

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

### **PROPOSED ACQUISITION BY KUMPULAN PERUBATAN (JOHOR) SDN BHD ("KPJSB"), A WHOLLY-OWNED SUBSIDIARY OF KPJ, OF 23.37% EQUITY INTEREST IN VEJTHANI PUBLIC COMPANY LIMITED ("VPCL") FOR A TOTAL CASH CONSIDERATION OF THB605,615,991 EQUIVALENT TO RM60,529,200 ("PROPOSED ACQUISITION")**

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This announcement is dated 23 November 2012.

#### **1. INTRODUCTION**

The Board of Directors of KPJ ("Board") wishes to announce that KPJSB has entered into a conditional share sale and purchase agreement ("Conditional SSA") with Aureos South-East Asia Fund L.L.C ("ASEA") and GSB Private Funds ("GSB") on even date to acquire from ASEA and GSB (collectively "Vendors") of their entire equity holding in VPCL of 8,000,000 preference shares ("Sale Shares") for a total cash consideration of THB605,615,991 ("Purchase Consideration") equivalent to RM60,529,200. Out of the total Sale Shares, KPJSB shall acquire 5,333,333 preference shares from ASEA and another 2,666,667 preference shares from GSB.

The Board further wishes to announce that all the conditions precedent in the Conditional SSA has been fulfilled and therefore, the Closing Date (as hereinafter defined is on 23 November 2012. In relation thereof, pursuant to the Conditional SSA, payment of ninety percent (90%) of the Purchase Consideration amounting to THB545,054,392 or equivalent to RM54,476,300 has been made on even date.

#### **2. INFORMATION ON THE PARTIES**

##### **2.1 Vendors**

###### **2.1.1 ASEA**

ASEA is located at 4<sup>th</sup> Floor, Les Cascades Building, Edith Cavell Street, Port Louis, Mauritius. The 5,333,333 preference shares held by ASEA in VPCL is its entire equity interest in VCPL.

###### **2.1.2 GSB**

GSB, is located at 24<sup>th</sup> Floor, Siam Tower, 898 Rama 1 Road, Patumwan Sub District, Patumwan District, Bangkok, 10330 Thailand. The 2,666,667 preference shares held by GSB in VCPL is its entire equity interest in VPCL.

The Vendors had, on 30 April 2009, entered into an investment agreement ("Investment Agreement") with Mr Chakrit Soucksakit as the sponsor ("Sponsor") and VPCL wherein the Vendors, as investors, wish to invest the aggregate amount of THB200,000,000 in VPCL by way of subscription of 8,000,000 preference shares. The Vendors and the Sponsor had further entered into a shareholders' agreement ("Shareholders Agreement") on the same date.

##### **2.2 KPJSB**

KPJSB is a wholly owned subsidiary of KPJ and was incorporated on 8 June 1988 with an authorised share capital of RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each and the current issued and paid-up share capital of KPJSB is RM90,000,000 comprising of 90,000,000 ordinary shares of RM1.00 each. KPJSB is involved in the business of the provision of healthcare services in Malaysia and overseas and has the necessary expertise in the areas of providing administration, financial, general management and other services related to the running and operation of private specialist hospitals.

## **2.3 VPCL**

VPCL operates Vejthani Hospital, a multi-specialty private hospital in Bangkok, Thailand with its registered address and principal place of business located at 1 Ladproa Road, Soi Ladproa 111, Klong-Chan, Bangkok, Bangkok, 10240, Thailand.

VPCL has a registered capital of THB342,378,410 consisting of 34,237,841 which has been fully paid up, with a par value of THB10 each. The shares of VPCL are divided into 26,237,841 ordinary shares and 8,000,000 preference shares.

VPCL has registered an audited profit before tax of THB77,561,091 and audited net assets of THB269,926,568 for the financial year ended 31 December 2011.

## **2.4 Preference Shares**

The preference shares of VPCL rank pari-passu with ordinary shares. The preference shareholders are entitled to dividend of THB0.75 per preference share with further rights to proportional dividend with the ordinary shareholders for the balance of the payment of the dividend .

Each share is entitled to 1 (one) vote and therefore the preference shareholders possess 23.37% of the total votes. They also have the right to convert such shares into ordinary shares at any time at the ratio of one preference share to one ordinary share.

The preference shareholders are entitled to nominate two (2) individuals onto the Board of Directors of VPCL if it holds not less than 10% of the total issued share of VPCL. If the preference shareholders hold less than 10% of the total issued share of VPCL, then it is entitled to nominate only one (1) individual onto the Board of Directors of VPCL. With the Proposed Acquisition, KPJSB shall be entitled to nominate two (2) representatives to the Board of Directors of VPCL.

Apart from the above, the preference shareholders are also given negative control where VPCL shall be restricted in carrying out any business decision without prior consent from the directors nominated by the preference shareholders. The prior approval of the preference shareholders must also be sought for certain matters relating to the operational matters and business direction of VPCL.

## **3. SALIENT TERMS AND CONDITIONS OF THE SSA**

### **3.1 Extract of the Salient Terms of the SSA**

The extract of the salient terms and conditions of the SSA is as follows:

#### **3.1.1 Mode of payment of Purchase Consideration**

KPJSB agrees to purchase from the Vendors the Sale Shares at the Purchase Consideration which is equivalent to THB75.71 or RM7.57 per one (1) unit of the Sale Shares.

The Parties therefore agreed that the Purchase Consideration shall be paid in cash by KPJSB to the Vendors in the following manner:

- (i) Ninety percent (90%) of the Purchase Consideration amounting to THB545,054,392 which is equivalent to RM54,476,300 is payable upon the Closing Date (as hereinafter defined); and

- (ii) Ten percent (10%) of the Purchase Consideration which is equivalent to THB60,561,599 which is equivalent to RM6,052,920 shall be due and payable within 15 days from the date a certified true copy of VPCL's audited financial statement ended 31 December 2012 is delivered and received by KPJSB.

The Vendors agree that the settlement of the Purchase Consideration in the manner set out above shall be full and final settlement of the Purchase Consideration for the transfer of the Sale Shares to KPJSB.

The Vendors further agree to sell to KPJSB and KPJSB agrees to purchase from them the Sale Shares free from all claims, charges, liens, encumbrances and equities, whatsoever, together with all rights attached thereto in the Investment Agreement and Shareholders' Agreement.

### **3.1.2 Conditions Precedent**

The sale, purchase and transfer of the Sale Shares by the Vendors to KPJSB is conditional upon the completion or fulfillment of the following conditions precedent. The day of the completion or fulfillment of the conditions precedent shall be known as the "Closing Date".

- (i) The representations and warranties of the Vendors shall be true and correct in material respects on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date.
- (ii) The policy to pay dividend at 40% of VPCL's net profit is adopted by VPCL's board of directors;
- (iii) The Parties entering into the Agreement of Novation in relation to the Investment Agreement and the Agreement of Novation in relation to Shareholders' Agreement with the Sponsor;
- (iv) KPJSB having received from the Vendors the following (each in form and content satisfactory to KPJSB):-
  - (a) A letter from the Investment Committee of ASEA confirming its resolution to sell its portion of the Sale Shares to KPJSB;
  - (b) A certified correct copy of the corporate documents of the Vendors detailing the authorised persons to sign on behalf of each Seller and a certified correct copy of the identification card or passport of such authorised persons;
  - (c) Copies of the audited financial statements of VPCL as at 31 December 2011 and management accounts of VPCL, in the form and substance satisfactory to the KPJSB and, without limiting the generality of the foregoing, VPCL's latest accounts;
  - (d) The written approval from the Sponsor as at the date of the Agreement to waive his pre-emption rights he has in relation to all or any of the Sale Shares under the Investment Agreement;
- (v) No event of default or potential event of default is continuing or might occur.

### **3.1.3 Closing**

3.1.3.1 On the Closing Date, the Vendors shall deliver to KPJSB the following documents:-

- (i) the original share certificate of the Sale Shares duly endorsed by the Vendors for transfer to KPJSB.
- (ii) a copy (duly certified true copy by the Vendors) of the written resignation of VPCL's directors nominated by the Vendors submitting to VPCL (with a copy to KPJSB) their resignation letters from being the directors of VPCL.

3.1.3.2 After the Closing Date:-

- (i) The Vendors will co-ordinate with the Sponsor to facilitate and propose the amendment to VPCL's Articles of Association in relation to ensuring the convertibility of the Sale Shares into common shares to be considered at the next general meeting of shareholders of VPCL.
- (ii) The Vendors will co-ordinate with VPCL to facilitate KPJSB in relation to the registration of transfer of the Sale Shares from the Vendors to KPJSB in VPCL's register book and issuing the new share certificate of the Sale Shares reflecting the name of KPJSB as the shareholder of VPCL.

## **4. BASIS & JUSTIFICATION OF THE PURCHASE CONSIDERATION**

The Vendors agree to sell the Sale Shares to KPJSB and KPJSB agrees to purchase all of the Sale Shares from the Vendors free from all claims, charges, liens, encumbrances and equities, whatsoever, together with all rights attached thereto in the Investment Agreement and Shareholders Agreement at the Purchase Consideration of 9 (nine) times estimated EBITDA for the year ending 31 December 2012 less Net Debt.

EBITDA means, in respect of VPCL as of 31 December 2012, profit before finance cost, corporate income tax, depreciation and amortisation.

Net Debt means, in respect of VPCL as at 31 December 2012, total debt minus total cash and cash equivalents. For the avoidance of doubt, Net Debt as at 31 December 2012 shall include adjustments for cash paid for dividends of both preference shares and ordinary shares, as well as extraordinary capital expenditure approved after the Closing Date.

The calculation of the Purchase Consideration is as follows:

- (a) As the EBITDA for the year ending 31 December 2012 will only be confirmed at year end and has not been finalized, the calculation of the 90 percent Purchase Consideration is based on VPCL's information as of 30 September 2012 and the estimation for the year ending 31 December 2012 prepared by VPCL. The Purchase Consideration from this calculation is THB605,615,991. Therefore, the 90 percent Purchase Consideration to be paid on the Closing Date is THB 545,054,392.

- (b) For the calculation of the remaining 10 percent Purchase Consideration, the actual EBITDA and the Net Debt shall be re-calculated based on VPCL's audited financial statement as of 31 December 2012. If the result of the re-calculation of the EBITDA and the Net Debt is different from the amount stated above, the remaining 10 percent Purchase Consideration shall be increased or decreased (as the case may be) to reflect the difference.
- (c) Notwithstanding the provisions of re-calculation of the EBITDA and the Net Debt above, in the event of occurrence of Force Majeure on or before 31 December 2012, the EBITDA for calculating the Purchase Consideration shall be THB321,639,958, which is the annualized 2012 EBITDA based on year-to-date unaudited September EBITDA of THB241,229,969.

## 5. SOURCES OF FUNDING

The Purchase Consideration for the Sale Shares shall be financed from a combination of external borrowings and internally generated funds of KPJ and its subsidiaries ("KPJ Group"). The details are as follows:

<b>External Borrowings - 90% of Purchase Consideration</b>	<b>THB</b>
<i>Proceeds of Islamic Commercial Papers/Islamic Medium Terms Notes Programme up to RM500 Million issued by Point Zone (M) Sdn Bhd, a wholly-owned subsidiary of KPJ.</i>	545,054,392
<b>Internally Generated Funds - 10% of Purchase Consideration</b>	<b>THB</b>
<i>Satisfied by cash (to be re-calculated based on VCPL's audited financial statement for the year ending 31 December 2012)</i>	60,561,599

## 6. RISK FACTORS

### 6.1 Completion of the Conditional SSA

The completion of the Conditional SSA is conditional upon all the conditions precedent as stated in the Conditional SSA being fulfilled or completed and/or waived as the case maybe. There can be no assurance that the Proposed Acquisition can be completed within the time frame set out in the Conditional SSA or that the Proposed Acquisition will not be exposed to risks such as the inability to obtain the approvals from the relevant parties and/or inability to comply with the conditions imposed by the relevant authorities, if any. Nevertheless, KPJSB will take and continue to take all reasonable steps to ensure satisfaction and/or waiver, as the case may be, to ensure completion of the Proposed Acquisition.

## **6.2 Business Risk**

The Proposed Acquisition will not materially change the business risks of the KPJ Group as it would still be exposed to the same business, operational, financial and investment risks inherent in the private healthcare sector. These risks includes, but not limited to, changes in general economic conditions, Government regulations, inflation and changes in business conditions such as, deterioration in prevailing market conditions, labour supply, increase in operational costs, availability of professionally trained medical specialists, affordability of the consumers for private healthcare services, compliance and regulatory costs and potential of third party liability from negligence arising from the provision of services and dispensation of drugs.

Although the KPJ Group seeks to limit these risks through, inter-alia, careful planning and monitoring of staff, provision of continuous training to upgrade the skills of the medical professionals and support staff, securing adequate and proper cover of insurable risks for third party negligence, prudent financial policy, there can be no assurance that any change in any of these factors would not have a material impact on the business and financial performance of the Group.

## **6.3 Foreign exchange rate risk**

KPJ's investment in VPCL would increase its exposure to fluctuations in foreign exchange rates. There can be no assurance that any fluctuations in foreign exchange rates specifically on the Thai Baht, will not adversely affect the consolidated financial results of KPJ.

# **7. PROSPECTS AND FUTURE PLANS FOR PROPOSED ACQUISITION**

## **7.1 Thai Economy**

As for outlook in 2012, the Fiscal Policy Office of Thailand pointed out that the implementation of the Government's restoration and rehabilitation measures would be a supporting factor to spur the Thai economy. Private consumption is likely to grow by 3.8 percent. The Government's policies of raising the daily minimum wage and the starting salary for new graduates holding bachelor's degrees and working in the public sector would stimulate public spending.

Private investment is expected to grow by 10.3 percent, with the Government's post-flood rehabilitation as a supporting factor. The effect of the global economic slowdown is likely to bring down Thailand's export growth to about 9 percent. The government spending would grow by 4.5 percent.

According to an economic report issued recently by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the devastating flooding in Thailand would reduce the country's economic growth to 2 percent for 2011. However, the Thai economy should bounce back in 2012 thanks to post-flood reconstruction. As a result of post-disaster investments for economic recovery, Thailand's growth rate in 2012 is expected to be 4.5 percent. With a low public-debt level, at 40 percent, Thailand has fiscal space for investment to rebuild infrastructure for better flood management.

*(Source: Thailand's Economic Situation in 2011 and Outlook in 2012, Thai Government Public Relations Department)*

The World Bank has upgraded Thailand's income categorization from a lower-middle income economy to an upper-middle income economy in July 2011. This is due to Thailand's progress in social and economic development, despite facing a number of financial/economic and political challenges.

After recovering from the "Asian Crisis" of 1997-1998, the Thai economy took off again. From 2002-2006, Thailand's growth averaged at 5.6%.

As such, Thailand has been one of the great development success stories, with sustained strong growth and impressive poverty reduction. In the decade that ended in 1995, the Thai economy was one of the world's fastest growing at an average rate of 8-9% per year. After recovering from the Asian Crisis of 1997-1998, the Thai economy took off again, with growth averaging about 5% per year in the period 2002-2007. Primarily due to the high rates of economic growth, poverty has been falling steadily since the late 1980s. Over the last decade, poverty has been reduced from its recent peak of 21% (a result of the 1997 crisis) to about 8% in 2009. Poverty in Thailand is primarily a rural phenomenon, with 88% of the country's 5.4 million poor living in rural areas.

However, benefits of Thailand's economic success have not been shared equally, with some regions—particularly, the North and Northeast—lagging behind the rest of the country in terms of poverty reduction. Furthermore, in 2010, Thailand's economic growth slowed because of global economic conditions and political uncertainty. However, Thailand's economic activity is gradually returning to normal, with quarterly economic growth rates now closer to the level often seen before the global financial crisis began in 2008. The GDP growth forecast for Thailand is at 4.5% in 2012 and 5.0% in 2013.

As a result of sensible economic policies, Thailand continues to make progress towards meeting the Millennium Development Goals (MDGs) and is likely to meet most of the MDGs on an aggregate basis. The maternal mortality and under-five mortality rates have been greatly reduced and more than 97% of the population, both in the urban and rural areas, now have access to clean water and sanitation. Nevertheless, there continue to be spatial variations with some regions and ethnic groups lagging behind, and there are some concerns about the environmental sustainability goal.

*(Source: Thailand Overview, The World Bank)*

## **7.2 Prospects of VPCL**

The Board is optimistic on the prospects of VPCL driven by KPJ's experience and familiarity in managing 2 (two) hospitals in Jakarta, Indonesia and a retirement village in Brisbane, Australia.

KPJ has been managing PT Khasanah Putera Jakarta Medica and PT KPJ Medika which operates Rumah Sakit Bumi Serpong Damai and Rumah Sakit Medika Permata Hijau for the last 2 (two) and 15 (fifteen) years respectively. Therefore KPJ believes that its experience and Vejthani Hospital's reputation for its orthopaedic specialty, shall be a competitive advantage for KPJ to be a new player in the healthcare industry in South East Asia region.

Premised on the strategy for continued growth, the Board is of the view the Proposed Acquisition is to the best interest of the shareholders of KPJ and the earnings of the KPJ Group.

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

### **8.1 Share capital and shareholdings of substantial shareholders**

The Proposed Acquisition will not have any effect on issued and paid-up share capital and substantial shareholders' shareholding of KPJ as the Proposed Acquisition shall be fully satisfied via cash and does not involve any issuance of new ordinary shares in KPJ.

### **8.2 Net Assets**

In view of the intended means of funding for the Proposed Acquisition, the Proposed Acquisition is not expected to affect KPJ's consolidated Net Assets.

### **8.3 Earnings and earnings per share ("EPS")**

The Proposed Acquisition is not expected to have any material impact on KPJ Group's earnings and EPS for the financial year ending 31 December 2012.

Going forward, upon completion of the Proposed Acquisition, the potential profit contribution from VCPL is expected to enhance the earnings and the EPS of KPJ Group in the future.

### **8.4 Gearing**

The Proposed Acquisition is expected to increase KPJ's gearing by approximately 6%.

## **9. PERCENTAGE RATIOS UNDER THE MMLR**

Pursuant to Paragraph 10.02(g) of the MMLR, the highest percentage ratio applicable to the Proposed Acquisition is 6.78% based on the latest audited financial statements of KPJ for the financial year ended 31 December 2011.

## **10. ESTIMATED TIMEFRAME FOR COMPLETION OF PROPOSED ACQUISITION**

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed within the second quarter of 2013.

## **11. DOCUMENT AVAILABLE FOR INSPECTION**

The Conditional SSA is available for inspection at the registered office of the Company at Suite 12B, Level 12, Menara Ansar, No. 65, Jalan Trus, 80000 Johor Bahru, Johor during normal business hours from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 23 November 2012.