

OUR LEADERSHIP STATEMENT

Statement from Our Chairman

Dear Valued Shareholders and Other Stakeholders of KPJ,

I am pleased to report that KPJ overcame a multitude of unprecedented challenges in highly challenging times, to turn in a resilient performance in 2020. Although we were hit hard by the COVID-19 pandemic and the different phases of the stringent but necessary Movement Control Order (MCO), our people stepped up to the plate to prove their mettle and make steadfast progress on several fronts.

Highlight of the year ▼

Declared dividends of 1.2 sen
 per ordinary share, with total dividends of RM86.0 million paid for FY2019

Community Outreach Programme RM15.8 million

Incorporating the tagline People, Passion, Purpose
 this year's Annual Report pays tribute to the resilience, dedication and passion of our people.

The year also saw us thoroughly re-evaluating our state of play and putting in place the building blocks that are laying strong foundations for KPJ's sustainable growth. Today, a re-energised KPJ is well positioned to make good advances forward in its value creation efforts as the biggest private hospital group in Malaysia by bed count capacity.

It is my privilege to present the Annual Report of KPJ Healthcare Berhad (KPJ or the Group) for the financial year ended 31 December 2020. Incorporating the tagline "People, Passion, Purpose" this year's Annual Report pays tribute to the resilience, dedication and passion of our people. It also celebrates their capacity to innovate and remain laser-focused in all that they set their hands to. We also applaud our people's commitment to working together as a team to overcome highly challenging operating conditions.

REMAINING RESILIENT AMIDST CHALLENGING TIMES

In 2020, as a consequence of the economic disruptions resulting from COVID-19 containment measures and heightened risk aversion, the global economy contracted by 3.5%, marking the deepest peacetime recession since the Great Depression. The second quarter of 2020 in particular saw a steep decline in production activities across nations which led to weakened labour market conditions that weighed on domestic demand, external trade and global growth. To avert a deeper downturn, governments the world over set in place unprecedented global policy responses, including substantial fiscal stimuli, accommodative monetary policies and quantitative easing measures. As containment measures were gradually lifted in the second half

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of 2020, global growth showed signs of recovery, although at an uneven and gradual pace.

On the domestic front, the Malaysian economy contracted by 5.6% in 2020, its lowest level since a 7.4% contraction during the Asian Financial Crisis in 1998. This was due to broad-based weaknesses in exports, production and domestic demand, arising from adverse external spill-overs as well as the implementation of stringent domestic containment measures to combat the pandemic. Weaker domestic economic activities led to a decline in labour market conditions and income losses, thereby impacting consumer spending. Given the low levels of business confidence and the slower implementation of projects, private investment activity was affected.

Meanwhile, the implementation of the various phases of the MCO impacted public expenditure. The greatest impact was felt in the second quarter of 2020 even as GDP contracted by 17.1%. Growth gradually improved in the second half of the year, partly supported by the improvement in external demand and the reopening of the domestic economy amid a more targeted approach to containment measures.

Malaysia's adoption of a comprehensive and complementary policy response to the crisis played a significant role in cushioning the economic impact of the

pandemic on the domestic economy while supporting growth recovery. The Malaysian government rolled out a series of stimulus packages in 2020 worth RM305 billion (20% of Malaysia's GDP) to support the economy throughout the crisis. Providing immediate relief to households and businesses in particular, these policy measures eased cash flow constraints and helped reduce job losses.

Amidst this challenging backdrop, the healthcare industry, typically the most resilient of industries to withstand tough economic conditions, experienced what was termed "a washout year". Due to the unprecedented impact of the COVID-19 pandemic and the movement restrictions on inpatient demand, all hospitals registered lower-than-expected bed occupancy rates (BOR). This was especially

evident during the initial MCO with the BOR slumping to a record low.

KPJ was no different, ending the year with a much lower BOR of 48% (2019: 67%) while the number of inpatients fell 24.8% year-on-year. As a result, we saw the Group's 2020 revenue decline 11% to RM2.4 billion from RM2.7 billion previously, while our 2020 net profit nearly halved to RM110.8 million as compared to a net profit of RM226.7 million in 2019. On top of the external headwinds posed by the pandemic, our 2020 performance was dragged down further by an impairment loss and a decrease in share of profit from associates. The finer details of our operational and financial performance are spelt out in the Review by the President and Managing Director (PMD).

Despite the year's challenges, the Board made a conscious decision to reward shareholders for their support and went on to pay out three interim dividends amounting to 1.2 sen per share in respect of the financial year ended 31 December 2020—these included interim dividends of 0.5 sen on 20 April; 0.3 sen on 28 July and 0.4 sen on 31 December. In total, dividends amounting to RM51.4 million were paid out to shareholders over the course of 2020 representing some 46% of the Group's net profit for 2020.



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RE-ENERGISING KPJ: OUR STRATEGIC PATHWAY TO PROGRESS

Even before the COVID-19 pandemic began to escalate, plans were underway to transform KPJ and reinforce its position as Malaysia’s biggest private hospital group by bed count capacity. While the highly disruptive operational conditions in 2020 truly tested our people and our entire hospital infrastructure, it also gave us the impetus to take a closer look at ourselves, re-strategize and plan how to better move forward. The following are some of the building blocks that we set in place over 2020 and which are laying the foundations for the Group’s future value creation efforts under our “Re-energising KPJ” strategy. This strategy calls for the creation of synergies across the KPJ Group’s businesses to outperform the industry and deliver sustainable total shareholder returns.

A STRONGER LEADERSHIP BENCH

When I joined the Board on 18 February last year, the COVID-19 situation was just beginning to unfold and no one knew what was to come. At that point in time, KPJ was undergoing a transition with substantial changes underway at the Board level. In fact, most of us Directors then were newcomers to KPJ and were just beginning to understand the workings of KPJ. However, upon being thrown headlong into 2020’s tumult and undergoing our baptism of fire, we came out a wiser, more experienced lot.

Today, 11 of the 13 Directors on the Board have served KPJ for just over a year. While we may be relatively new to KPJ, we bring to the table our time-tested, multi-faceted experiences, skillsets and outlooks which will help balance the



The plan is to enhance the synergy between our non-medical and medical staff as well as continue increasing our service levels so that wherever patients go within the KPJ network, they will be able to get the same level of clinical care and service.



Board’s decision-making process. More importantly, we bring aboard fresh perspectives as well as the lessons learnt from 2020 to lead the Group forward on to greater heights of success.

On 1 July 2020, we brought our new President and Managing Director (PMD), En. Ahmad Shahizam Mohd Shariff, on board to drive the transformation within KPJ and improve operating levels at all units within the Group. The PMD has been given the mandate to reinvigorate KPJ so that we can continue to lead the industry. The finer details of the strategy to Re-energise KPJ can be found in the PMD’s Review within this Annual Report.

Earlier this year, several new members of the senior leadership team joined our PMD adding their wealth of experience and expertise to the mix. They include our new Chief Corporate Officer, Pn. Ariesza Noor; Chief Operating Officer, Pn. Nik Zainon Yusoff; Chief Commercial Officer, En. Nik Izhar Nik Mohammed; Chief Transformation Officer, Mr. Suriaghandi a/l Suppiah; and Chief Talent Officer, En. Shathiran bin Mohd Idrus.

With the addition of fresh team players, KPJ now has a multi-talented and highly-experienced leadership team to guide and lead the Group forward with a singular vision and mandate. I believe we are in good shape on this front moving forward and look forward to seeing the fruit of our combined efforts in due course.

ENHANCED SERVICE LEVELS ACROSS THE GROUP

KPJ’s fundamental purpose is to deliver exceptional health treatment, care and diagnosis to all our patients. To this end, the last 40 years have seen KPJ building a very large and strong base to become the largest healthcare group in Malaysia by bed capacity. Apart from quantity, we also want to focus on the quality of our efforts. We plan to enhance the quality healthcare that we are already providing by taking our service levels up several notches. The plan is to enhance the synergy between our non-medical and medical staff as well as continue increasing our service levels so that wherever patients go within the KPJ network, they will be able to get the same level of clinical care and service.

We bring aboard fresh perspectives as well as the lessons learnt from 2020 to lead the Group forward on to

GREATER HEIGHTS OF SUCCESS



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FORWARD WITH A SINGULAR VISION AND MANDATE



40 YEARS

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Statement from our Chairman



The pandemic taught us the value and convenience of leveraging digitalisation in a greater manner. Over the course of 2020, many surgical patients were reluctant to approach hospitals because of fears of the pandemic. To offset this, KPJ relied on digitalisation and tele-medicine services to reach out to those who were hesitant. As many on both sides of the equation (i.e., both patients and healthcare providers) were not accustomed to this nor knowledgeable about the accuracy of online diagnosis, this was something that we have had to proactively ramp up. Over time, more and more people have gotten used to tapping tele-medicine services, but there is still much room for improvement. The technology to do this

is now very advanced and we are currently exploring new systems that we can introduce to the Group.

As we move to embrace technology in a more immersive manner, the possibilities and benefits are endless. For instance, we are of the view that when a patient comes to KPJ for treatment, the care should not just end there. We should also follow up with the patient as they advance into other stages of their lives. Ideally, we would like to see the babies that we help to deliver stay with us as customers for the rest of their lives – digital platforms will make all this possible and much easier.

BOLSTERING OUR REPUTATION

Plans are underway to rejuvenate and strengthen the KPJ brand to reinforce the Group's reputation as the biggest private hospital group in the country. However, this branding will not be done in a traditional marketing sense but more in a manner of how the entire hospital network is positioned.

Currently, there are several prominent hospitals within our fold that are better known by their individual name and are not as well known for being a part of the KPJ Group. Take for instance, the KPJ Damansara or the KPJ Ampang Puteri – both of which are within KPJ's stable of hospitals yet are better known by their individual names.

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We plan to position these key flagship hospitals as being the best-in-their-class at the tertiary level. The positioning will not be so much from a premium perspective, but more from a service perspective in that they offer the best healthcare services and are complemented by various sub-specialisations. We will capitalise on these flagship hospitals and link them to the smaller community-based hospitals and the bigger state capital hospitals so that they all work together in a synergistic manner via a seamless hub and spoke model. I am confident that the hub and spoke model will pave the way for patients to be taken care of in a seamless manner within our hospital network.

➤ For more details on KPJ's Re-energising Strategy, please turn to the Review by the PMD on **pages 34 to 41** of this Annual Report.

UPHOLDING RESPONSIBLE CORPORATE PRACTICES

COMMITTED TO GOOD GOVERNANCE MEASURES

The Board of KPJ acknowledges that good governance translates into good business. As such, we are committed to upholding and implementing strong standards of corporate governance, as well as robust risk management and internal control measures throughout the length and breadth of our organisation. These essential components of our business are safeguarding our corporate reputation, bolstering investor confidence, ensuring continued shareholder value creation and driving the sustainable, long-term growth of our businesses,

The Group's governance policies are guided by the spirit and intended outcomes of the enhanced Malaysian Code on Corporate Governance (MCCG) 2017. We are deeply committed to ensuring good governance policies flow down from the Board in a coherent manner and are cascaded down

across the rest of the organisation in an effective manner. Even as we uphold good governance, we work closely with our stakeholders at various levels and through a myriad of channels to arrive at one outcome—patient safety and satisfaction.

On 1 December 2020, three Independent Non-Executive Directors, namely Prof. Dato' Dr. Azizi Bin Haji Omar, Dato' Dr. Ngun Kok Weng, and Dato' Dr. Sivamohan A/L S. Namasivayam, were redesignated as Non-Independent Non-Executive Directors to rightly reflect their positions as medical consultants with vested interests in KPJ. Nevertheless, in terms of Board representation, today 50% of KPJ's Directors are Independent Directors. We are looking to recruit a new Independent Director so that we are further aligned with MCCG 2017 Practice Note 4.1 which calls for at least half of the Board (of Large Companies), to comprise Independent Directors. While historically, most government-linked companies (GLCs) have not had much independence on their Boards, KPJ's goal is to have a more professional Board of Independent Directors. In terms of gender diversity on the Board, we have one female Director and are working to recruit another for more diverse Board representation.

Effective 1 February 2021, the Board approved a new group senior management structure. This revised structure has been reorganised to establish greater management accountability and enhance empowerment at all levels of management. It now mandates that 10 members of the KPJ Senior Management Team, together with seven Regional CEOs, will form the newly established KPJ Group Management Committee (KGMC), headed by the PMD and will also replace the KPJ EXCO.

February also saw us implement a new organisational structure where we will

leverage on a hub and spoke structure to more effectively manage our business. The details of these are spelt out in the PMD's Review. All these developments place an emphasis on empowerment and accountability at the working level so that KPJ is run in a more professional, effective and meritocratic manner.

Last year, due to the pandemic restrictions, we leveraged digitalisation to conduct our first fully virtual Annual General Meeting (AGM). Our 27th AGM was carried out on 9 July 2020 guided by the Securities Commission Malaysia's Guidance on the Conduct and General meetings for listed issuers. All shareholders were required to register their attendance remotely by using the Remote Participation and Voting (RPV) mechanism. Shareholders were encouraged to post questions to be read and answered during the Q&A session, while electronic poll voting was conducted for all resolutions and immediately announced during the proceedings. In line with KPJ's sustainability efforts, shareholders were able to access the Group's Integrated Report, Sustainability Report and Financial Report online instead of hard copies of the same.

In the future, pandemic or not, we may continue to explore the option of a virtual AGM as it is a rather practical platform, which allows shareholders who cannot be present or who may be overseas, the ability to virtually attend these meetings. Although more costly, it is worth the effort and convenience.

RECOGNISED FOR UPHOLDING EXCELLENCE

The KPJ Group and its subsidiaries continue to be recognised for upholding excellence on several fronts.

For our readiness and proactiveness in according our patients cashless payment

Statement from our Chairman

UPHOLDING TANGIBLE SUSTAINABILITY PRACTICES

The KPJ Group is deeply committed to championing the agenda of sustainability across our organisation by balancing out our economic ambitions with social and environmental considerations as part of our sustainability journey.

For a good part of 2020, we focused our efforts on mitigating the effects of the pandemic upon our business, frontliners and other vulnerable groups within society by helping as much as we could in areas where we were most effective. These included supplying ventilator machines to the Ministry of Health (MOH) to support their treatment of COVID-19 patients, providing testing facilities, and leading the way in reducing our prices for pandemic-related care. Over the course of 2020, we also undertook the following:

- **Distributed 150,000 pieces** of personal protective equipment (PPE) and hand sanitisers to MOH frontliners
- **Donated RM550,000** in cash to charities and local communities
- **Disbursed more than RM450,000** worth of food to 26,514 frontliners, staff, local communities and orang asli groups
- **Spent RM150,000 for KPJUC student** welfare and hospitality, among other activities

➤ For more insights into our sustainability endeavours over 2020, please refer to our third standalone **Sustainability Report**.

options such as the JomPAY solution to settle their bills safely amidst the pandemic, KPJ received accolades on several fronts. At The Asset Triple A Awards - Asia 2020 event, our collaborative JomPay effort with HSBC received the title Best Payment and Collection Solution. At the Adam Smith Award - Asia 2020 event, the same solution was hailed Highly Commended Winner, Best Crisis Management Solution. The JomPAY solution also helped KPJ garner the COVID-19 Innovation Award for Corporates under the COVID-19 Response Awards Category at the Treasury Management International (TMI) Awards – Global for Innovation and Excellence event.

KPJ was also once again named recipient of the Reader's Digest Trusted Brand for Private Hospitals – Platinum Award for the third consecutive year. Prior to winning Platinum, KPJ was named the Reader's Digest Trusted Brand Award – Gold Winner, for six consecutive years since 2012. These wins signify the trust and confidence that healthcare consumers have in KPJ as a provider for them, their families and the communities that we operate in.

We were also selected by HR Asia as being one of the Best Companies to Work at the Asia Awards 2020 - Malaysia Edition. The HR Asia Awards recognise organisations that have a strong and positive workplace culture and promote high levels of employee engagement. We are honoured to have been selected for the third time, after being previously selected in 2014 and 2018. It is especially noteworthy that the winners were chosen based on surveys among the employees themselves.

The year also saw us bagging a Gold Award for our 2019 Integrated Annual Report at the NACRA 2020 Excellence Awards in the category of Companies with RM2 billion to RM10 billion in market capitalisation.



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Our subsidiaries too chalked up several wins over the course of 2020. KPJ Puteri won the Excellence Award in the Most Advanced Healthcare Technology category during the 19th Hospital Management Asia Conference. This prestigious event recognises and honours hospitals in the Asia Pacific that demonstrate innovative and progressive approaches that improve healthcare.

KPJ Tawakkal KL (KPJ TWKL) went on to be named the top Orthopaedic Service of The Year for the fourth year running at the Global Health Asia-Pacific 2020 APAC Healthcare and Medical Tourism Awards. This latest win underscores KPJ TWKL's capacity and capabilities as a centre for Orthopaedics, for the domestic and international markets. It has to date demonstrated a 96% - 98% recovery rate per annum for its orthopaedic cases.



KPJ Tawakkal KL (KPJ TWKL) was named top Orthopaedic Service of The Year at the Global Health Asia-Pacific 2020 APAC Healthcare and Medical Tourism Awards.

MOVING FORWARD

The year 2021 is forecast to be a turning point for the global economy with the expectation for a post-pandemic rebound, albeit at an uneven pace across nations. While there is still much uncertainty, particularly surrounding a possible resurgence in COVID-19 cases and the potential re-imposition of lockdowns in some countries, the deployment of vaccines is expected to pave the way for normalisation in economic activities worldwide. Additionally, there is an expectation that the ongoing expansionary monetary policy and loose financial conditions globally will continue to ease domestic financial conditions, particularly in emerging market economies, thereby further supporting the economic recovery.

For Malaysia, the expectation is that the domestic economy will recover in 2021, with growth ranging from 6.0-7.5%. The path of recovery is expected to be gradual and uneven across economic sectors, with the possibility of some speedbumps along the way. Growth will be underpinned by stronger external demand and higher public and private expenditure. The rollout of the domestic COVID-19 vaccination programme is expected to lift sentiment and support economic activities. Given Malaysia's integration with fast-growing segments of global value chains and diversified external trade structures, along with continued policy support and the effective execution of the same, domestic growth is expected to rebound in 2021.

On 18 January 2021, the Malaysian government announced the PERMAI Assistance Package which included a RM100 million allocation to further enhance cooperation between the public and private sectors in combating the pandemic. Some RM150 million has been allocated under PERMAI to recruit an additional 3,500 healthcare personnel, comprising assistant medical officers, paramedics, laboratory technicians and nurses who began work end-January. On top of this, the government has secured the commitment of several private healthcare facilities, including KPJ, to receive referrals and treat both COVID-19 and non-COVID-19 patients to help alleviate the strain on the public healthcare system. This bodes well for private-public collaboration and the well-being of the general public.

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Moving forward into 2021, while the Board of KPJ is cautiously optimistic that the outlook will improve on the back of the anticipated rollout of the national COVID-19 vaccination programme, we also expect the challenges posed by the pandemic to continue in 2021. Amidst the uncertainties, we will continue to take advantage of the Malaysian governments' incentives to mitigate the adverse effects of the pandemic.

The last many years have seen us opening up new hospitals across the country and focusing our efforts on reaching the break-even point as soon as we can. Moving forward, we will now explore how best to utilise and optimise the capacity of these new projects that we have embarked on. While KPJ already has a strong presence in Malaysia, we will turn our efforts to exploring opportunities outside of Malaysia. Although we already have a presence in Indonesia and investments in Australia will re-evaluate our involvement in these operations and look beyond them. The Board is of the opinion that whatever we take on from now on, that we must do it more efficiently and in a much different manner than before.

We do not just want to remain a big player in Malaysia, we want to add value and be a significant player with a meaningful presence outside Malaysia. Moving forward, the PMD and his team are tasked with improving our Malaysian operations as well as looking out for opportunities to expand our footprint. Our sub-businesses such as our laboratory and pharmaceutical businesses too have tremendous potential and I am confident that we can do this well. I for one am quite excited to be involved in KPJ. While I still have a lot to learn, I believe the Board shares my view in that although KPJ is a diamond in the rough – once we polish it, it can be a fantastic asset to our stakeholders.

There is still much uncertainty before us and the fight against the COVID-19 pandemic continues. We cannot let our guard down but we must be vigilant at all times. As KPJ ventures forth, we will continue to keep a laser focus on our Re-energising strategy and uphold our mandate to "Care for Life".

ACKNOWLEDGEMENTS

The year 2020 was a year like no other and we have many parties whom we want to thank for standing with us amidst some very tough times.

On behalf of the Board, I wish to convey our heartfelt appreciation to our valued shareholders for their unwavering confidence in KPJ and our value creation abilities. As we venture forth amidst uncertain times, rest assured KPJ will do all that is necessary to ensure we continue creating value for you and our entire spectrum of stakeholders.

We also wish to convey our sincere thanks to our customers and patients for their continued trust and confidence in KPJ's quality healthcare delivery. We remain committed to delivering robust and innovative patient-centric healthcare solutions for their betterment in our role as a world-class healthcare provider.

Our utmost gratitude goes to the various state governments and Federal Government, the Ministry of Health and other health regulators and accreditation bodies, as well as our vendors and suppliers, for according us their unstinting cooperation and support in our mission to deliver effective healthcare solutions and treatment. We also look forward to the further cementing the public-private partnership that we have embarked on for the benefit of the general public.

To our consultants, medical officers, nurses and all other medical and non-medical professionals within the KPJ Family, a big thank you for your unwavering dedication and tireless efforts in carrying out your daily roles and responsibilities amidst very challenging times. Your resilience, passion and hard work have done much to ensure the well-being of countless patients and reinforce KPJ's reputation as a reliable and dedicated healthcare organisation.

To our multi-talented and highly-experienced leadership team under KPJ's PMD, Ahmad Shahizam, many of which have just come onboard in the last one year – we thank you for your worthy efforts in leading Team KPJ to new heights of excellence. Last but not least, my sincere gratitude to my colleagues on the Board for their astute insights and wise counsel which helped KPJ navigate safely through the year's challenges. Please join me in bidding farewell to Dato' Seri (Dr.) Mohamed Azahari Bin Mohamed Kamil who resigned as a Non-Independent Non-Executive Director effective 8 October 2020. We thank him for his contributions to KPJ and bid him every success in his future endeavours.

As we stride forward amidst uncertain times, I call upon all our stakeholders to continue walking arm in arm with us on our value creation journey as Team KPJ works hard to overcome all obstacles and makes the most of all opportunities that come our way. Thank you and stay safe.



Dato' Yusli Mohamed Yusoff

Chairman

KPJ Healthcare Berhad