

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

### ACQUISITION BY KUMPULAN PERUBATAN (JOHOR) SDN. BHD. ("KPJSB"), A WHOLLY-OWNED SUBSIDIARY OF KPJ OF 40,800,000 ORDINARY SHARES OF RM1.00 EACH, REPRESENTING 51% EQUITY INTEREST IN SMC HEALTHCARE SDN BHD ("SMCH") FROM SABAH MEDICAL CENTRE SDN BHD ("SMC") FOR A CASH CONSIDERATION OF RM51,000,000 ("PROPOSED ACQUISITION")

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This announcement is dated 6 January 2010.

## 1 INTRODUCTION

The Board of Directors of KPJ ("**Board**") wishes to announce that KPJSB, which is a wholly-owned subsidiary of KPJ, had on 6 January 2010 entered into the following agreements:-

- (a) a conditional Share Sale Agreement ("**SSA**") with SMC for the acquisition of 40,800,000 ordinary shares of RM1.00 each ("**Sale Shares**") which is equivalent to 51% of equity interest in SMCH from SMC for a cash consideration of RM51,000,000 ("**Purchase Consideration**");
- (b) Shareholders Agreement with SMC to regulate their relationship as shareholders of SMCH; and
- (c) Management Agreement with SMCH for the appointment of KPJ to manage the existing private and the new private hospitals of SMCH.

The SSA, Shareholders Agreement and Management Agreement shall hereinafter collectively be referred to as the "**Agreements**".

## 2 DETAILS OF THE PROPOSED ACQUISITION

### 2.1 Background

SMC had sold and transferred to SMCH the following:-

- (a) all its assets, business and operations to SMCH including the right to use the name "SABAH MEDICAL CENTRE" and the use, pending transfer, of the licence under the Private Healthcare Facilities and Services Act 1998 ("**Hospital Licence**") for the existing private medical centre operating in a portion of a building situated at Lorong Bersatu, Off Jalan Damai, Luyang, 88300 Kota Kinabalu ("**Existing SMC Facility**") under an agreement dated 23 December 2009 ("**Sale of Business Agreement**"); and
- (b) its entire legal and beneficial interest in Amity Development Sdn Bhd ("**AMITY**"), the registered owner of a parcel of leasehold land held under Town Lease 017553221, Kota Kinabalu measuring 1.685 hectares (the "**Land**") which is intended for use for construction of a new private medical centre (the "**New SMC Facility**").

### 2.2 Conditions Precedent under the SSA

The SSA is conditional on the following approvals/matters to be fulfilled within two (2) months from the date of the SSA subject to a further extension of one (1) month by mutual consent:-

- 2.2.1 The completion of the Sale of Business Agreement and the transfer of the entire issued and paid up capital of AMITY to SMCH including the pending transfer of the Hospital Licence for the Existing SMC Facility from SMC to the SMCH and the delivery to KPJSB of documentary evidence of such completion;
- 2.2.2 The Government of Malaysia or the Ministry of Health ("MOH") granting the sub-lease or tenancy for the Existing SMC Facility and an assignment thereof to SMCH at an annual rental not exceeding Ringgit Malaysia Five Million only (RM5,000,000), provided always if such sub-lease or transfer shall not yet have been granted KPJSB agrees that this condition may be satisfied on SMC's undertaking to execute such assignment as soon as practicable after the grant of such sub-lease or tenancy.

If for any reason the sub-lease or tenancy cannot be assigned by SMC to SMCH, SMC agrees and undertakes to continue to be the named sub-lessee or tenant and to permit the use by SMCH of the sub-leased/tenanted area in the Existing SMC Building for the Existing SMC Facility subject to SMCH bearing the rental and all costs related to the occupation of the sub-leased/tenanted area and indemnifying SMC for any claim or loss arising from the occupation and use of the sub-leased/tenanted area by SMCH.

- 2.2.3 The simultaneous execution of the Shareholders' Agreement between KPJSB and SMC;
- 2.2.4 The simultaneous execution of the Management Agreement between KPJSB and SMCH;
- 2.2.5 KPJSB being satisfied with the results of a due diligence exercise on SMCH and AMITY to be completed within one (1) month from the date of the Agreement and in relation thereto SMC agrees to make available such information, confirmations or documents as may be necessary to KPJSB, its solicitors or advisers;
- 2.2.6 The approval of the directors of SMCH for the transfer of the Sale Shares to KPJSB and the registration of such Sale Shares in the name of KPJSB;
- 2.2.7 The transfer of the existing Hospital Licence in respect of the Existing SMC Facility to SMCH.

If for any reason the existing Hospital Licence for Sabah Medical Centre cannot be used by SMCH, SMC agrees that it shall do all things necessary to permit the Existing SMC Facility to be carried on under its licence and that it shall hold the licence, the Existing SMC Facility and all revenue generated by the Existing SMC Facility as a bare trustee on trust for SMCH and shall account to SMCH all sums received from the Existing SMC Facility and shall provide to SMCH all information and documents related to the business of the Existing SMC Facility ("**Business**") as may be requested by SMCH subject to SMCH bearing all expenses of the Existing SMC Facility. Subject to this, KPJSB may proceed to completion of the SSA without the fulfilment of this condition; and

- 2.2.8 The KPJSB being satisfied that the MOH has approved in principle the development of the New SMC Facility.

### **2.3 Salient Terms of SSA**

From the execution of this Agreement and for a period of ten (10) years after the SMC ceases to be a shareholder:-

- (a) SMC shall not directly or indirectly, and
- (b) SMC shall also procure that Dr Tseu Fui Loong (NRIC No. 571222-12-5319) shall not,

build and/or manage nor provide consultancy to build and/or manage a private hospital within a ten (10) kilometer radius of Kota Kinabalu for a period of ten (10) years from the Transfer Date.

### **2.4 Conditions Precedent for Shareholders Agreement**

The Shareholders Agreement is conditional upon:

- (a) the execution of the SSA and KPJSB completing the purchase of the Sale Shares; and
- (b) the fulfillment of the conditions precedent stated in Section 2.2 above.

### **2.5 Salient terms of the Shareholders' Agreement**

- 2.5.1 KPJSB shall have full management control over the Business of SMC and may nominate up to three (3) staff members, including the General Manager/Chief Executive Officer.
- 2.5.2 The Board of SMCH shall comprise five (5) directors, of which three (3) shall be nominees of KPJSB and two (2) shall be nominees of SMC. The Chairman shall be appointed from one of the nominee directors of KPJSB.
- 2.5.3 KPJSB and SMC shall be jointly responsible for the development of the New SMC Facility and shall form a joint committee comprising one (1) representative of each shareholder, to inter alia, supervise and oversee the design of the New SMC Facility, the appointment of the planner and contractors for the New SMC Facility and to jointly manage the construction and development of the New SMC Facility.

### **2.6 Salient terms of the Management Agreement**

- 2.6.1 SMCH agrees to appoint KPJSB to manage the Existing SMC Facility and the New SMC Facility for a period of five (5) years from 1<sup>st</sup> January 2010 subject to renewal. SMCH shall pay to KPJ management fees of 3.0% of SMCH's monthly gross revenue.
- 2.6.2 This Management Agreement is conditional upon KPJSB being a shareholder of not less than 51% of the issued and paid up capital of SMCH.

### **2.7 Basis of Arriving at the Purchase Consideration**

The Purchase Consideration for the Proposed Acquisition was arrived at on a willing buyer- willing seller basis and is not subject to adjustment after taking into consideration the following:-

- (a) SMCH's net assets after the sale and transfer of all SMC's assets, business and operations of RM80,000,000 as at 31 December 2009 after incorporating the sale and transfer of all SMC's assets, business and operations as mentioned in Section 2.1 above; and
- (b) The earnings potential of SMC's assets, business and operations.

## **2.8 The Settlement of the Purchase Price**

The Purchase Price shall be paid in full by KPJSB to KPJSB's solicitors as stakeholders on the date of the SSA and shall be held in an interest bearing account and shall be paid to SMC on the Transfer Date.

## **2.9 Source of Funding**

The purchase consideration for the Proposed Acquisition shall be financed from internally generated funds of KPJ and its subsidiaries ("KPJ Group").

## **2.10 Encumbrances**

The Sale Shares are to be acquired free from any encumbrances.

## **2.11 Particulars of Liabilities, Contingent Liabilities and Guarantees to be Assumed**

Saved for the liabilities stated in the Proforma Balance Sheet of SMCH, there is no assumption of liabilities, contingent liabilities and guarantees by KPJSB in relation to the Proposed Acquisition.

# **3 INFORMATION ON SMC**

SMC was incorporated on 24 December 1982 under the Companies Act, 1965. The principal business of SMC is the provision of medical and healthcare services. The authorised share capital of SMC is RM90,000,000 comprising 90,000,000 ordinary shares of RM1.00 each and the current issued and paid-up share capital of SMC is RM80,013,654 comprising 80,013,654 ordinary shares of RM1.00 each.

# **4 INFORMATION ON SMCH**

SMCH was incorporated on 15 December 2009 under the Companies Act, 1965. The principal business of SMCH is the provision of medical and healthcare services. The authorised share capital of SMCH is RM RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each and the current issued and paid-up share capital of SMCH is RM80,000,000 comprising 80,000,000 ordinary shares of RM1.00 each.

# **5 RATIONALE FOR THE PROPOSED ACQUISITION**

The Proposed Acquisition would enable KPJ Group to expand its network of hospitals to locations where private healthcare is in demand, enlarge the customer base and further establish itself as a key healthcare service provider in Malaysia.

## **6 PROSPECTS OF THE HEALTHCARE INDUSTRY AND THE PROPOSED ACQUISITION**

The demand for private healthcare has been good over the last few years. More people are seeking better medical care and services especially among urban dwellers. The growing affluence of the Malaysian population and their increasing demand for better healthcare services as well as the Malaysian Government's national effort to promote health tourism has contributed to the growth in the usage of private hospitals in Malaysia. Under the Ninth Malaysia Plan, efforts will be undertaken to consolidate healthcare services, enhance human resource development and optimize resource allocation. Improvements in the delivery system will be undertaken with greater involvement of the private sector and non-governmental organizations.

In view of the above factors, KPJ Group believes that the prospects of the healthcare industry remain promising.

## **7 INVESTMENT CONSIDERATIONS**

The Board does not foresee any material risk pursuant to the Proposed Acquisition except for the inherent risk factors associated with healthcare industry, of which the KPJ Group is already involved in, and will be addressed as part of the KPJ Group's ordinary course of business.

However, no assurance can be given that any adverse development in the abovementioned will not affect the business, prospects and / or future financial performance of KPJ Group.

## **8 EFFECTS OF THE PROPOSED ACQUISITION**

The effects of the Proposed Acquisition are as follows:-

### **8.1 Share Capital and Shareholding Structure**

The Proposed Acquisition will not have any effect on the share capital and shareholding structure of KPJ.

### **8.2 Earnings per Share ("EPS")**

The Proposed Acquisition is not expected to have a material effect on the EPS of the KPJ Group for the financial year ending 31 December 2010.

### **8.3 Net Assets**

The Proposed Acquisition will not have any material effect on the net assets of the KPJ Group.

### **8.4 Gearing**

The Proposed Acquisition is not expected to have any material effect on the gearing position of the KPJ Group.

### **8.5 Dividend**

The Proposed Acquisition is not expected to have any material effect on the dividend policy of KPJ.

## **9 APPROVALS REQUIRED**

The Proposed Acquisition is subject to the approval of the following:-

- (a) All such other consents and regulatory and/or governmental approvals required to be obtained by KPJSB, SMC and SMCH in order to effect the completion of the Proposed Acquisition.

The Proposed Acquisition is not subject to the approval of the shareholders of KPJ.

## **10 ESTIMATED TIMEFRAME FOR COMPLETION**

KPJ expects to complete the Proposed Acquisition by the first 1<sup>st</sup> quarter of 2010.

## **11 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS**

None of the directors or major shareholders of KPJ or persons connected with them has any interest, direct or indirect, in the Proposed Acquisition.

## **12 DIRECTORS' STATEMENT**

Having considered all aspects of the Proposed Acquisition, the Board is of the opinion that the Proposed Acquisition is in the best interests of the KPJ Group.

## **13 HIGHEST PERCENTAGE RATIO APPLICABLE**

The highest percentage ratio applicable to the Proposed Acquisition is [8.75%] pursuant to paragraph 10.02(g) of the Listing Requirements of Bursa Malaysia Securities Berhad for the Main Market.

## **14 DOCUMENTS FOR INSPECTION**

A copy of each of the Agreements is available for inspection by the shareholders of KPJ at the Registered Office of KPJ at Level 2, Persada Johor International Convention Centre, Jalan Abdullah Ibrahim, 80000 Johor Bahru, Johor, during normal office hours from Mondays to Fridays (except public holidays) for a period of three (3) months commencing from the date of this announcement.