

KPJ HEALTHCARE BERHAD (“KPJ” OR THE “COMPANY”)

PROPOSED LEASING OF A HOSPITAL BUILDING BY PUTERI SPECIALIST HOSPITAL (JOHOR) SDN BHD (COMPANY NO. 85603-H) (“PSH”), A WHOLLY-OWNED SUBSIDIARY OF KPJ FROM JOHOR LAND BERHAD (COMPANY NO. 12379-K) (“JLand”) – (“PROPOSAL”)

We refer to the Announcement dated 17 October 2016.

1. INTRODUCTION

The Board of Directors of KPJ (“Board”) wishes to announce that the Company’s wholly-owned subsidiary company, Puteri Specialist Hospital (Johor) Sdn Bhd (Company No. 85603-H) (“PSH” or “Lessee”), had on 17 October 2016, entered into an Agreement To Lease (“ATL”) with Johor Land Berhad (Company No. 12379-K) (“JLand” or “Lessor”) and Johor Corporation (“JCorp”) for the proposed development and leasing of a hospital building and the land to be known as “KPJ Batu Pahat Specialist Hospital” (“Proposed Hospital”) subject to the terms and conditions as contained in the ATL.

2. DETAILS OF THE PROPOSAL

2.1 Background

JCorp was the registered owner of the land held under H.S.(D) 57377, PTD 50466 Mukim Simpang Kanan, Daerah Batu Pahat, Negeri Johor with a land area of 64.892 hectares. The Lessor had on 5 April 2013 entered into a Development Rights Agreement with JCorp wherein the Lessor has the right to, amongst others, develop the land and conduct the sale of proposed buildings to be constructed on the land. The Lessor had duly paid the project consideration under the said Development Rights Agreement to JCorp and is the beneficial owner of the land.

The land covered under the Development Rights Agreement has been subdivided and one of the subdivided lands is currently held under HSD 69760, PTD 63523, Mukim Simpang Kanan, Daerah Batu Pahat, Negeri Johor with a land area of 5 acres and building as the category of land use under the name of JCorp (“the **Land**”). Currently, the Land is a vacant land.

On 12 April 2015 and 28 May 2015, JLand has issued the Letters of Offer and PSH has accepted the terms of the Letters of Offer for the purpose of leasing the Proposed Hospital and the Land (collectively referred to as “the Demised Premises”).

The Lessor has agreed to construct the Proposed Hospital on part of the Land at its own costs and expenses in accordance with the specifications provided by the Lessee, subject always to the approval by the Relevant Authorities as defined in the ATL. Upon completion of the construction and delivery of vacant possession of the Proposed Hospital by the Lessor, the Lessee shall take the lease of the Demised Premises for the Term as specified in the ATL and the lease agreement.

2.2 Information on the Proposed Hospital

The Proposed Hospital to be constructed on a portion of the Land will be a seven (7) storey 90-bed hospital building with a gross floor area measuring approximately 157,500 square feet and with approximately 162 car parking bays with built up area of 21,797.10 square feet.

JLand shall construct the Proposed Hospital at its own costs and expenses in accordance with the specifications provided by PSH and will be known as KPJ Batu Pahat Specialist Hospital.

2.3 Salient Terms of the Agreement

(a) Agreement To Lease ("ATL")

The ATL sets out the principal items which form the basis of the parties' negotiations in respect of the terms of the proposed development of the Proposed Hospital by JLand and subsequent lease of the same by PSH.

The salient terms of the ATL are as follows:-

- (i) JLand (as the beneficial owner of the land) has agreed to lease the Demised Premises to PSH upon completion of the development;
- (ii) JCorp agrees and acknowledges that JLand is the beneficial owner of the Land and acknowledges the grant of the lease pursuant to the provisions of the ATL and agrees to do all such things and execute all such deeds as may be necessary;
- (iii) PSH has agreed to execute the lease agreement on or before the Commencement Date which is being the date of the notice by the Lessor to the Lessee to take vacant possession of the Proposed Hospital issued within fourteen (14) days from the issuance of the Certificate of Completion and Compliance and pay the Rent of the Demised Premises to JLand upon completion of the development of the Proposed Hospital and handing over of vacant possession by JLand to PSH as per the terms and conditions as contained in the lease agreement;
- (iv) The development costs of the Demised Premises shall be the basis of determining the rental rate of the Demised Premises. The parties to the ATL have agreed that the Development Costs is an estimated sum of up to Ringgit Malaysia Sixty Seven Million Six Hundred Thousand (RM67,600,000.00) only, being the costs of building the Proposed Hospital and its secondary infrastructure plus land cost.

- (v) The Conditions Precedent as stipulated in the ATL shall be fulfilled/obtained within 12 months from the date of the ATL, with a mutually agreed extension of another 6 months if they have not been fully fulfilled. The Conditions Precedent as contained in the ATL relate to the procurement of all the necessary approvals that include amongst others, the approval from the Ministry of Health to establish the hospital, the issuance of development order by the relevant authorities and other approvals, permits, registration, licences, consents, authorisation or permission from the relevant authorities as well as the necessary approvals from the respective board of directors of PSH and JLand;
- (vi) A Commitment Fee equivalent to six (6) month's Rent shall be paid by the Lessee to the Lessor upon completion of construction but not later than the Unconditional Date being the last Condition(s) Precedent are fulfilled or waived. The Parties agreed that the Commitment Fee shall be treated and converted as security deposit (3-months Rent), utilities deposit (1-month Rent) and advance rental (2-months Rent) for the Demised Premises payable under the lease agreement. The Commitment Fee payable by the Lessee is estimated to be RM2,197,000.
- (vii) The Lessor agrees to grant to the Lessee a 3-months rent-free period upon commencement of the Principal Lease Period. The Principal Lease Period shall be for a period of 6 years and shall commence upon the issuance of Certificate of Completion and Compliance and delivery of vacant possession of the Demised Premises to the Lessee.
- (viii) The Parties hereby agree that subject to the execution of the lease agreement, the monthly rental payable by the Lessee shall be a sum equivalent to one-twelfth (1/12) of 6.5% of the Development Costs.

2.4 Information of the Parties

(a) PSH

PSH is a wholly owned subsidiary of KPJ and incorporated in Malaysia under the Companies Act 1965, Malaysia and having its registered address at Level 11, Menara KOMTAR, Johor Bahru City Center, 80000 Johor Bahru, Johor.

(b) JLand

JLand is a member of Johor Corporation Group of Companies, incorporated in Malaysia under the Companies Act 1965 and having its registered address at Level 11, Menara KOMTAR, Johor Bahru City Center, 80000 Johor Bahru, Johor.

(c) JCorp

JCorp is a body corporate established under the Johor Corporation Enactment No. 4, 1968 (as amended by the Enactment No. 5, 1995) and having its registered address at Level 11, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor.

3. RATIONALE FOR THE PROPOSAL

KPJ views the signing of the ATL as beneficial to KPJ and its subsidiaries (“KPJ Group”) for the following reasons:

- (a) The Proposal is in line with the objective of KPJ Group 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; and
- (b) To cater for the needs of patients residing within the vicinity of Batu Pahat and the surrounding areas, in order to meet the demand for quality private healthcare.

4. RISKS IN RELATION TO THE PROPOSAL

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

5. EFFECT OF THE PROPOSAL

The Proposal is not expected to have a material effect on the earnings of KPJ for the financial year ending 31 December 2016.

6. APPROVALS REQUIRED

This Proposal is not subject to the approval of other relevant authorities and the shareholders of KPJ.

7. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

Save as disclosed below, none of the Directors, substantial shareholders of KPJ and/or persons connected to the Directors and/or substantial shareholders has any direct or indirect interest in the Proposal:-

7.1 Directors

Dato Kamaruzzaman bin Abu Kassim, Zulkifli bin Ibrahim and Aminudin bin Dawam, who are directors of KPJ, are deemed to be interested in the Proposal by virtue of them being the directors and senior management of JCorp and are also directors of JLand ("Interested Directors").

7.2 Major Shareholders

JCorp is a major shareholder of KPJ holding direct and indirect interest of 44.3% equity interest in KPJ as at 30 September 2016.

JLand is a wholly-owned subsidiary of JCorp.

8. DIRECTORS' OPINION

The Board, save for the Interested Directors, having considered all the relevant factors in respect of the Proposal is of the opinion that the Proposal is in the best interest of the Company and will be beneficial to the business of the KPJ Group.

9. ESTIMATED TIMEFRAME FOR COMPLETION OF DEMISED PREMISES

The Demised Premises, which is the subject matter of the ATL, is expected to be completed within twenty four (24) months from the Unconditional Date.

On or before the Commencement Date, the Lessor and the Lessee will execute the Lease Agreement.

10. DOCUMENTS FOR INSPECTION

The ATL will be made available for inspection at the registered office of KPJ at Level 11, Menara KOMTAR, Johor Bahru City Centre, 80000 Johor Bahru, Johor during normal business hours from Sunday to Thursday (except public holidays) for a period of three (3) months from the date of this Announcement.