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

PROPOSED DESIGN, BUILD AND LEASE AGREEMENT BETWEEN LEMBAGA KEMAJUAN WILAYAH PULAU PINANG ("PERDA"), ASEANIA DEVELOPMENT SENDIRIAN BERHAD ("ASEANIA") AND PENANG SPECIALIST HOSPITAL SDN BHD ("PgSHSB"), A WHOLLY-OWNED SUBSIDIARY OF KPJ ("PROPOSED DBL AGREEMENT")

1. INTRODUCTION

The Board of Directors of KPJ ("**Board**") wishes to announce that the Company's wholly-owned subsidiary, PgSHSB, had on 11 November 2011, entered into a Design, Build and Lease Agreement ("**DBL Agreement**") with Lembaga Kemajuan Wilayah Pulau Pinang ("**PERDA**") and Aseania Development Sendirian Berhad ("**ASEANIA**") ("**DBL Agreement**"), whereby:-

(i) ASEANIA will design and construct a medical care facility ("**Hospital**") according to PgSHSB's specifications, on a four-(4) acre land in Seberang Perai Tengah, Pulau Pinang ("**Land**"); and

(ii) PgSHSB shall lease the Hospital from ASEANIA for ten (10) years upon completion of its construction.

(Collectively, the Land and the Hospital shall be hereinafter referred to as the "**Demised Premises**").

2. DETAILS OF THE PROPOSED DBL AGREEMENT

2.1 Information on the Land and the Adjacent Demised Premises (as hereinafter defined)

The registered owner of the Land is PERDA.

Prior to the Proposed DBL Agreement, ASEANIA and PERDA had entered into a joint venture agreement ("**JVA**") dated 14 November 1994 ("**Agreement**"), a supplemental JVA dated 8 May 2002 ("**First Supplemental Agreement**") and a supplemental JVA dated 24 June 2009 ("**Second Supplemental Agreement**"). PERDA has, via the Agreement, grant upon ASEANIA the right to develop a township together with completed infrastructures on the land measuring approximately 456.01 acres situated at Mukim 6 and 7, Seberang Perai Tengah, Pulau Pinang ("**Master Title**").

The Land and the 5.76-acre land situated next to the Land ("**Adjacent Demised Premises**") collectively measuring approximately 9.76 acres and have been earmarked by ASEANIA for the development of healthcare facilities exclusively for PgSHSB. (Collectively, the Land and the Adjacent Demised Premises are hereinafter referred to as the "**Said Lands**").

The Said Lands, which form part of the Master Title, are currently vacant.

The development works on the Hospital is expected to commence within thirty (30) calendar days from the date of receipt of ASEANIA of the construction approval from the relevant authorities whilst development of the Adjacent Demised Premises by ASEANIA shall be in stages.

2.2 Information on PERDA

PERDA is established under the Penang Regional Development Authority Act 282 of 1983 on 1st June 1983.

PERDA is principally involved in the economic and social development in Penang.

PERDA is the registered owner of the Said Lands.

PERDA is a statutory body, and hence, has no shareholders.

As at 10 November 2011, the directors of PERDA are as follows:-

(i) Dato' Haji Azhar Bin Ibrahim;
(ii) Datuk Abdul Wahab Bin Abdullah;
(iii) Dato' Seri AB. Ghani Bin Ariffin;
(iv) Puan Hajjah Azimah Binti Mansor;
(v) Encik Huzaini Bin Ramli;
(vi) Dato' Haji Yasmin Bin Mohamed;
(vii) Dato' Haji Abdul Jalil Bin Abdul Majid;
(viii) Encik Aziaan Bin Ariffin; and
(ix) Tuan Haji Saringat Bin Haji Hassan.

2.3 Information on ASEANIA

ASEANIA was incorporated in Malaysia under the Companies Act, 1965 on 17 March 1989.

The authorised share capital of ASEANIA as at 10 November 2011 is RM100.0 million comprising 100.0 million ordinary shares of RM1.00 each of which RM50.26 million comprising 50.26 million ordinary shares of RM1.00 each have been issued and fully paid-up.

ASEANIA is principally involved in the housing development business.

Based on the Register of Substantial Shareholders, the substantial shareholders of ASEANIA and their shareholdings as at 10 November 2011 are as follows:-

	Shareholdings			
	Direct		**Indirect**	
	No. Of Shares	**%**	**No. Of Shares**	**%**
Aseania Corporation Berhad	50,260,000	100%	-	-

The Directors of ASEANIA as at 10 November 2011 are Dato' Musa Bin Haji Sheikh Fadzir, Dato' Abd Aziz Bin Sheikh Fadzir and Mohd Tahir Bin Ahmad.

2.4 Information on PgSHSB

PgSHSB was incorporated in Malaysia under the Companies Act, 1965 on 29 July 2005 under the name of SMC Land & Properties Sdn Bhd and changed its name to Prai Specialist Hospital Sdn Bhd on 7 August 2008. Subsequently, the company changed to its existing name on 23 March 2010. As at the date of this announcement, PgSHSB is a wholly-owned subsidiary of KPJ.

The authorised share capital of PgSHSB as at date of announcement is RM25.0 million comprising 25.0 million ordinary shares of RM1.00 each of which RM10.0 million comprising 10.0 million ordinary shares of RM1.00 each have been issued and fully paid-up.

PgSHSB is principally involved in operating as a private specialist hospital and providing ancillary healthcare services.

2.5 Salient terms of the DBL Agreement

The salient terms of the DBL Agreement include, *inter-alia*, the following:-

(a) Commencement Date

The lease of the Demised Premises to PgSHSB by ASEANIA pursuant to the DBL Agreement ("**Lease**") shall commence on, the earlier of the following ("**Commencement Date**"):-

(i) the date three (3) months from the date the Demised Premises is handed over to the lessee pursuant to the terms and conditions of the DBL Agreement ("**Handover Date**"); or

(ii) the date of issuance of the certificate of completion and compliance of the Hospital ("**CCC**").

(b) Tenure of the Lease

The Lease shall be for a period of ten (10) years starting from the Commencement Date ("**Term**").

(c) DBL Security payable pursuant to the DBL Agreement

(i) PgSHSB shall, upon execution of the DBL Agreement, pay RM4.0 million to ASEANIA as security for PgSHSB's due observance and performance of the terms of the DBL Agreement ("**DBL Security**").

(ii) The DBL Security shall be returned to PgSHSB within thirty (30) days of the termination date or expiry date of the DBL Agreement ("**Termination Date**") less the amount that may be then due and payable by PgSHSB to ASEANIA due to PgSHSB's failure to perform its obligations under the DBL Agreement.

(d) Lease rental

(i) The annual rent payable by PgSHSB to ASEANIA for the Demised Premises ("Rent") shall be payable monthly in advance based on the percentage as set out in the table below with the first Rent payment calculated on a pro-rata basis commencing on the Commencement Date.

(ii) The following formula shall be used for purpose of calculating the Rent:-

Annual rent = (% according to the year of Lease)[(a)] x [actual and finalized construction costs of the Hospital + 25% of the Purchase Consideration of Demised Premises (as hereinafter defined)]

Notes:

[(a)] *The percentage for the purpose of determining the Rent shall be as follows:-*

Year (Term)	***Percentage (%)***
1	*7%*
2	*7%*
3	*8%*
4	*9%*
5	*10%*
6	*10%*
7	*11%*
8	*11%*
9	*12%*
10	*12%*

(iii) PgSHSB shall pay a default interest of 8 percentum-(8%) per annum on the Rent payable which have become due and payable, calculated on a daily basis from the date on the Rent is due and payable to the date of actual payment.

(e) Option to Renew

The Lease shall be renewed for a further term of ten (10) years at a rent to be mutually agreed by ASEANIA and PgSHSB and on the same terms and conditions of the DBL Agreement save and except for the option to renew the term of the Lease (**"Option to Renew"**), if the following conditions, amongst others, are met:-

(i) PgSHSB has made a written request not less than six (6) months before the expiry of the Term to ASEANIA to renew the Lease; and

(ii) PgSHSB has paid the increase on the Security Deposit (if any) to ASEANIA.

(f) Option to Purchase the Demised Premises and Adjacent Demised Premises ("Option to Purchase")

(i) ASEANIA agrees to grant PgSHSB the option:-

(a) to purchase the Demised Premises at any time prior to the commencement of the Term ("**Option to Purchase Premises**"); and

(b) to purchase the Adjacent Demised Premises and a right of first refusal over the Adjacent Demised Premises ("**Option to Purchase Adjacent Demised Premises**");

(Collectively, the Option to Purchase Premises and the Option to Purchase Adjacent Demised Premises shall be hereinafter referred to as "**Option to Purchase**").

The exercise of the Option to Purchase shall be effected by PGSHSB by sending a notice to ASEANIA ("**Notice**").

(ii) If the Option to Purchase Demised Premises is exercised, either:

(a) <u>During the commencement of the building works of the Hospital at any stage.</u>

The purchase consideration for the Demised Premises is RM11,858,320.00 (equivalent to RM68.00 per square foot) ("**Purchase Consideration of Demised Premises**") payable to ASEANIA thirty (30) days after the memorandum of transfer in favour of PgSHSB has been submitted at the relevant land registry; or,

(b) <u>Upon the completion of the Hospital on the Land</u>

The purchase consideration for the Demised Premises is RM11,858,320.00 (equivalent to RM68.00 per square foot) inclusive of the actual development cost of the Hospital payable to ASEANIA;

(iii) If the Option to Purchase Adjacent Demised Premises is exercised, either:

(a) <u>Within one (1) year from the date of the Notice</u>

The basis of the purchase consideration for the Adjacent Demised Premises shall be the same as the Purchase Consideration of Demised Premises, which is RM68.00 per square foot ("**Purchase Consideration of Adjacent Demised Premises**"); or,

(b) Later than one (1) year but not later than three-(3) years from the date of the Notice

The Purchase Consideration of Adjacent Demised Premises shall be mutually agreed upon by both parties with reference being made to the prevailing market price of similar properties and an independent valuation of the Adjacent Demised Premises, both of which shall not be binding or conclusive on the parties to the DBL Agreement;

(g) Option to Purchase Leased Demised Premises (as hereinafter defined)

(i) Upon the Commencement Date of the Lease, ASEANIA agrees to grant to PgSHSB a first option to purchase the Demised Premises exercisable at any time before the expiry of the Term at a purchase price which shall not be less than the prevailing market price of the Demised Premises subject to the mutual agreement of the parties ("**Option to Purchase Leased Demised Premises**").

In the event that PgSHSB exercises its Option to Purchase or the Option to Purchase Leased Demised Premises, an announcement will be made accordingly to Bursa Malaysia Securities Berhad with further details on the transaction.

3. RATIONALE FOR THE PROPOSED DBL AGREEMENT

The Proposed DBL Agreement is in line with KPJ Group's objective 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 service provider in Malaysia.

4. RISKS IN RELATION TO THE PROPOSED DBL AGREEMENT

The Board does not foresee any material risk pursuant to the Proposed DBL Agreement 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.

5. PROSPECTS OF THE HEALTHCARE INDUSTRY

The healthcare industry has become a powerful engine for economic growth in Malaysia due to demographic shifts. Malaysia's spending on healthcare, at 5 percent of GDP, is above our regional peers, and public spending is a disproportionate contributor to healthcare costs. Currently, the sector contributes RM15 billion to Malaysia's Gross National Income (GNI).

The government aims to grow three subsectors of healthcare, namely pharmaceuticals, health travel and medical technology products with the objective to migrate from primarily a lower-value product strategy to a more comprehensive product, services and asset strategy.

The government targets to generate RM35 billion incremental GNI contribution to reach RM50 billion by 2020. The Healthcare National Key Economic Areas (NKEA) is also targeting to welcome 1 million health travelers and conduct 1,000 clinical trials, all of which will create approximately 181,000 new jobs.

Given the ambitious target to grow the healthcare sector and treble its contribution to GNI, the sector will require RM23 billion cumulatively from 2011 to 2020 to fund growth. Ninety-nine (99) percent of this sum will be funded by the private sector and only one (1) percent of this sum is publicly funded.

(Source: official website of PEMANDU at www.pemandu.gov.my)

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

6. EFFECTS OF THE PROPOSED DBL AGREEMENT

The Proposed DBL Agreement will not have any material impact on the earnings, gearing and net assets per share of the KPJ Group for FYE 31 December 2011.

The Proposed DBL Agreement also will not have any effect on the issued and paid-up share capital and substantial shareholders' shareholdings of KPJ as the Proposed DBL Agreement does not involve the issuance of shares.

7. APPROVALS REQUIRED

The Proposed DBL Agreement is not subject to the approvals of any regulatory authority and/or the shareholders of KPJ.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and/or Major Shareholders of the Company and/or persons connected with such Directors or Major Shareholders have any interest, direct or indirect in the Proposed DBL Agreement.

9. DIRECTORS' STATEMENT

After having considered all aspects of the Proposed DBL Agreement including the rationale, prospects of the Said Lands and the Hospital and the financial effects of the Proposed DBL Agreement, the Board is of the opinion that the Proposed DBL Agreement is in the best interest of the KPJ Group.

10. HIGHEST PERCENTAGE RATIO APPLICABLE

The highest percentage ratio applicable to the Proposed DBL Agreement is 3.76% pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Securities.

11. DEPARTURE FROM THE EQUITY GUIDELINES OF SECURITIES COMMISSION ("SC") ("SC GUIDELINES")

To the best of the knowledge of the Board, the Proposed DBL Agreement does not depart from the SC Guidelines. The Proposed DBL Agreement does not require the approval of the SC.

12. DOCUMENTS FOR INSPECTION

A copy of the DBL Agreement is available for inspection by the shareholders of KPJ at the Registered Office of KPJ at Suite 12B, Level 12, Menara Ansar, No.65, Jalan Trus, 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.

This announcement is dated 11 November 2011.