

CHAIRMAN'S STATEMENT



DATO' KAMARUZZAMAN ABU KASSIM

CHAIRMAN



**DEAR SHAREHOLDERS
AND STAKEHOLDERS OF KPJ,
IT GIVES ME GREAT PLEASURE TO PRESENT TO
YOU KPJ HEALTHCARE BERHAD'S (KPJ OR THE
GROUP) ANNUAL REPORT FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2017 (FY2017).**

The year under review saw KPJ recording an improvement in terms of revenue and profits. These were the result of focused strategies, proving once again that we have a strong platform upon which we can further build a successful future.

During the year, we continued to make strategic moves to grow KPJ's business sustainably. We worked our capital, capabilities and capacities harder and smarter, in order to seek the best possible returns. We further embraced innovation

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to strengthen and enhance synergies throughout the Group's operations. More importantly, KPJ is ultimately able to translate it all directly to shareholder value.

RESILIENT INDUSTRY

The year 2017 was characterised by a buoyant Malaysian economy, with a Gross Domestic Product (GDP) growth of 5.9% for the year. Corresponding to this, Malaysia's total healthcare industry spending stood at RM52 billion at the end of the year, fuelled by continuous consumer demand for quality healthcare services.

A key development in the industry has been the increasing application of medical and digital technology, triggered by socioeconomic changes not only in Malaysia but also internationally. While a more globalised and digitally-connected world has undoubtedly brought immense social and economic benefits, it clearly also impacts all segments of KPJ's business, from diagnostics, to treatment and the dispensing of pharmaceuticals.

As part of this change, KPJ is enhancing its business strategies to be more patient and customer-centric. Our six key strategic initiatives keep us on course as we strive to increase our market share, identify and implement new medical innovations, process enhancements and improvements, as well as digitise our operational and functional processes to remain ahead of the curve.

We deliver initiatives within our various hospitals and departments, aimed at ensuring the highest standards of delivery within a sustainable business. A comprehensive review of our strategic performance during the year can be found within our Management Discussion and Analysis on pages 20 to 44 of this Annual Report.

As a result of our continuous efforts in the healthcare realm of the highest quality of medical treatments and services rendered to our patients, we have strengthened our sterling reputation in the sector, which is one we are extremely proud of as a Group. It heartens me to share that in 2017, the Group received a host of local and international accolades in recognition of our sterling efforts within the areas of quality healthcare provision and upholding strong corporate governance (CG).

KPJ Klang Specialist Hospital was named the winner of the Prime Minister's Industry Excellence Award which was introduced by Ministry of International Trade and Industry (MITI) to recognise outstanding Malaysian companies chosen from a selection of winners across categories in the manufacturing and services sector. The awards is a recognition that KPJ is on track in its vision to become a leading healthcare provider in the region.

As a recipient of the Prime Minister's Award, KPJ Klang received a cash prize of RM500,000 from the Malaysia Prime Minister, YAB Dato' Sri Mohammad Najib Tun Abdul Razak.

The KPJ Group received a number of awards at the MSWG-ASEAN Corporate Governance Recognition 2017 Awards, which identified the Top 100 Malaysian Public Listed Companies based on disclosures from 900 companies assessed during the year using the ASEAN Corporate Governance Scorecard. The 2017 assessment was more stringent than previous years, using a revised Scorecard approved by the ASEAN Capital Markets Forum (ACMF). KPJ was honoured to be ranked 33rd in the List of Top 100 Companies with Good Disclosures; 29th in the List Of Top 100 Companies For Overall CG & Performance; and the Industry Excellence Award within the Healthcare category.

As testament of the high quality patient-centric healthcare services we provide our customers, KPJ was awarded the Global Health and Travel APAC Award 2017 in Bali. As well as that, our

KEY HIGHLIGHTS

The year 2017 was characterised by a buoyant Malaysian economy



Gross Domestic Product (GDP) growth of 5.9% for the year.

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enduring commitment to talent management and employee engagement saw us as the recipient of the Human Resource Vendor of the Year 2017.

We also received further recognition with the EU-Malaysia Chamber of Commerce and Industry (EUMCCI) Sustainability Award 2017 for Best Social Impact (Large Companies) as well as the Innovating Care Asia Pacific 2017 Award for Best in Patient Experience. On the domestic front, KPJ was also awarded the Platinum Award from the KL Mayor's Tourism Awards 2017.

STRENGTHENING OUR BOARD COMPOSITION

The Board of Directors remains firmly committed to advancing gender diversity on the Board as a means to promote better leadership and governance, and enhancing Board and corporate performance. In January 2018, KPJ's Board has reaffirmed its commitment in this area with its target of reaching 30% women directors sitting on the Board by end of 2018.

During the year under review, we witnessed some changes in the composition of the Board. We bid farewell to Tuan Hj Ahamad Mohamad and Dr Yoong Fook Ngian, both of whom resigned from the Board in July 2017. On behalf of my colleagues on the Board, I would like to thank them for their years of dedicated service, in transforming KPJ into an internationally acknowledged healthcare brand.

In their place, we welcome Dr. Zaki Morad Mohamad Zaher and Encik Mohd Sahir Rahmat. We look forward to their insightful contributions, as we work together to steer the Group forward to achieve greater performance.

In line with the Malaysian Code on Corporate Governance 2017's requirements for annual shareholders' approval for independent directors serving beyond the nine-year limit, we have established the criteria that the tenure of our independent directors shall not exceed the prescribed nine-year period. Puan Zainah Mustafa who was appointed on 1 December 2004, Datuk Azzat Kamaludin who was appointed on 1 September 1994 and Dr. Kok Chin Leong who was appointed on 7 July 2005 have expressed their intention not to seek for re-appointment as Independent Non-Executive Directors at this AGM.

EMBEDDING A STRONG CULTURE OF GOVERNANCE

In FY2017, KPJ implemented a number of measures within our corporate governance framework and policies, which were aligned with the requirements of the Companies Act 2016, the revision of the Main Listing requirements by Bursa Malaysia Berhad and the Malaysian Code on Corporate Governance 2017.

We conducted both internal and external audits to review and approve the revised Audit Charter, as well as reviewing and adopting the Strategic Business Plan for the Group for the period of 2018 till 2022. Our Medical Advisory Committee remains firmly committed to ensure that our network of hospitals practice the best clinical governance activities, and has conducted itself during the year to ensure the highest levels of compliance within all our hospitals.

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“MOVING INTO 2018, I BELIEVE THE FOUNDATIONS OF KPJ'S BUSINESS ARE VERY STRONG AND WILL ONLY BE STRENGTHENED FURTHER. WE IDENTIFIED A NUMBER OF INITIATIVES ALIGNED WITH OUR KEY STRATEGIES TO CONTINUE ON OUR JOURNEY OF SUSTAINED GROWTH AND PROFITABILITY.”

FORWARD LOOKING STATEMENT

Moving into 2018, I believe the foundations of KPJ's business are very strong and will only be strengthened further. We identified a number of initiatives aligned with our key strategies to continue on our journey of sustained growth and profitability.

The Group will be adopting our parent company Johor Corporation's (JCorp) strategies, as a best practices benchmark against which to implement initiatives and measures throughout our network of hospitals to ensure our sustainable long-term growth and profitability. We believe that JCorp's strategies, which have augured well for the Corporation throughout the years as it overcame various market and economic challenges to generate sustained growth, provide KPJ a proven strategic means by which we can identify new areas of growth to tap into in order to expand our reach and market share.

KPJ remains committed to its talent management drive, and has identified new ways of engagement with our employees as a key priority in ensuring high retention rates of our highly skilled talent base. Within KPJ Healthcare University College (KPJUC), we have identified measures which will strengthen its educational capacities in providing a talented pool of future medical professionals.

Our digitisation goals remains on track, and we will continue with our momentum in this area by harnessing new technologies and advancements to upgrade our operational and IT infrastructure in order to increase our service deliveries and operational efficiencies. As well as that, we remain committed to seeking out new areas in medical technology and bringing them into Malaysia, as a way to distinguish the Group's healthcare offerings from other service providers in the marketplace. As it always has been, our strategies are based on our mission of providing patient-centric healthcare services to our customers, within a compassionate and caring hospital environment.

APPRECIATION

Our quest to transform KPJ into a world-class healthcare provider synonymous with providing patient-centric healthcare solutions and treatment would not have been possible without the ongoing support and cooperation of all parties concerned.

On behalf of the Board of Directors, I wish to take this opportunity to express our heartfelt appreciation and gratitude to the governments of the various states in which our hospitals operate, the Ministry of Health and other health regulators and accreditation bodies, and all our stakeholders within our hospital network, including our suppliers and vendors.

I also wish to thank all our consultants, medical officers, nurses and all other medical and non-medical professionals whose hard work and uncompromising dedication to caring for our patients has kept us at the forefront of the industry. As well as that, I also wish to thank all our customers, for their continued faith in our quality healthcare delivery.

On a personal note, I would like to express my heartfelt appreciation to my colleagues on the Board of Directors for their invaluable guidance, wisdom and expertise in assisting Management to successfully steer our Group, and maintaining KPJ's leadership position in the healthcare sector.



Dato' Kamaruzzaman Abu Kassim

Chairman
KPJ Healthcare Berhad