



## **KPJ HEALTHCARE BERHAD**

(247079-M)

(A Member of Johor Corporation Group)

### **ANNOUNCEMENT TO BURSA MALAYSIA**

#### **KPJ HEALTHCARE BERHAD (“KPJ” OR “COMPANY”)**

#### **DEED OF AGREEMENT ENTERED INTO BETWEEN KUMPULAN PERUBATAN (JOHOR) SDN BHD (“KPJSB”), A WHOLLY OWNED SUBSIDIARY OF KPJ AND FATHER OF THE NATION BANGABANDHU SHEIKH MUJIBUR RAHMAN MEMORIAL TRUST (“PROPOSED BUSINESS”)**

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#### **1. INTRODUCTION**

The Board of Directors of KPJ (“Board”) wishes to announce that KPJSB, a wholly-owned subsidiary of KPJ, had on 18 November 2013 entered into a Deed of Agreement (“Agreement”) with Father of the Nation Bangabandhu Sheikh Mujibur Rahman Memorial Trust (“Trust”) to lease a 250-bed hospital building known as “Sheikh Fazilatunnessa Mujib Memorial KPJ Specialist Hospital” (“Hospital”) erected on a piece of land located approximately 50 kilometres from Dhaka, Bangladesh (“Land”) (collectively “Hospital Building”). The Hospital Building was built by the Trust at a cost of Tk2.15 billion (equivalent to RM87.5 million).

Pursuant to the Agreement, KPJSB or its nominee company, KPJ Healthcare (Bangladesh) Private Limited, a subsidiary of KPJSB in Bangladesh, (collectively “License Operator”) will be the license operator of the said Hospital. KPJ Healthcare (Bangladesh) Private Limited will be incorporated upon the fulfillment of the Conditions Precedent (as defined herein).

The License Operator proposes to lease the Hospital Building to run and operate the Hospital for an initial period of ten (10) years which is extendable for another five (5) years.

The License Operator intends to bring world class healthcare facility to Dhaka’s doorstep by providing a comprehensive, multi-disciplined and focused hospital with Centres of Excellences in the following major disciplines such as Cardiac Services, Orthopaedic, Geriatrics, Obstetrics & Gynaecology (O&G), and Paediatric services.

## 2. DETAILS OF THE PROPOSED BUSINESS

### 2.1 Information of the Parties

#### 2.1.1 Information of the Trust

The Trust is duly registered under the relevant laws of Bangladesh, having its registered office at Bangabandhu Bhaban, Road no. - 32, (Old), Dhanmondi, Dhaka, 1209, Bangladesh. The Chairperson of the Trust is the Bangladeshi Prime Minister, Sheikh Hasina Wajed.

Members of the Trust are as follows:

Sheikh Hasina Wajed	-	Founder President
Sheikh Rehana	-	Founder Vice President
Dr. Shafiq Ahmed Siddiq	-	Member
Sheikh Hafizur Rahman	-	Member Secretary
A M Rafiq	-	Member
Sheikh Kabir Hossain	-	Member
Abul Hasanat Abdullah	-	Member
Sheikh Fazlul Karim, MP	-	Member
Nur E Alam Chowdhury, MP	-	Member
Sajib Wajed Joy	-	Member
Redwan Mujib Siddiq	-	Member
Sayed Siddiqur Rahman	-	Member
Anisul Haque	-	Member
Farida Sheikh	-	Member
Saima Wajed Putul	-	Member
Sheikh Helal Uddin, MP	-	Member (Management Committee)
Sayeda Hossain Jaman	-	Member (Management Committee)
Rezwana Siddiq Tulip	-	Member (Management Committee)
Rabiul Hussain	-	Member (Management Committee)
Baby Moudud	-	Member (Management Committee)
Shahana Yasmin Sampa	-	Member (Management Committee)
Mashura Hossain	-	CEO
Siddiq Hossain Chowdhury	-	Controller of Accounts

#### 2.1.2 Information of KPJSB

KPJSB is a wholly owned subsidiary of KPJ and was incorporated on 8 June 1988 under the Companies Act 1965, Malaysia with an authorised share capital of RM100,000,000.00 divided into 100,000,000 ordinary shares of RM1.00 each and the current issued and paid-up share capital of KPJSB is RM90,000,000.00 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 internationally 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.

The Directors of KPJSB as at the date of this announcement is Tuan Haji Amiruddin Bin Abdul Satar, Puan Jasimah Binti Hassan and Encik Mohd Sahir Bin Rahmat.

### 3. SALIENT TERMS AND CONDITIONS OF THE AGREEMENT

An extract of the salient terms and conditions of the Agreement is as follows:

#### 3.1. Effective Date

The effective date of the Agreement shall be from the date of signing of the Agreement ("Effective Date"). Once effective, the provisions of the Agreement shall be effective, valid and binding until the date of termination of the Agreement in accordance with the provisions hereof or upon its expiry as provided thereto. However, the date of operation of the Hospital shall be upon fulfillment of the Conditions Precedent (as defined herein) or six (6) months, whichever is earlier.

#### 3.2 Conditions Precedent

The Agreement shall be conditional upon the following conditions:-

- (a) the approval of the Board of Trustee of the Trust being obtained for the execution of the Agreement and the purpose of the Agreement as contained herein;
- (b) the approval of the members of the Trust being obtained for the execution of the Agreement and the purpose of the Agreement as contained herein;
- (c) the approval of the Board of Directors of the KPJSB being obtained for the execution of the Agreement and such other approval required by Malaysian Authority;
- (d) all such relevant consents and regulatory and/or Bangladeshi governmental approvals being obtained for proper execution of the Agreement; and
- (e) KPJSB having conducted a due diligence of the Hospital is satisfied that the Hospital is fit to be used and operated as a specialist hospital.

(hereinafter collectively referred to as the "**Conditions Precedent**").

The period of the fulfillment of all the Conditions Precedent shall be six (6) months from the date of the Agreement.

#### 3.3 Corporate Social Responsibility ("CSR")

The Hospital shall provide treatment to CSR patients whereby CSR Contribution shall be decided time to time by the CSR Committee PROVIDED ALWAYS that CSR Contribution must not exceed thirty percent (30%) of total patients treated at the Hospital. The patient who are in "actual need" will be given free treatment of which will be agreed upon by the CSR Committee. The term "actual need" for the patients shall be determined from time to time by the CSR Committee.

A CSR Committee shall be formed within one (1) month from the Effective Date of the Agreement comprising mostly of KPJ representatives. At least one (1) member from the Trust should be included in the Committee.

### **3.4 Lease Consideration**

The Trust agrees to let the Hospital Building to the License Operator without any payment for the first (1<sup>st</sup>) five (5) years upon the Effective Date. However, upon the sixth (6<sup>th</sup>) year, the Trust agrees that the lease consideration shall be ten percent (10%) of the net profit after all taxes and any other deductions from the Hospital and the Nursing College operations ("Lease Consideration") whilst the remaining ninety percent (90%) shall be retained by the License Operator. The Parties hereby agree that for the purpose of determining the Lease Consideration, the annual financial statement and/or audit reports for the preceding year of the Hospital shall be used as the final figure.

### **3.5 Rights And Obligations/ Grant Of Rights**

#### **3.5.1 Rights and Obligation of the Trust**

- a. All equipment and assets for use by the License Operator, have been purchased by the Trust and provided to the License Operator.
- b. The Trust is to purchase the insurance for the Hospital Building, assets and equipment.

#### **3.5.2 Rights and Obligation of the License Operator**

- a. The License Operator shall independently operate the Hospital independently as a business enterprise with a profit making vision.
- b. The License Operator shall act as an independent contractor and not as the agent of the Trust and neither the Trust nor the License Operator nor any of its directors, trustees, employees, servants or agents shall have any authority to enter into agreements on behalf of or otherwise bind either Party (except where set out in the agreement or otherwise authorised expressly in writing). Moreover, the agreements and provisions under the Agreement do not create any sort of joint venture or partnership or agency between the Trust and the License Operator.

### **3.6 Sources of Funding**

KPJSB shall only bear the operational expenses in the running of the Hospital which shall be funded via the KPJ Group's internally generated funds.

### **3.7 Liabilities to be assumed by the KPJ Group**

There are no liabilities, including contingent liabilities and guarantees, to be assumed by the KPJ Group pursuant to the Agreement.

#### **4. RATIONALE FOR THE PROPOSED BUSINESS**

According to World Health Report, Bangladesh is ranked among the 57 countries with a serious shortage of doctors, paramedics, and nurses. The country has now 5 physician and 2 nurses per 10,000 people. Currently the Bangladeshi population averaged 160 million or 1,142 people per sq. km. It is estimated that 60,000 doctors, 280,000 nurses, and 483,000 technologists are needed in the country's healthcare industry. In order to receive and ensure better healthcare services, a significant number of patients are being diagnosed abroad, resulting millions of Bangladeshis spending an estimated amount of USD500 million in neighboring countries every year. According to Malaysian Tourism and Culture Ministry, the number of Bangladeshis who visited Malaysia for medical tourism doubled to 11,589 in 2012 compared to 2011. KPJ views this as an excellent opportunity to build a presence in Bangladesh based on these facts.

In addition, KPJ has been managing two (2) hospitals in Jakarta, Indonesia, namely PT Khasanah Putera Jakarta Medica and PT KPJ Medika which operate Rumah Sakit Bumi Serpong Damai and Rumah Sakit Medika Permata Hijau, plus a retirement village in Brisbane, Australia, namely Jeta Garden Aged Care & Retirement Village. In 2012, KPJ acquired 23.37% equity interest in Vejthani Public Company Limited which operates Vejthani Hospital in Bangkok, Thailand. Therefore, with the Proposed Business, KPJ shall strengthen its presence to emerge as one of the top healthcare providers in the South Asian region. The preliminary aim of the Proposed Business is to enhance the capacity and ability of the Hospital to operate profitably.

Operating and managing Sheikh Fazilatunnessa Mujib Memorial KPJ Specialist Hospital is a reasonable step to take for KPJ to have hands-on experience as a new player in the Bangladeshi healthcare industry. Equipped with its international experience and familiarity, KPJ is determined to ensure the success of the proposed business.

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

#### **5. PROSPECTS OF THE HEALTHCARE INDUSTRY AND THE PROPOSED ACQUISITION**

Bangladesh offers stable economy to international investors. Over the last two (2) decades, Bangladesh has consistently grown at six percent (6%) and was largely unaffected by 2008 global crisis. Its inflationary rate has steadily declined to eight percent (8%) from eleven percent (11%) in 2012.

Bangladesh's growing and abundant labour force is actually the cheapest as compared to India, Indonesia, Vietnam and Cambodia and this will attract international investors. Taking advantage of this low cost competitive edge, could make Bangladesh into "the next China" in the next few years.

*(Source: Bangladesh Development Update 2013, World Bank)*

In Bangladesh, about three per cent (3%) of its Growth Domestic Product is spent on health, out of which the government contribution is about one point one percent (1.1%). In term of dollar, the total health expenditure in the country is about US\$ twelve (US\$ 12) per capita per annum, of which the public health expenditure is only around US\$ four (US\$ 4).

In Bangladesh, historically, supply-side financing of health care services has been the backbone strategy for improving the access of poor households to essential health care services.

A bulk of health care financing here is coming from out-of-pocket that indicates people are willing to pay for better care. More than two-thirds (2/3) of the total expenditure on health is privately financed, through out-of-pocket payments.

Of the remaining one-third (1/3) (public financing), about sixty percent (60%) is financed by the Government out of tax revenues, development outlays, and the remaining forty percent (40%) through international development assistance.

*(Source: Health System in Bangladesh, World Healthcare Organization)*

## **6. RISKS IN RELATION TO THE PROPOSED BUSINESS**

### **6.1 Business Risk**

The Proposed Business 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, labor 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 (3<sup>rd</sup>) 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 (3<sup>rd</sup>) 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.

### **6.2 Foreign exchange rate risk**

The Proposed Business 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 Bangladeshi Thaka, will not adversely affect the consolidated financial results of KPJ.

### **6.3 Instability of the ruling government/riots/strike**

The Proposed Business will also be affected to the instability of the ruling government/riots and strike. There can be no assurance that the increasingly fragile political environment will not adversely affect the Proposed Business.

## **7. EFFECTS OF THE PROPOSED BUSINESS**

The effects of the Proposed Business are as follows;

### **7.1 Share Capital and Shareholding Structure**

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

### **7.2 Earnings per Share (“EPS”)**

The Proposed Business is not expected to have a material effect on the EPS of the KPJ Group for the financial year ending 31 December 2013.

### **7.3 Net Assets**

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

### **7.4 Gearing**

The Proposed Business will not have any material effect on the gearing of the KPJ Group.

### **7.5 Dividend**

The Proposed Business will not have any material effect on the dividend policy of the KPJ Group.

## **8. APPROVALS REQUIRED**

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

## **9. ESTIMATED TIMEFRAME FOR COMPLETION**

KPJ expects to complete the Proposed Business within the second quarter of 2014.

## **10. DIRECTORS’ AND MAJOR SHAREHOLDERS’ INTEREST**

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

## **11. DIRECTORS’ STATEMENT**

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

## **12. HIGHEST PERCENTAGE RATIO APPLICABLE**

This section is not applicable.

**13. DOCUMENT AVAILABLE FOR INSPECTION**

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

**This announcement is dated 19 November 2013.**