the Previous Lessees shall provide the details of the New Development for approval of the Previous Lessor and the Manager; and

(ii) the Previous Lessees shall obtain the approval from the relevant governmental agency or authority for the New Development

prior to the commencement of the New Development.

The parties hereby further agree that subject to the issuance of the Certificate of Completion and Compliance for the New Development, the Previous Lessor shall acquire the New Development from the Previous Lessees at a price to be mutually agreed by the parties based on the valuation to be conducted by an independent valuer or an independent quantity surveyor appointed by the Previous Lessor, subject to the approval of relevant governmental agency or authorities', the approval of the unit holders of Al-`Aqar and/or shareholders of the Previous Lessees and/or its holding company, KPJ (if required) and the terms and conditions of the sale and purchase agreement, to be entered into between the Previous Lessor and the Previous Lessees in connection with the aforementioned acquisition of the New Development.

The parties hereby further agree that upon completion of the acquisition of the New Development stipulated in the clause above, the Previous Lessees shall enter into a lease agreement with the Previous Lessor and the Manager for the lease back of the New Development by the Previous Lessees and the rental for the properties shall be revised accordingly to include the New Development and subject to the terms and conditions of a new lease agreement to be entered upon by the Previous Lessor, the Previous Lessees and the Manager.

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Chartered Surveyors
International Property Consultants
Registered Valuers, Real Estate Agents
Property Managers, Plant & Machinery Valuers

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02 April 2021

AMANAHRAYA TRUSTEES BERHAD
Level 14, Wisma AmanahRaya,
Jalan Ampang,
50508 KUALA LUMPUR

And

KPJ HEALTHCARE BERHAD
Level 15, Menara KPJ,
Jalan Tun Razak,
50400 KUALA LUMPUR

Dear Sirs,

CERTIFICATE OF VALUATION OF

a. **KPJ AMPANG PUTERI SPECIALIST HOSPITAL ("Property No. 1")**
b. **KPJ DAMANSARA SPECIALIST HOSPITAL ("Property No. 2")**
c. **KPJ JOHOR SPECIALIST HOSPITAL ("Property No. 3")**
d. **KPJ PUTERI SPECIALIST HOSPITAL ("Property No. 4")**
e. **KPJ SELANGOR SPECIALIST HOSPITAL ("Property No. 5")**
f. **KPJ IPOH SPECIALIST HOSPITAL ("Property No. 6")**

("SUBJECT PROPERTIES")

We were jointly instructed by AmanahRaya Trustees Berhad ("**ART**") as trustee of Al-Aqar Healthcare REIT ("**Al-Aqar REIT**") and KPJ Healthcare Berhad ("**KPJHB**") to conduct valuation of the Subject Properties for the purposes of the proposed renewal of the leases and the details of the valuations are contained in our Valuation Reports bearing reference nos. V/AAQ6LR/RT/6415520/A to V/AAQ6LR/RT/6415520/F (inclusive), all dated 02 April 2021.

We have prepared this Certificate of Valuation for inclusion in the circulars to the shareholders of Al-Aqar REIT and KPJHB in conjunction with the proposed renewal of the leases.

The salient details of the Subject Properties are attached as Appendix 'A'.

The relevant dates of valuations are taken to be as at the dates of our inspections.

The Reports and Valuations and this Certificate of Valuation have been 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 with the necessary professional responsibility and due diligence.

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 proper marketing where the parties had each acted knowledgeably, prudently and without compulsion".

1.0 VALUATION METHODOLOGY

In arriving at our opinion of the Market Values of the abovementioned properties, we have adopted the Income Approach by Profits Method (Discounted Cash Flow / "DCF") as the primary valuation methodology and Cost Approach as check.

1.1 Income Approach by Profits Method (DCF)

This method is adopted where trading is the essence to the value of the property (business based property) and capitalises future net trading profit as a basis for estimating the market value of the Subject Properties as a going concern inclusive of goodwill, hospital operating equipment, furniture, fittings, plant, machinery and equipments.

We have used a 5-year discounted cash flow and have forecasted the profit for a 5-year period, after which we have calculated the terminal value based on the fifth year's net profit for the remaining term of the tenure. We have obtained profit and loss statements of the Subject Properties from the Client. We were also made available with the future projections of the medical centres by the Client. We have forecasted the 5-year revenues and operating expenditures of the Subject Properties based on the analysis of thier past operating performances. We have taken into consideration of the projections of the Client, made necessary due diligence and have arrived at our independent projections as per the practice in the industry.

We note that the private specialist medical centre sector is not spared by the global economic crisis caused by the Covid-19 pandemic. The gross revenues of Subject Properties have declined due to the movement control order ("MCO"), conditional MCO (CMCO) and recovery MCO (RMCO) announced by the Malaysian government to control the spread of the virus. We have taken into consideration of the above factor in our projections of the 5-year DCF.

Generally, in arriving at the revenues of the various departments of the medical centres, we have made indebt analysis of thier historical performance.

In analysing the past years performance of the Subject Properties, we note that the revenue and expenses of year 2020 have been impacted by the coronavirus disease 2019 ("Covid-19") pandemic and as at date of valuation the profit and loss accounts of the medical centres have yet to be audited. In light of the above, we have analysed and taken cognizance of the performance of year 2020 which has been substantially hampered by the Covid-19 pandemic. However, the year 2020 performance has been excluded as it does not reflect the real performance of the medical centres. In lieu, adopted as the floor level benchmark performance of the medical centres in our 5-year cash flow. Our projections of the revenues and expenses for the 5-year cash flow have taken into consideration of the Covid-19 pandemic impact on the medical centres with recovery from the pandemic phase for the initial years and gradual increase to return to normalcy phase from the floor level benchmark. The parameters adopted are noted to be fair and reflective of the performance of the private specialist medical centres.

We have adopted the following parameters in arriving at the market value of the Subject Properties using the Income Approach by Profits Method (DCF).

Summary of Parameters Adopted (Common)

Beds Available	The number of beds available in a year is derived by multiplying operational beds available for the year with 365 days.
Occupancy Rate of Beds	The occupancy rate is derived based on the historical occupancy rate achieved by the medical centres since years 2017 to 2020 (inclusive). We foresee the impact of Covid-19 pandemic to follow through to year 2021. Thus, we have reflected a lower occupancy rate for year 2021. We have gradually increased the occupancy rate for the average occupancy rate to return to normalcy in line with the recovery in the Malaysian economy.
No. of Inpatients Admitted Days	The number of inpatients admitted days in a year is derived from the total beds occupied divided by the number of inpatients admitted. We have adopted the past 3 years (excluding year 2020) average from years 2017 to 2019 (inclusive) which is considered reasonable to project the number of inpatients admitted days in our 5-year DCF projection.
Ratio of No. of Outpatients / Inpatients	We have adopted average ratio of no. of outpatients / inpatients of past 3 years (excluding year 2020) from years 2017 to 2019 (inclusive) which is considered reasonable to project the number of outpatients for the 5-year DCF projection.
Revenue	
Consultant Inpatient Revenue Per Occupied Bed ("CRPOB")	The revenue is derived by multiplying the total beds occupied for the year with the estimated revenue per occupied bed. We have analysed CRPOB of past 5 years from years 2016 to 2020 (inclusive). We have adopted the average of the past 3 years (excluding year 2020) from years 2017 to 2019 (inclusive) as fair representation.
Consultant Outpatient Revenue (COR)	The revenue is derived by multiplying the total outpatients visited for the year with the outpatient revenue per patient per year. We have adopted the average of the past 3 years (excluding year 2020) from years 2017 to 2019 (inclusive) as fair representation.

Hospital Inpatient Revenue Per Occupied Bed	The revenue is derived by multiplying the total beds occupied for the year with the revenue per occupied bed. We have adopted the average of the past 3 years (excluding year 2020) from years 2017 to 2019 (inclusive) as fair representation.
Hospital Outpatient Revenue	The revenue is derived by multiplying the total outpatients visited for the year with the outpatient revenue per patient per year.
Expenses	
Cost Of Sale	We have analysed and adopted the past five years cost of sale i.e. material, direct staff cost, operating overhead and adopted its average of years 2017 to 2019 (inclusive) of the Subject Properties. From our analysis of the historical cost of sale, we note that the material cost moved in tandem with the hospital inpatient and outpatient revenues whilst the direct staff cost and operating overhead moved in tandem with the gross operating revenue. As the occupancy of the medical centre increases, so does the cost of sale, thus, both the revenue and cost of sale have a direct relationship.
Undistributed Operating Expenses	We have analysed the past five years expenses i.e. administrative & general, sales & marketing, property operations maintenance & energy cost ("POMEC") and adopted its average of years 2017 to 2019 (inclusive) of the Subject Properties. From our analysis of the historical expenses, we note that the undistributed operating expenses moves in tandem with the Total Operating Revenue. As the occupancy of the medical centre increases, so does the undistributed operating expenses, thus, both the revenue and undistributed operating expenses have a direct relationship.
Hospital Management Fee	We have adopted the actual rate being charged by KPJHB as hospital management fee which is in line with the management fees adopted for similar medical centres and other profit orientated real estate assets.
Quit Rent & Assessment	We have adopted the actual quit rent and assessment of the medical centres.
Insurance	To insure against total and partial damage / loss caused by fire ("F") and other insurable perils i.e. burglary ("B"), plate glass ("PG"), machinery breakdown ("MB"), public liability ("PL"), consequential loss ("CL"), all risk ("AR") and medical malpractice ("MM").
Incentive Management Fee	The incentive management fee to reflect operator's risk, management advisory and skill to operate the various income generating resources of the medical centres. It is also often referred as tenant's share in the profit based property assets and adopted based on the percentage of gross operating profit of the medical centres.
Capital Reserve Fund For The Replacement Of Furniture Fitting Equipment ("FFE"), Hospital Operating Equipment ("HOE") And Capital Expenditure ("CAPEX")	We have analysed historical expenditures incurred by the medical centres over the past 5 years. We have adopted the average of the past 5 years as fair expenditure for FFE, HOE and CAPEX in line with our 5-year DCF projection.
Terminal Capitalisation Rate / All Risk Yield	In arriving at the terminal value, the resultant net revenue (profit) of the fifth year projection is capitalised by an appropriate capitalisation rate / rate of return (an 'all risk yield') to arrive at the terminal value of the Subject Properties. The capitalisation rate adopted is the rate which reflects the investor's / entrepreneur's expected investment rate of return of the Subject Properties. We wish to inform that we have adopted a market corroborated capitalisation rate to arrive at the capital value of the Subject Properties. The market based rate is the most frequently adopted methodology by the property industry in Malaysia as it reflects the inherent risk associated with the investment. In arriving at our opinion of the appropriate capitalisation rate using the above methodology, thorough examination and analysis of several recent sales of private specialist medical centre buildings were carried out. We note that there is a dearth of transaction of private specialist medical centres in Malaysia except for KPJ Batu Pahat Specialist Hospital (transacted in year 2019) and Sunway Medical Centre (transacted in year 2012). Based on our yield analysis, we note that the yields of the abovementioned private specialist medical centres are 7.19% and 9.79%, respectively. Exercising judgment based on our experience in the industry, we have compared the relative investment characteristics of the Subject Properties and the sales. We have made necessary diligent adjustments to arrive at the capitalisation rate of the Subject Properties. We have given emphasis on the time, location, quality, characteristics and tenure of the Subject Properties. We have also taken into account the current economic condition as impacted by the Covid-19 pandemic, the existing and future demand and supply of the private specialist medical centre segment in arriving at the capitalisation rate. The Rate is adopted after taking into consideration of the risk involved to obtain the net revenue (profit). We have reflected the above factors accordingly and have adopted fair capitalisation rates to capitalise the net profit (profit) to arrive at the terminal value of Subject Properties which are also derived from comparison of yields of the abovementioned private specialist medical centres, various types of residential, commercial, industrial and agricultural properties.

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Discount Rate	The discount rate is based on the perceived risk on the future projections and the return on the investment. We have made upward adjustment of 200 basis points (bps) on the capitalisation/all risk yield rate to reflect the higher risk on the future business, Malaysian economy and the future revenue. The discount rates adopted are within the range of the industry averages of medical centres in Malaysia and reflective of all the physical and investment characteristics of the Subject Properties.

1.2 Cost Approach

In essence, this approach entails the summation of the market value of land and Depreciated Replacement Cost ("DRC") of the building. Cost Approach is the most common method as 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. In assessing what he might be prepared to pay for a property, a potential purchaser may consider as an alternative to acquiring the Subject Properties by buying a similar type of land and constructing a similar building having the same utility and function. This represents the maximum that a potential purchaser would be prepared to pay for the property.

In arriving at the Market Value of the land, we have 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. Where dissimilarities exist, adjustments are made.

In determination of value of the commercial land by this method, a survey was made of property sales that have occurred in this or similar areas within the recent past. These comparable sale prices are then 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 with the Subject Properties.

The building component is arrived at by the DRC Method which is derived from the Gross Current Reproduction / Replacement Cost New ("GCRCN") and deducting therefrom the accrued depreciation comprising physical, functional and economical obsolescences. We also made reference to various contracts awarded, made enquiries with the contractors and quantity surveyors and made reference to JUBM and Arcadis Construction Cost Handbook Malaysia 2020. We have adopted straightline depreciation at a rate of 2% per annum and the estimated life span of the buildings adopted is about 50 years as per the practise in the industry for similar type of properties after consultation with Contractors and Quantity Surveyors which is a fair representation.

1.3 Reconciliation of Value

Private specialist medical centre is the centre of providing quality and skilled health services property with the various sources of revenues generated from operating the property as a business entity which trading is the essence to the value of the property. As such, we have given greater emphasis on the Income Approach by Profits Method (DCF) as a more reliable and appropriate method of valuation. The Income Approach by Profits Method (DCF) is able to capture the annual income and expenses over the investment horizon of the investor and thus appropriate to arrive at the fair and accurate market value of a private specialist medical centre.

The other suitable methodology which can be adopted as it takes into consideration of the nature of the Subject Properties which are designed and developed according to the specific use of a particular business requirement is the Cost Approach. It is the commonly adopted methodology in the industry for valuation of specialised assets like the Subject Properties. Based on our investigation and analysis, we note that there are adequate sale evidences of similar type of commercial land in the immediate vicinities and larger neighbourhood with similar locational benefit of the Subject Properties which can be relied upon to arrive at the accurate market value of the land component using the Market/Comparison Approach. The details of the sale evidences are easily available from the Valuation And Property Services Department, Ministry Of Finance. The building component is derived from the DRC where the development cost of medical centres are easily available. The summation of the land and building values is adopted as the market value.

The Market/Comparison Approach is an appropriate method to be adopted for homogeneous properties with minimal dissimilarities which require less complicated adjustments. However, for specialised profit orientated properties which are physically, functionally and economically complex where adjustments are numerous and more difficult to quantity, it will be difficult to make adjustments using the Market/Comparison Approach. The market value of a trading based property is a function of the future income stream.

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The cash flows are subject to the specific nature of the particular business. It will be strenuous to make all the relevant qualitative and quantitative adjustments accurately for such properties using Market/Comparison Approach. Based on our research and investigation, we note that there are either infrequent or very limited sale evidences of private specialist medical centres in Malaysia as the medical centres are often constructed for owner operation and seldom held as an investment asset. Therefore, the Market/Comparison Approach may not be a suitable approach to determine the accurate market value of the private specialist medical centres.

In light of the above, we have considered the Income Approach by Profits Method (DCF) and Cost Approach as the suitable valuation methodologies to arrive at the market value of the Subject Properties. Nevertheless, the Cost Approach is derived from the market value of the land and DRC of the building. The Cost Approach is based on the cost which does not reflect the investment characteristics of the Subject Properties and often does not reflect the highest and best use value of the Subject Properties. However, the Cost Approach can provide a good guide on the market value of the Subject Properties due to easily available comparables for the land component and availability of accurate cost of development for the specific design and construction of the private specialist medical centre.

Hence, we have considered the market value derived from the Income Approach by Profits Method (DCF) as fair and accurate representation of the market value of the Subject Properties supported by the Cost Approach.

2.0 THE IMPACT OF THE COVID-19 PANDEMIC ON THE VALUATION OF THE SUBJECT PROPERTIES

The unprecedented Covid-19 pandemic has had a negative impact on the Malaysian economy and the property market. The global and Malaysian economic crises caused by the pandemic have not spared the Malaysian private healthcare industry. The number of patients seeking treatment at private medical centres have declined in year 2020. The outbreak also has resulted in border closure that has restricted medical tourism. Nevertheless, the impact of the Covid-19 pandemic is expected to be mitigated by the pro-active fiscal and monetary measures, short-term economic recovery plan (STERP), prihatin rakyat economic stimulus package (PRIHATIN) and national economic recovery plan (pelan jana semula ekonomi negara (PENJANA)) introduced by the government to contain its impact on the Malaysian economy, property market and healthcare industry.

Malaysia, has immense potential as a preferred healthcare travel destination in the world. Prior to the Covid-19 pandemic, the Malaysian healthcare sector had robust growth and this sector has one of the highest multipliers in the Malaysian economy. Moving forward, post Covid-19 pandemic, the Malaysian healthcare sector is expected to remain resilient amid strong demand from the demographic shifts among which are the increase in aging Malaysian population, rising affluence, increasing life expectancy and growing healthcare insurance.

We observe that based on our analysis of the latest rental yields of the investment properties transacted in year 2020 comprising UOA Corporate Tower, The Pinnacle Sunway and Menara Guoco, the rental yields range from 4.96% to 6.28%. The performance of various real estate investment trusts (REITs) for year ending 2019 and 2020 revealed that the current rental yield trends are within the range of 1.79% to 8.04% depending on the type of the property, location, characteristics, tenure, nature and risk profile of the investment. In light of the above, taking into consideration of the current state of the Malaysian economy and property market which have been impacted by the Covid-19 pandemic, we are of the view that the fair rental yields of the Subject Properties are within the above range.

3.0 OPINION OF VALUE

Having regard to the foregoing, taking into consideration of all pertinent factors and based upon our analysis of relevant market data, we are of the opinion that the market values of the Subject Properties, on a going concern basis as a fully operational private specialist medical centres and subject to the titles being free of all encumbrances, good, marketable and registrable are as follows: -

Property No.	Property Address	Market Value (RM)
1	KPJ Ampang Puteri Specialist Hospital	157,000,000
2	KPJ Damansara Specialist Hospital	135,000,000
3	KPJ Johor Specialist Hospital	147,000,000
4	KPJ Puteri Specialist Hospital	51,000,000
5	KPJ Selangor Specialist Hospital	100,000,000
6	KPJ Ipoh Specialist Hospital	122,000,000
	TOTAL	**712,000,000**

For And On Behalf Of
CHESTON INTERNATIONAL (KL) SDN BHD

G. PAREMES SIVAM, FRISM, MRICS, MIACVS, MPEPS, MMIPFM
CHARTERED SURVEYOR
REGISTERED VALUER, V-480

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APPENDIX 'A' – SALIENT DETAILS OF THE SUBJECT PROPERTIES

Property No. 1

a. Salient Details

Date of Inspection and Valuation:	22 January 2021
Identification / Type of Property / Property Address:	A purpose built private specialist medical centre known as KPJ Ampang Puteri Specialist Hospital ("APSH") identified as PT No. 25119 (New Lot 35523), Mukim of Ampang (Empang), District of Hulu Langat, Selangor Darul Ehsan, held under Title No. HS(M) 26550, bearing postal address No. 1, Jalan Memanda 9, Taman Dato' Ahmad Razali, 68000 Ampang, Selangor Darul Ehsan.
Title Particulars:	

Tenure:	99-year leasehold interest expiring on 17 April 2089 (unexpired term of about 68.28 years)
Provisional Title Land Area:	21,670 square metres ("sq. m.") / 233,254 square feet ("sq. ft.")
Surveyed Land Area:	21,664 sq. m. / 233,189 sq. ft.
Registered Proprietor:	AmanahRaya Trustees Berhad (as Trustee)
Category of Land Use:	Building
Encumbrance:	Charged by AmanahRaya Trustees Berhad to Maybank Trustees Berhad, registered on 5 November 2018
Endorsements:	i) Nombor Perserahan 66/1998 Jil 4 Fol. 167 Pegambilan Sebahagian Tanah-Borang K seluas lebih kurang 8.50 meter persegi, registered on 23 January 1998. ii) Pajakan Seluruh Tanah to Ampang Puteri Specialist Hospital Sdn Bhd vide Suratkuasa Wakil: 14/2016, Surat Kebenaran: 1138/2018 & 1138/2008 commencing from 1 January 2016 and expiring on 30 June 2021, registered on 28 March 2018.

Location

APSH is located within the commercial centre of Taman Dato' Ahmad Razali famously known as Ampang Point at the periphery of Kuala Lumpur city centre. It is located about 6 kilometres (3.72 miles) to the east of the Kuala Lumpur city centre. APSH is located near the border of Kuala Lumpur city centre and Selangor, fronts onto Jalan Memanda 9 which is accessible from various parts of Kuala Lumpur and Selangor and the common accessibility from Kuala Lumpur city centre is via Jalan Ampang, Jalan Hulu Kelang/Middle Ring Road II ("MRR II").

Prominent developments located in the immediate vicinity are Ampang Point Shopping Complex, De Palma Hotel, M-City Development, Plaza Ampang City, Flamingo Hotel and Business Centre.

Prominent private medical centres and government hospitals located in the neighbourhood are as follows: -

Name	Capacity	Location	Distance from APSH
Private Medical Centre			
Gleneagles Kuala Lumpur	365 beds	Jalan Ampang, 50450 Kuala Lumpur	1.5 kilometres
Pantai Hospital Ampang	117 beds	Jalan Perubatan 1, Pandan Indah, 55100 Kuala Lumpur	4.7 kilometres
Prince Court Medical Centre	227 beds	Jalan Kia Peng, 50450 Kuala Kumpur	5.5 kilometres
Pantai Hospital Cheras	127 beds	Jalan 1/96A, Taman Cheras Makmur, 56100 Kuala Lumpur	8.0 kilometres
Government Hospital			
Hospital Ampang	-	Jalan Mewah Utara, 68000 Ampang, Selangor Darul Ehsan	7.0 kilometres
Hospital Kuala Lumpur	-	Jalan Pahang, 50586 Kuala Lumpur	8.0 kilometres
UKM Specialist Centre (formerly Hospital Universiti Kebangsaan Malaysia / HUKM)	62 beds	Jalan Yaacob Latif, Bandar Tun Razak, 56000 Kuala Lumpur	9.3 kilometres

Source: Ministry of Health ("MOH")

The Site

The subject site comprises a parcel of corner plot, regular in shape and has a frontage of about 227.036 metres (744 feet) onto Jalan Memanda 9, along its southern site boundary.

The Buildings

Brief details of the development, extension and renovation of APSH are as follows: -

Year of Construction / Approval	Development / Extension / Renovation	Date / Reference No. of the Approved Plan / Certificate of Fitness for Occupation ("CF") / Certificate of Completion and Compliance ("CCC")
1992 / 1993 / 1995	The original 7-storey main medical centre building and an annexed 5-storey Consultant building both are with a common lower ground floor	Approved by Majlis Perbandaran Ampang Jaya ("MPAJ") vide plan no. MPAJ 04/5/08/92 on 19 February 1993. CF bearing certificate no. A 0255 was issued by MPAJ on 26 October 1995.
2002 / 2003	The 6th floor of the 7-storey main medical centre building was renovated and being used as Paediatric Ward	Approved by Majlis Perbandaran Ampang Jaya ("MPAJ") vide plan no. MPAJ 04/5/08/92-1 on 29 June 2002. CF bearing certificate no. A 1049 was issued by MPAJ on 06 March 2003.

At the date of our inspection, we noted that a new 15-storey building identified as west wing has been constructed at the western portion of the site. This building has yet to be sold to ART (trustee for Al-Aqar REIT) for valid corporate reasons. Therefore, we have excluded the 15-storey building in the valuation.

All the above mentioned buildings are of similar construction and the details of the specification are as follows: -

Buildings:	Constructed of reinforced concrete frame, beam and column with brick infills plastered internally and rendered externally partly supporting steel roof trusses and purlins laid over with concrete roofing tiles and partly of reinforced concrete flat roof.

Ceilings:	Generally of plaster boards with cornices incorporating downlights, mineral fibre boards incorporating fluorescent lights and centralised air-conditioning ducts with the exception of the toilets which are of cement plaster.
Internal Walls:	Generally of gypsum boards and gypsum boards incorporating glass panels. The internal walls of the lift lobbies are generally lined with glazed wall tiles up to ceiling height whilst the waiting area on the ground floor is lined with glazed wall tiles up to a height of about 0.915 metre (3 feet) and up to the ceiling height. The male and female toilets are lined with glazed wall tiles up to the ceiling height.
Doors:	Generally, the main entrance to the reception area on the ground floor is fitted with an electronically operated double leaf frameless glass panelled door. Other doors are generally of fire rated timber door, timber flush door, timber panelled door incorporating glass panels, solid timber, an electronically operated double leaf frameless glass panelled door and PVC doors.
Windows:	Generally of aluminium casements incorporating tinted/clear glass panels and top hung units.
Floors:	Generally finished ceramic tiles, marble slabs, homogenous tiles, vinyl tiles and cement screed.

Generally, the buildings are equipped with centralised air-conditioning system, with some rooms fitted with additional split-unit air conditioners. Vertical access between floors is by means of eight units of passenger/service lifts (each with a capacity of 1,020 kilogrammes / 15 persons to 1,565 kilogrammes / 23 persons), a Bomba lift (with a capacity of 1,565 kilogrammes or 23 persons) and eight units of reinforced concrete staircases. The medical centre buildings are equipped with medical gas supply system, nurse call button / intercom system and private automatic branch exchange ("PABX") system. Generally, all the buildings are installed with fire fighting systems.

Car Park Bays

There are 242 car park bays provided within APSH comprising 127 covered car park bays located at lower ground floor and 115 surface car park bays (inclusive of valet parking) at the north portion of the site and along the circulation area of the site. All the car park areas are managed by Metro Parking Sdn Bhd except for the drop off and emergency car parks.

Gross Floor Area ("GFA")

The GFA of the buildings computed by Kumpulan Senireka Sdn Bhd and provided by Damansara REIT Managers Sdn Berhad ("DRMSB") are in line with our measurement in accordance with the Uniform Method of Measurement of Buildings, The Royal Institution of Surveyors, Malaysia ("RISM"). The GFA and age of each building are tabulated as follows: -

Building	GFA		Age (Year)
	sq. m.	sq. ft.	
ia) A 7-storey main medical centre building and an annexed 5-storey consultant building both are with a common lower ground floor	33,505	360,650	29
ib) A lower ground floor car park	5,541	59,644	
Total	**39,046**	**420,294**	

Beds

Vide a licence to operate bearing licence no. 1301008-0004-01/2020 (Borang 4 No. Siri: 005282) with 3 years validity from 2 November 2020 to 1 November 2022 as approved by MOH on 4 November 2020, we note that APSH has been permitted to operate 279 beds (inclusive of intensive care unit ("ICU"), coronary care unit ("CCU") and isolation room), 20 basinets, 17 cots, 28 dialysis chairs and 6 leaning chairs for both East Wing and the newly completed West Wing. From the prospectus of Al-Aqar REIT dated 24 July 2006, we note that originally there were 218 operational beds within the East Wing. The newly completed 15-storey building, the West Wing accommodates 86 operational beds. Due to the construction of the West Wing with 86 beds, about 39 beds from East Wing were reconfigured and used for treatment of Covid-19 patients. Thus, currently the East Wing accommodates 179 operational beds. Thus, the current operational beds of APSH are 265 beds. For the purposes of this valuation, we have considered the number of beds owned by Al-Aqar REIT i.e. 218 beds. The beds are classified into very very important person ("VVIP") suite, very important person ("VIP"/executive suite, premier suite, executive deluxe, single deluxe, single bedded, two bedded, three bedded, four bedded and five bedded.

The configuration of hospital beds, number of rooms and rates are as follows: -

Bed	Rate Per Bed Per Night (RM)	No. of Room	No. of Bed
VVIP / VIP	580 - 980	4	4
Premier Suite	380 - 480	17	17
Executive Deluxe	280 - 480	5	5
Single Deluxe	160 - 430	21	21
Single Bedded	230 - 380	49	49
Two Bedded	160 - 250	20	40
Three Bedded	140 - 210	3	9
Four Bedded	90 -180	17	68
Five Bedded	100	1	5
Sub Total		**137**	**218**
Single Bedded	230 - 380	19	19
Two Bedded	160 - 250	14	28
Sub Total from the newly completed West Wing which have been excluded in the valuation		**33**	**47**
Total (Operational Beds)		**170**	**265**
ICU / CCU	380	10	10
Isolation Room (CCU)	450	4	4
Total		**14**	**14**
Grand Total (Licenced Beds)		**184**	**279**

Source: Ampang Puteri Specialist Hospital Sdn Bhd ("APSHSB")

Facilities and Services: Other medical facilities comprise as follows: -

Other medical facilities	No. of Room / Bed
Operation Theatre (OT) Room	5
Labour Room	6
Central Sterile Supply Department ("CSSD")	1

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Neonatal ICU ("NICU")	1
Nursery	1

Source: APSHSB

APSH provides the following services: -

Clinical Disciplines	Facilities and Services
• General & Vascular Surgery • Obstetrics & gynaecology • General Medicine • Internal Medicine • Paediatrics & Paediatric surgery • Haematology • Anaesthesiology • Radiology • Oncology • Cardiology • Cardiothoracic Surgery • Nephrology & Urology • Orthopaedics • Opthalmology • Endorinology • Neonatology • Gastroenterology • Otorhinolaryngology (Ear, Norse & Throat / ENT) • Nephrology & Urology • Neurology • Plastic & reconstructive surgery • Neurosurgery • Psychiatry • Respiratory Medicine • Dentistry • Dermatology	• 24 Hours Accident and Emergency and Out-Patient Services with 24 hours Ambulance Services • Operation Theatres • Day Theatres • Intensive Care / Coronary Care and Neonatal Intensive Care with Haemodynamic and Ventilatory Monitoring and High Dependency Unit ("HDU") • Mother and Baby Centre with comfortable delivery suites and comprehensive nursery • Haemodialysis Unit • Diagnostic Imaging Centre complete with Heart Scan, Magnetic Resonance Imaging ("MRI"), Nuclear Medicine, computerized tomography ("CT") Scan, Ultrasound, Bone Densitometry as well as conventional radiology • Premier Screening and Wellness Centre with treadmill, stress test system, Electrocardiogram ("ECG"), Echocardiography and Lung Function Test Laboratory for full medical investigations 24 hours a day • Pharmacy is well stocked providing extensive range of pharmaceutical items • Physiotherapy with a wide range of electrotherapy and exercise therapy for rehabilitation • Lithotripsy • Diet and Diabetic Counseling • Day Surgery • ECG & Doppler services • Echocardiography ("Echo") • Endoscopic, Colonoscopic & Proncoscopic Investigation • E-Health Centre (Facility) • Wellness Program (Health Screening) • Audiology • Clinical Pharmacy Consultation • Home Nursing • Pain Management • Haematology • Cafeteria, Florist and Convenience shops

Source: APSHSB

Consultants / Clinics:	As at the date of valuation, as provided to us by the client, APSH is supported by 73 consultants / doctors.
Planning Details:	APSH is located within an area designated for commercial use. All the buildings and renovation works are issued with CF as per the details in the description of the buildings.
Occupancy Status / Lease Details:	Vide a Lease Agreement dated 30 June 2006 made between Al-Aqar REIT (formerly Al-'Aqar KPJ REIT) (being represented by its trustee, ART) as a Lessor, Ampang Puteri Specialist Hospital Sdn Bhd (APSHSB or Lessee) and DRMSB, we note that APSH has been leased for a term of fifteen (15) years with an option to renew for a further term of fifteen (15) years, subject to the terms and conditions to be agreed by the parties. The Lease commenced on 30 June 2006 and expires on 29 June 2021. This valuation is carried out pursuant to the proposed renewal of the lease of APSH for a further term of fifteen (15) years.

b. Valuation

1. Income Approach By Profits Method (DCF)

Parameters Adopted

a) Occupancy Rate Adopted

Year 1	Year 2	Year 3	Year 4	Year 5
2021	**2022**	**2023**	**2024**	**2025**
60.00%	63.00%	66.15%	69.46%	72.93%

b)	No. of Inpatient Admitted Days	2.92
c)	Ratio of No. of Outpatient / Inpatient	7.92

Revenue

a)	Consultant Inpatient Revenue Per Occupied Bed	RM 897
b)	Consultant Outpatient Revenue Per Person	RM 139
c)	Hospital Inpatient Revenue Per Occupied Bed	RM2,281
d)	Hospital Outpatient Revenue Per Person	RM 349

Expenses

a)	Cost of Sale		
	i) Material	29.6%	of Hospital Inpatient and Outpatient Revenues
	ii) Direct Staff Cost	13.3%	of Gross Operating Revenue
	iii) Operating Overhead	We have adopted 5% per annum escalation throughout our projection as fair and reasonable representation	
b)	Undistributed Operating Expenses		
	i) Administrative & General	11.9%	of Total Operating Revenue
	ii) Sales & Marketing	0.1%	
	iii) POMEC	4.8%	
c)	Quit Rent & Assessment Per Annum (Actual)		RM504,892
d)	Insurance Premium to cover F, B, PG, MB, PL, CL, AR and MM Per Annum (Actual)		RM449,700
e)	Capital Reserve Fund For The Replacement Of FFE, HOE And CAPEX Adopted in Valuation Per Annum		RM7,800,000
f)	Terminal Capitalisation Rate	9.75%	APSH has an unexpired leasehold interest of about 68.28 years
g)	Discount Rate	11.75%	

2. Cost Approach

In arriving at the Market Value of the land component, we have adopted the Market/Comparison Approach. The following sale evidences, amongst others, are considered suitable comparables and adopted: -

Description	Comparable 1	Comparable 2	Comparable 3	Comparable 4
Lot No. / Town / Mukim / District / State:	Lot 81095 (Formerly PT No. 26888) / Mukim of Batu / District of Kuala Lumpur / Kuala Lumpur	PT No. 50040 / Mukim of Setapak / District of Kuala Lumpur / Kuala Lumpur	Lots 33105 and 33106, Section 1 / Both Within Town of Cheras / District of Ulu Langat / Selangor Darul Ehsan	Lot 122, Section 92 / Town and District of Kuala Lumpur / Kuala Lumpur
Title No.:	Pajakan Negeri 53431	HS(D) 121142	Geran 80304 and Geran Mukim 1820	Pajakan Negeri 35427
Property Type:	A parcel of commercial land (End)	A parcel of commercial land (Intermediate)	Two (2) adjoining parcels of commercial land (Intermediate)	A parcel of development land potential for commercial use (Intermediate)
Location:	Located along Jalan Metropolitan, Off Middle Ring Road II	Located along Jalan 3/50C, Off Jalan Genting Kelang, Kuala Lumpur	Fronts onto SILK Highway, Balakong Business Centre	Fronts onto Jalan 2, Chan Sow Lin
Category Of Land Use:	Building	Building	Building	Building
Town Planning:	Commercial	Commercial	Commercial	Commercial
Tenure:	99-year leasehold interest expiring on 4 April 2115 (unexpired term of about 94.25 years)	99-year leasehold interest expiring on 13 October 2087 (unexpired term of about 66.76 years)	Interests in perpetuity, in respect of both titles	99-year leasehold interest expiring on 9 May 2100 (unexpired term of about 79.33 years)
Land Area (sq. ft.):	238,298	26,738	102,569	37,900
Consideration:	RM94,764,144	RM13,050,810	RM42,500,000	RM18,191,870
Date of Transaction:	23 July 2019	03 June 2019	16 November 2018	03 April 2017
Vendor:	JL 99 Holdings Sdn Bhd	Immitec Sdn Bhd (In Liquidation)	Empayar Mantap Sdn Bhd	Poon Siew Hong and Poon Siew Kai
Purchaser:	Vienna Homes Sdn Bhd	Kit-M Corporation Sdn Bhd	Columbia Asia Sdn Bhd	Wan Hong Hardware Trading Sdn Bhd
Analysis (per square foot / "psf"):	RM398.00	RM488.10	RM414.35	RM480.00
Adjustment Factors Considered:	Market condition due to the impact of the Covid-19 pandemic (time), location and accessibility, corner/end premium, shape, category of land use/express condition, planning approval/development order, restriction in interest, size/quantum allowance and tenure.			
Adjusted Value Of Land (psf):	RM478.85	RM479.29	RM472.87	RM478.37
Market Value of Land:	In arriving at the market value using the Market/Comparison Approach, we have emphasized upon Comparable 4 which has the least dissimilarities against the subject property. We have adopted the adjusted value of **RM478.37 psf** from the adjustments of Comparable 4 as fair representation which translates into a market value of the commercial land of **RM111,550,365**.			

Source: Valuation and Property Services Department, Ministry of Finance

The GCRCN of the buildings is RM114,707,690. Depreciation is adopted at a rate of 2% per annum. The DRC of the buildings is RM48,177,230. Thus, the Market Value derived from the Cost Approach is RM159,727,595 and we have rounded up to RM160,000,000.

3. Reconciliation and Opinion of Values

Method of Valuation	Market Value Derived	Market Value Adopted	
Income Approach by Profits Method (DCF)	RM157,000,000	**RM157,000,000**	We have considered the market value derived from the Income Approach by Profits Method (DCF) as fair and accurate representation of the market value of APSH supported by the Cost Approach.
Cost Approach	RM160,000,000		