

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

PROPOSED ACQUISITION BY KUMPULAN PERUBATAN (JOHOR) SDN. BHD. ("KPJSB"), A WHOLLY-OWNED SUBSIDIARY OF KPJ, OF THE FOLLOWING: (i) 100% EQUITY INTEREST IN SIBU MEDICAL CENTRE CORPORATION SDN. BHD. ("SMCC") COMPRISING 6,624,944 ORDINARY SHARES ("SALE SHARES") OF RM1.00 EACH AND (ii) 100% EQUITY INTEREST IN SIBU GERIATRIC HEALTH & NURSING CENTRE SDN. BHD. ("SGHNC") COMPRISING 1,080,000 ORDINARY SHARES ("SALE SHARES") OF RM1.00 EACH FOR AN AGGREGATE CASH CONSIDERATION OF RM28,146,000 ("PROPOSED ACQUISITIONS")

This announcement is dated 18 January 2011.

1 INTRODUCTION

The Board of Directors of KPJ ("**Board**") wishes to announce that the Company's wholly-owned subsidiary, KPJSB, had on 18 January 2011 entered into separate Share Sale Agreements with the relevant Vendors (as defined in Section 3.5) to acquire the following:-

- (i) 100% equity interest in SMCC comprising 6,624,944 ordinary shares of RM1.00 each ("**Sale Shares**") for an aggregate purchase consideration of RM26,904,000 ("**SMCC Purchase Consideration**"); and
- (ii) 100% equity interest in SGHNC comprising 1,080,000 shares for an aggregate purchase consideration of RM1,242,000 ("**SGHNC Purchase Consideration**").

The two (2) Share Sale Agreements shall hereinafter collectively be referred to as the "**Agreements**".

The SMCC Purchase Consideration and SGHNC Purchase Consideration shall hereinafter collectively be referred to as "**Purchase Consideration**".

2 INFORMATION ON SMCC AND SGHNC

(i) SMCC

SMCC owns and operates a private specialist hospital known as Sibu Specialist Medical Centre with its registered address and principal place of business at 52A-F, Brooke Drive, 96000 Sibu, Sarawak.

SMCC has an authorised share capital of RM10,000,000 divided into 10,000,000 ordinary shares of RM1.00 each ("**Shares**"), of which 6,624,944 shares have been issued and credited as fully paid-up.

SMCC registered an audited profit after tax of RM479,813 and audited net assets of RM8,744,956 for the financial year ended 31 July 2010.

(ii) **SGHNC**

SGHNC operates a 21 bedded nursing care centre and geriatric care centre known as the Love Care Centre at 52G-H, 1st Floor, Brooke Drive Road, 96000 Sibul, Sarawak (the "Love Care Centre").

SGHNC has an authorised share capital of RM5,000,000 divided into 5,000,000 shares, of which 1,080,000 shares have been issued and credited as fully paid-up.

SGHNC registered an audited loss after tax of RM121,739 and net assets of RM794,667 for the financial year ended 30 June 2010.

3 PROPOSED ACQUISITIONS

3.1 Salient Terms of the Agreements

3.1.1 Encumbrances

The Vendors agree to sell and KPJSB agrees to purchase the Sale Shares free from all claims, charges, lien encumbrances and equities whatsoever together with all rights attached thereto and all dividends and distributions declared paid or made in respect thereof as from the Completion Date (as defined in 3.1.2.).

The Vendors agrees to waive any pre-emption rights he may have in relation to any of the Sale Shares under these Agreements and the remaining shares of the Company sold to KPJSB. This waiver shall survive any termination or non-completion of the Agreements by any of the Vendors.

3.1.2. The Settlement of the Purchase Consideration

(a) SGHNC

The purchase consideration of RM1,242,000 shall be paid in cash by KPJSB in the following manner:-

- (i) An aggregate deposit amount of RM124,200 (being 10% of the purchase consideration) shall be paid to the Vendors' solicitors to be held as stakeholders upon execution of the Agreements ("**Deposit**").

The Deposit shall be released to the Vendors when the Conditions Precedent (as defined in 3.1.3) shall have been fulfilled or waived ("**Unconditional Date**").

- (ii) The remaining purchase consideration of RM1,117,800 shall be paid on or before the expiry of thirty (30) days from the Unconditional Date or such period as may be mutually agreed upon by the Parties in writing ("**Completion Date**").

(b) SMCC

The Vendors in relation to SMCC shares comprises of resident consultants ("**RC Vendors**") and other shareholders.

The purchase consideration of RM26,904,000 shall be paid in cash by KPJSB in the following manner:-

- (i) An aggregate deposit amount of RM2,690,400 (being 10% of the purchase consideration) shall be paid to the Vendors' solicitors as stakeholders upon execution of the Agreements ("**Deposit**").

The Deposit shall be released to the Vendors when the Conditions Precedent (as defined in 3.1.3) shall have been fulfilled or waived ("**Unconditional Date**").

- (i) The remaining purchase consideration (less the retention sum, if applicable) of RM20,761,600 shall be paid on or before the expiry of thirty (30) days from the Unconditional Date or such period as may be mutually agreed upon by the Parties in writing ("**Completion Date**").
- (ii) On or before the Completion Date, an aggregate retention sum of RM3,452,000 shall be paid to KPJSB's solicitors to be held as stakeholders for a period of two (2) years from Completion Date ("**Retention Period**") only in relation to the RC Vendors.

Each of the RC Vendors agrees and undertakes to guarantee that upon implementation of the centralised dispensing facility at SMCC, KPJSB shall receive from the sale of drugs from the RC Vendors' practice at SMCC an average annual profit after tax ("**Aggregate Average PAT**") of not less than RM2,157,561 per annum for a period of two (2) years immediately following the Completion Date.

The RC Vendors further agree on the following:-

- (a) the retention sum be deducted from the remaining purchase consideration and dealt with as set out in this section;
- (b) the retention sum shall be retained in an interest bearing account during the Retention Period and shall be released to the RC Vendors within three (3) months of the second anniversary of the Completion Date with interest earned thereon, provided that the Aggregate Average PAT during the Retention Period is equal to or greater than RM2,157,561 per annum; and
- (c) if the Aggregate Average PAT during the Retention Period is less than RM2,157,561 per annum, KPJSB shall be entitled to recover from the RC Vendors a sum calculated as follows:-

$8 \times$ (the shortfall between RM2,157,561 and the actual average annual profit after tax earned during the retention period)

For avoidance of doubt, the other Vendors will be paid in full on the Completion Date.

3.1.3 Conditions Precedent

The Proposed Acquisitions shall be subject to, inter alia, the following conditions being obtained or fulfilled within thirty (30) days from the date of the Share Sale Agreements or any extended period mutually agreed by all parties involved ("**Conditions Precedent**"):-

- (i) the simultaneous execution of the Share Sale Agreements for the entire issued and paid up capital of SMCC;
- (ii) the simultaneous execution by the resident medical consultants of SMCC of the Resident Consultants Agreement on substantially the terms and conditions contained in the agreement and which will come into effect on the Completion Date;
- (iii) the simultaneous execution of the Share Sale Agreements for the entire issued and paid up capital of SGHNC;
- (iv) the completion of the due diligence audit (inclusive but not limited to legal and financial affairs of the Company) carried out on SMCC and SGHNC to the satisfaction of KPJ; and
- (v) the renewal of the hospital licence for SMCC for the period 28 February 2011 to 27 February 2013.

If the Conditions Precedent above are not fulfilled within thirty (30) business days from the date of the Agreements (or such further extended period as may be agreed to by the Parties), then the Agreements shall become null and void and be of no further effect whatsoever and neither Party hereto shall have any claim against the other hereunder. The Deposit and any other monies paid by KPJSB to the Vendors or the Vendors' solicitors shall then be refunded to KPJSB together with any interest earned thereon.

3.2 Basis of Arriving at the Purchase Consideration

The purchase consideration for the Proposed Acquisitions was arrived at on a willing buyer-willing seller basis after taking into consideration the following:-

- (i) The audited net assets of SMCC and SGHNC of RM8,744,956 (as at 31 July 2010) and RM794,667 (as at 30 June 2010) respectively; and
- (ii) The earnings potential of SMCC's and SGHNC's assets, business and operations.

3.3 Source of Funding

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

3.4 Liabilities to be assumed

There are no liabilities to be assumed by the KPJ Group arising from the Proposed Acquisitions.

3.5 INFORMATION ON THE VENDORS

The vendors for the Sale Shares of the following Companies are as follows:-

(i) SMCC

Vendors	Nationality / Place of Incorporation	No. of shares
Yiu Sii Ming	Malaysian	600,010
Toh Yew King @ Henry Toh	Malaysian	900,000
Lau Tiing Wui	Malaysian	592,480
Teo Ho Teck	Malaysian	835,072
Ling Ing Sieng	Malaysian	800,380
Wong Chya Wei	Malaysian	1,000,000
Toh Siu Gap (inc. of Gynob Sdn. Bhd)	Malaysian	526,898
Sengkathir A/L Subramaniam	Malaysian	333,070
Wong Siong Chiik	Malaysian	161,585
Law Siew Jun	Malaysian	365,449
Ting Kwong Tai	Malaysian	200,000
Ting Hua Sieng	Malaysian	200,000
Ling Hang Sung	Malaysian	10,000
Wong Chung Chek	Malaysian	100,000
Total issued and paid up capital in SMCC		6,624,944

The vendors in SMCC shall collectively be referred to as "SMCC Vendors".

(ii) SGHNC

Vendors	Nationality / Place of Incorporation	No. of shares
Toh Yew King @ Henry Toh	Malaysian	120,000
Vivien Toh Kah Ling	Malaysian	60,000
Mary Ting Siew Ding	Malaysian	120,000
Ling Ing Sieng	Malaysian	30,000
Lau Kiew Ung, Lau Kiew Ching and Lau Kiew Wei	Malaysian	120,000
Wong Chya Wei	Malaysian	30,000
Puang Liong Siong	Malaysian	60,000
Toh Yew Sing @ Ah Zik	Malaysian	120,000
Ting Kok Hui	Malaysian	30,000
Yiu Sii Ming	Malaysian	30,000
Ting Kwong Tai	Malaysian	30,000
Hii Yu Ho	Malaysian	120,000
Hii Tek Yun	Malaysian	60,000
Sibu Medical Centre Corporation Sdn. Bhd.	Malaysia	90,000
Sengkathir Sdn. Bhd.	Malaysia	30,000
Gynob Sdn. Bhd.	Malaysia	30,000
Total issued and paid up capital in SGHNC		1,080,000

The vendors in SGHNC shall collectively be referred to as the "SGHNC Vendors".

The vendors in SMCC and SGHNC shall collectively be referred to as the "Vendors".

Upon completion of the Proposed Acquisitions, SMCC will then enter into separate resident consultant agreements ("RCA Agreements") with the relevant SMCC Vendors to grant the relevant SMCC Vendors the continuing right to practice at SMCC with hospital and clinical privileges for a period of five (5) years. In return, the SMCC Vendors will pay for hospital privileges at the rate of 10% of the SMCC Vendors' earnings for inpatient and 5% on outpatient services and charge his patients at SMCC's prescribed fees.

The period of the RCA Agreements may be extended by mutual agreement between SMCC and the SMCC Vendors, early expiry upon the SMCC Vendor's retirement age, or early termination by SMCC should there be a breach of any terms and conditions set forth in the said agreements by the SMCC Vendors.

4 PROSPECTS OF PRIVATE HEALTHCARE INDUSTRY IN MALAYSIA

The healthcare industry has become a powerful engine for economic growth in Malaysia due to demographic shifts. 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.

In Malaysia, where the Government is striving to achieve developed economy status by 2020, the services sector is seen as the main driver of growth. The services sector is expected to expand by 3.6% in 2010 and within this sector, the Government has identified healthcare travel as one of the potential services subsectors to generate national economic growth.

(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.

5 RISKS IN RELATION TO THE PROPOSED ACQUISITIONS

The Board does not foresee any material risk pursuant to the Proposed Acquisitions except for the inherent risk factors associated with healthcare industry, of which the KPJ Group is already involved in.

6 RATIONALE FOR THE PROPOSED ACQUISITIONS

The Proposed Acquisitions are in line with KPJ Group's objectives to increase its network of hospitals to locations where private healthcare is in demand, enlarge the customer base, as well as other areas of healthcare services. This would further establish itself as a key healthcare service provider in Malaysia.

7 EFFECTS OF THE PROPOSED ACQUISITIONS

The effects of the Proposed Acquisitions are as follows:-

7.1 Share Capital and Shareholding Structure

The Proposed Acquisitions will not have any effect on the share capital and shareholding structure of KPJ, as they do not involve any issuance of new shares in the Company.

7.2 Earnings per Share ("EPS")

The Proposed Acquisitions are not expected to have any material effect on the EPS of the KPJ Group for the financial year ending 31 December 2011.

7.3 Net Assets

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

7.4 Gearing

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

8 HIGHEST PERCENTAGE RATIO APPLICABLE

The highest percentage ratio applicable to the Proposed Acquisitions is 4.45% pursuant to paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

9 APPROVALS REQUIRED

The Proposed Acquisitions are not subject to the approval of other relevant authorities and the shareholders of KPJ.

The Proposed Acquisition of SMCC and the Proposed Acquisition of SGHNC is inter-conditional with each other.

10 ESTIMATED TIMEFRAME FOR COMPLETION

KPJ expects to complete the Proposed Acquisitions by the first (1st) half in 2011.

11 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

12 DIRECTORS' STATEMENT

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

13 DEPARTURE FROM THE SECURITIES COMMISSION'S POLICIES AND GUIDELINES ON THE OFFERING OF EQUITY AND EQUITY-LINKED SECURITIES ("SC GUIDELINES")

To the best knowledge and belief of the Board, there are no departures from the SC Guidelines in connection with the Proposed Acquisitions.

14 DOCUMENTS FOR INSPECTION

The agreements are 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.