

Company No.

247079	M
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KPJ HEALTHCARE BERHAD

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER AND YEAR-TO-DATE ENDED 30 SEPTEMBER 2019**

Company No.

247079	M
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KPJ HEALTHCARE BERHAD

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORTS

FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

The Directors of KPJ Healthcare Berhad are pleased to announce the financial results for the Group for the third quarter and financial period ended 30 September 2019.

The interim report is prepared in accordance with MFRS134 "Interim Financial Reporting" and paragraph 9.22 of the Bursa Malaysia Listing Requirements, and should be read in conjunction with the Group's financial statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to this report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

	Note	Individual Quarter			Cumulative Quarter		
		3 months ended			9 months ended		
		30.09.2019	30.09.2018	Var	30.09.2019	30.09.2018	Var
		RM'000	RM'000	%	RM'000	RM'000	%
<u>Continuing operations</u>							
Revenue		906,436	820,560	10	2,621,876	2,444,772	7
Cost of sales		(608,971)	(565,113)	8	(1,800,502)	(1,695,836)	6
Gross profit		297,465	255,447	16	821,374	748,936	10
Administrative expenses		(206,587)	(185,268)	12	(549,932)	(543,173)	1
Other income		5,461	5,168	6	15,598	14,349	9
Zakat		(1,437)	(1,049)	37	(2,901)	(3,713)	(22)
Operating profit		94,902	74,298	28	284,139	216,399	31
Finance income		4,028	2,059	96	8,818	6,240	41
Finance costs							
- Borrowings		(21,144)	(21,820)	(3)	(68,988)	(64,591)	7
- Lease liabilities		(15,843)	-	100	(47,526)	-	100
Finance costs - net		(32,959)	(19,761)	67	(107,696)	(58,351)	85
Share of results of associates, net of tax		9,937	7,352	35	27,037	23,482	15
Profit before tax	B2	71,880	61,889	16	203,480	181,530	12
Tax	B5	(20,965)	(20,136)	4	(61,150)	(49,778)	23
Profit for the financial period from continuing operations		50,915	41,753	22	142,330	131,752	8

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)**

	Individual Quarter			Cumulative Quarter		
	3 months ended			9 months ended		
	30.09.2019	30.09.2018	Var	30.09.2019	30.09.2018	Var
	RM'000	RM'000	%	RM'000	RM'000	%
<u>Discontinued operation</u>						
Loss for the financial period from discontinued operation	(2,197)	(666)	>100	(6,421)	(603)	>100
Net profit for the financial period	48,718	41,087	19	135,909	131,149	4
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the financial period	<u>48,718</u>	<u>41,087</u>	19	<u>135,909</u>	<u>131,149</u>	4
Net profit for the financial period attributable to:						
Owners of the Company from						
- continuing operations	47,665	41,681	14	131,027	126,464	4
- discontinued operation	(1,252)	(380)	>100	(3,659)	(344)	>100
Non-controlling interests from						
- continuing operations	3,250	72	>100	11,303	5,288	>100
- discontinued operation	(945)	(286)	>100	(2,762)	(259)	>100
	<u>48,718</u>	<u>41,087</u>	19	<u>135,909</u>	<u>131,149</u>	4
Total comprehensive income for the financial period attributable to:						
Owners of the Company from						
- continuing operations	47,665	41,681	14	131,027	126,464	4
- discontinued operation	(1,252)	(380)	>100	(3,659)	(344)	>100
Non-controlling interests from						
- continuing operations	3,250	72	>100	11,303	5,288	>100
- discontinued operation	(945)	(286)	>100	(2,762)	(259)	>100
	<u>48,718</u>	<u>41,087</u>	19	<u>135,909</u>	<u>131,149</u>	4

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)**

	Individual Quarter			Cumulative Quarter		
	3 months ended			9 months ended		
	<u>30.09.2019</u>	<u>30.09.2018</u>	<u>Var</u>	<u>30.09.2019</u>	<u>30.09.2018</u>	<u>Var</u>
Sen	Sen	%	Sen	Sen	%	
Dividend per share	0.50	0.50	-	1.50	1.50	-
Earnings/(loss) per share attributable to Owners of the Company:						
Basic						
- continuing operations	1.10	0.99		3.03	3.00	
- discontinued operation	(0.02)	(0.01)		(0.08)	(0.01)	
Diluted						
- continuing operations	1.06	0.88		2.91	2.64	
- discontinued operation	(0.03)	(0.01)		(0.08)	(0.01)	

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KPJ HEALTHCARE BERHAD
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**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019**

	<u>Note</u>	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000 Audited
<u>ASSETS</u>			
<u>Non-current assets</u>			
Property, plant and equipment	A9	3,342,700	2,430,363
Investment properties		311,460	311,460
Intangible assets		234,730	236,470
Investment in associates		427,483	422,461
Equity instruments classified as FVOCI*		4,678	4,678
Deferred tax assets		44,494	68,463
		<u>4,365,545</u>	<u>3,473,895</u>
<u>Current assets</u>			
Inventories		51,522	50,170
Trade and other receivables		563,571	515,743
Tax recoverable		25,754	30,815
Deposits, bank and cash balances		519,707	540,204
Dividend receivable		5,005	5,514
		<u>1,165,559</u>	<u>1,142,446</u>
Assets held for sale		131,366	176,528
		<u>1,296,925</u>	<u>1,318,974</u>
Total assets		<u>5,662,470</u>	<u>4,792,869</u>
<u>EQUITY AND LIABILITIES</u>			
<u>Current liabilities</u>			
Trade and other payables		594,441	517,077
Contract liabilities		72,077	70,274
Current tax liabilities		6,545	14,233
Borrowings	B7(a)	247,736	264,264
Lease liabilities	B7(b)	32,704	-
Dividends payable		21,421	21,537
		<u>974,924</u>	<u>887,385</u>
Liabilities associated with assets held for sale		153,148	179,995
		<u>1,128,072</u>	<u>1,067,380</u>
Net current assets		<u>168,853</u>	<u>251,594</u>

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KPJ HEALTHCARE BERHAD
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**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019 (CONTINUED)**

	<u>Note</u>	<u>30.09.2019</u> RM'000	<u>31.12.2018</u> RM'000 Audited
<u>Non-current liabilities</u>			
Trade and other payables		13,574	21,436
Borrowings	B7(a)	1,500,546	1,481,690
Lease liabilities	B7(b)	1,027,442	-
Deferred tax liabilities		105,966	68,657
Provision for retirement benefits		2,806	2,678
Deposits		14,998	14,325
		<u>2,665,332</u>	<u>1,588,786</u>
 Total liabilities		 <u>3,793,404</u>	 <u>2,656,166</u>
 Net assets		 <u>1,869,066</u>	 <u>2,136,703</u>
<u>Equity attributable to Owners of the Company</u>			
Share capital	A6	905,417	860,295
Less: Treasury shares		(148,447)	(111,319)
Reserves		950,752	1,234,924
		<u>1,707,722</u>	<u>1,983,900</u>
Non-controlling interests		161,344	152,803
 Total equity		 <u>1,869,066</u>	 <u>2,136,703</u>
 Total equity and liabilities		 <u>5,662,470</u>	 <u>4,792,869</u>
<u>Net assets per share attributable to Owners of the Company (RM)</u>			
		<u>0.38</u>	<u>0.45</u>

* "FVOCI" refers to fair value through other comprehensive income

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KPJ HEALTHCARE BERHAD
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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**

	Non-distributable							Distributable		Non-controlling interest	Total equity	
	Number of shares '000	Share capital RM'000	Treasury shares RM'000	Warrant reserve RM'000	Esos reserve RM'000	Merger reserve RM'000	Exchange reserve RM'000	Revaluation reserve RM'000	Retained earnings RM'000			Total RM'000
At 1 January 2019												
As previously reported	4,399,148	860,295	(111,319)	24,361	71,560	(3,367)	3,540	125,993	1,012,837	1,983,900	152,803	2,136,703
Adjustment on adoption of MFRS 16	-	-	-	-	-	-	-	-	(348,000)	(348,000)	-	(348,000)
As restated	4,399,148	860,295	(111,319)	24,361	71,560	(3,367)	3,540	125,993	664,837	1,635,900	152,803	1,788,703
Comprehensive income:												
Net profit for the financial period	-	-	-	-	-	-	-	-	127,368	127,368	8,541	135,909
Other comprehensive income:												
Currency translation of foreign subsidiaries	-	-	-	-	-	-	4,925	-	-	4,925	-	4,925
Transfer between reserves	-	-	-	-	-	-	-	(5,264)	5,264	-	-	-
Total other comprehensive income	-	-	-	-	-	-	4,925	(5,264)	5,264	4,925	-	4,925
Transactions with Owners:												
Issue of shares capital:												
- Warrants	22,884	25,230	-	(2,117)	-	-	-	-	-	23,113	-	23,113
- ESOS	16,816	19,892	-	-	(4,590)	-	-	-	-	15,302	-	15,302
- Share buy-back	-	-	(37,128)	-	-	-	-	-	-	(37,128)	-	(37,128)
	39,700	45,122	(37,128)	(2,117)	(4,590)	-	-	-	-	1,287	-	1,287
ESOS expenses during the financial period	-	-	-	-	2,871	-	-	-	-	2,871	-	2,871
Lapsed ESOS	-	-	-	-	(7,211)	-	-	-	7,211	-	-	-
Lapsed warrant	-	-	-	(22,244)	-	-	-	-	22,244	-	-	-
Dividends on ordinary shares	-	-	-	-	-	-	-	-	(64,629)	(64,629)	-	(64,629)
Total transactions with Owners	39,700	45,122	(37,128)	(24,361)	(8,930)	-	-	-	(35,174)	(60,471)	-	(60,471)
At 30 September 2019	4,438,848	905,417	(148,447)	-	62,630	(3,367)	8,465	120,729	762,295	1,707,722	161,344	1,869,066

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KPJ HEALTHCARE BERHAD
(Incorporated in Malaysia)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018**

	Non-distributable							Distributable		Non-controlling interest	Total equity	
	Number of shares '000	Share capital RM'000	Treasury shares RM'000	Warrant reserve RM'000	Esos reserve RM'000	Merger reserve RM'000	Exchange reserve RM'000	Revaluation reserve RM'000	Retained earnings RM'000			Total RM'000
At 1 January 2018	4,281,413	736,069	(55,411)	31,631	61,189	(3,367)	(5,134)	98,070	863,748	1,726,795	88,416	1,815,211
Sales of interests in a subsidiary to non-controlling interest	-	-	-	-	-	-	-	-	53,800	53,800	66,120	119,920
Comprehensive income:												
Net profit for the financial period	-	-	-	-	-	-	-	-	126,120	126,120	5,029	131,149
Other comprehensive income:												
Currency translation of foreign subsidiaries	-	-	-	-	-	-	1,094	-	-	1,094	-	1,094
Total other comprehensive income	-	-	-	-	-	-	1,094	-	-	1,094	-	1,094
Transactions with Owners:												
Issue of shares capital:												
- Warrants	437	481	-	(40)	-	-	-	-	-	441	-	441
- ESOS	19,300	18,528	-	-	(965)	-	-	-	-	17,563	-	17,563
- Share buy-back	-	-	(29,645)	-	-	-	-	-	-	(29,645)	-	(29,645)
	19,737	19,009	(29,645)	(40)	(965)	-	-	-	-	(11,641)	-	(11,641)
ESOS expenses during the financial period	-	-	-	-	9,384	-	-	-	-	9,384	-	9,384
Lapsed ESOS	-	-	-	-	(487)	-	-	-	487	-	-	-
Dividends on ordinary shares	-	-	-	-	-	-	-	-	(63,144)	(63,144)	-	(63,144)
Dividends paid to non-controlling interest of subsidiaries	-	-	-	-	-	-	-	-	-	-	(2,400)	(2,400)
Total transactions with Owners	19,737	19,009	(29,645)	(40)	7,932	-	-	-	(62,657)	(65,401)	(2,400)	(67,801)
At 30 September 2018	4,301,150	755,078	(85,056)	31,591	69,121	(3,367)	(4,040)	98,070	981,011	1,842,408	157,165	1,999,573

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KPJ HEALTHCARE BERHAD
(Incorporated in Malaysia)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**

	<u>30.09.2019</u> RM'000	<u>30.09.2018</u> RM'000
OPERATING ACTIVITIES		
Profit before tax		
- continuing operations	203,480	181,530
- discontinued operation	(6,421)	(603)
Profit before tax	<u>197,059</u>	<u>180,927</u>
Adjustments for:		
Share of results of associates	(27,037)	(23,482)
Finance income	(8,818)	(6,240)
Finance costs		
- Borrowings	68,988	64,591
- Lease liabilities	47,526	-
Dividends received from Al-Salam REIT	(67)	(83)
Trade receivables		
- Impairment	4,708	2,712
Share based payments	2,871	9,384
Gain on disposal of shares in associates	(341)	-
Gain on disposal of shares in subsidiaries	(48)	-
Property, plant and equipment		
- Depreciation	117,919	108,719
- Written-off	207	26
- (Gain)/loss on disposal	(735)	63
Right-of-use assets		
- Depreciation	33,045	-
Inventories written-off	114	153
Amortisation of software development expenditure	2,692	2,445
Operating profit before working capital changes	<u>438,083</u>	<u>339,215</u>
Changes in working capital:		
Inventories	(1,466)	1,875
Receivables	(52,536)	(19,577)
Payables	85,483	94,967
Contract liabilities	1,803	(6,563)
Cash flows generated from operations	<u>471,367</u>	<u>409,917</u>
Zakat paid	(2,901)	(3,713)
Income tax paid (net of refund)	(68,158)	(96,335)
Net cash generated from operating activities	<u>400,308</u>	<u>309,869</u>

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KPJ HEALTHCARE BERHAD

(Incorporated in Malaysia)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)**

	<u>30.09.2019</u> RM'000	<u>30.09.2018</u> RM'000
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(263,005)	(198,962)
Additions to intangible assets	(952)	(142)
Proceeds from disposal of property, plant and equipment	192	1,105
Proceeds from disposal of interest in subsidiary	1,148	-
Interest received	8,818	6,240
(Increase) / decrease in deposits with licensed banks with maturity of more than 3 months	(69,564)	8,496
Dividends received from associates	22,812	15,375
Net cash used in investing activities	<u>(300,551)</u>	<u>(167,888)</u>
FINANCING ACTIVITIES		
Grant income received	10,400	-
Additional investments in subsidiaries	(335)	-
Proceeds from dilution of interest in subsidiary	-	119,920
Principal elements of lease payments	(72,099)	-
Acquisition of non-controlling interests	(2,591)	-
Issue of shares:		
- Warrants	23,113	441
- ESOS	15,302	17,563
- Share buy-back	(37,128)	(29,645)
Borrowings:		
- Drawdown	49,188	277,953
- Repayments	(47,708)	(202,213)
Interest paid	(68,988)	(64,591)
Dividends paid to shareholders	(64,745)	(42,140)
Dividends paid to non-controlling interest	-	(2,400)
Net cash (used in)/generated from financing activities	<u>(195,591)</u>	<u>74,888</u>
Net changes in cash and cash equivalents	(95,834)	216,869
Currency translation differences	4,925	818
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	<u>404,214</u>	<u>184,847</u>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	<u><u>313,305</u></u>	<u><u>402,534</u></u>

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KPJ HEALTHCARE BERHAD
(Incorporated in Malaysia)

**A NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER
2019**

A1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with Listing Requirements of the Bursa Malaysia Securities Berhad, Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2018.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the most recent audited financial statements for the financial year ended 31 December 2018, except for the adoption of new and amended standards as set out in Note A5.

Standards, amendments to published standards and interpretations that are effective

The Group has applied the following amendments for the financial year beginning on 1 January 2019:

- MFRS 16 ‘Leases’ supersedes MFRS 117 ‘Leases’ and the related interpretations.
- Amendments to MFRS 9 ‘Prepayment Features with Negative Compensation’.
- Amendments to MFRS 119 ‘Plan Amendment, Curtailment or Settlement’.
- Amendments to MFRS 128 ‘Long Term Interests in Associates and Joint Ventures’.
- Amendments to MFRS 3 ‘Business Combinations’ (Annual Improvements to MFRSs 2015–2017 Cycle).
- Amendments to MFRS 11 ‘Joint Arrangements’ (Annual Improvements to MFRSs 2015–2017 Cycle).
- Amendments to MFRS 112 ‘Income Taxes’ (Annual Improvements to MFRSs 2015–2017 Cycle).
- Amendments to MFRS 123 ‘Borrowing Costs’ (Annual Improvements to MFRSs 2015–2017 Cycle).
- IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’.

The impact on the adoption of the MFRS 16 is disclosed in Note A5. Other than that, the adoption of these amendments is not expected to have any material impact on the current financial year or prior year and is not likely to affect future years.

Standards that have been issued but not yet effective

- Amendments to MFRS 3 ‘Business Combinations’ (effective 1 January 2020)
- Amendments to MFRS 101 ‘Presentation of Financial Statements’ (effective 1 January 2020)
- Amendments to MFRS 108 ‘Accounting Policies, Changes in Accounting Estimates and Errors’ (effective 1 January 2020)

The Group did not early adopt these new standards.

KPJ HEALTHCARE BERHAD

(Incorporated in Malaysia)

A NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

A2 AUDIT REPORT OF THE PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the annual financial statements for the financial year ended 31 December 2018 was unqualified.

A3 SEASONALITY OR CYCLICALITY OF OPERATIONS

The business operations have not been significantly affected by any seasonal or cyclical trend.

A4 UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS

There were no material unusual items affecting assets, liabilities, equity, net income or cash flow during the financial year under review.

A5 CHANGE IN ACCOUNTING ESTIMATES AND POLICIES

There is no change in the estimates of amounts reported in prior financial years that has a material effect in the current financial year under review.

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2018. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group has adopted MFRS 16 for the first time effective quarter 1, 2019. The impact of the adoption of MFRS 16 are disclosed below:

MFRS 16 'Leases'

The Group has adopted MFRS 16 'Leases' from 1 January 2019 which resulted in changes in accounting policies and adjustments to the amount recognised in the financial statements. The new standard supersedes MFRS 117 'Leases' and the related interpretations. Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in profit or loss.

The new standard has therefore eliminate rental expenses in profit or loss and replaced by depreciation and finance costs. In statement of financial position, right-of-use assets and lease liabilities will be recognised as part of the Group's assets and liabilities respectively. In applying MFRS 16 on leased assets, the Group will measure the right-of-use assets using the cost model and will be part of the Group's property, plant and equipment.

KPJ HEALTHCARE BERHAD
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**A NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER
2019 (CONTINUED)**

A5 CHANGE IN ACCOUNTING ESTIMATES AND POLICIES (CONTINUED)

MFRS 16 'Leases' (continued)

(a) The Group's leasing activities and how these are accounted for

The majority of the Group's leasing activities are lease of buildings with Al-'Aqar Healthcare REIT. The rental contracts are typically made for a period of 15 years with an option to extend for another 15 years. The lease terms are negotiated with the lessor, such that similar terms are set for properties with similar characteristics. These terms are used to maximise operational efficiencies in terms of managing contracts. There are no covenants attached to these leases and the properties may not be used as security for borrowing purposes.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects the assessment that is within the control of the lessee.

Until 2018, these leases are recognised as non-cancellable operating leases of the Group. Payments made to the lessor were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date which the leased asset is available for use by the Group. Each lease payment is allocated between liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, and

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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2019 (CONTINUED)**

A5 CHANGE IN ACCOUNTING ESTIMATES AND POLICIES (CONTINUED)

MFRS 16 'Leases' (continued)

(a) The Group's leasing activities and how these are accounted for (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs, if any.

Payments associated with short-term leases and leases of low-value assets are recognised as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less, and low-value assets comprised of certain IT-equipment and small items of office furniture.

(b) Adjustments recognised on adoption of MFRS 16

On adoption of MFRS 16, the Group recognised lease liabilities in relation to leases which was previously classified as 'operating leases' under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.85%.

In arriving at the remaining lease payments, management has considered and incorporated the extension option of an additional period of 15 years.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(c) Practical expedients applied

In applying MFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessment on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying MFRS 117.

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2019 (CONTINUED)

A5 CHANGE IN ACCOUNTING ESTIMATES AND POLICIES (CONTINUED)

MFRS 16 'Leases' (continued)

(d) Impact on adoption of MFRS 16

i. Statement of Financial Position

	<u>2019</u> RM'000
Operating lease commitments disclosed as at 31 December 2018	2,927,692
<u>Lease liabilities</u>	
Operating lease commitments discounted using the lessee's incremental borrowing rate at the date of initial application	1,073,000
Lease liabilities recognised as at 1 January 2019:	
- Current lease liabilities	31,379
- Non-current lease liabilities	1,041,621
	<u>1,073,000</u>

The reclassifications and adjustments arising from new leasing rules are recognised in the opening statement of financial position on 1 January 2019. No additional statement of financial position as at beginning of the earliest comparative period will be presented.

Right-of-use assets recognised as part of property, plant and equipment on 1 January 2019 amounted to RM792.0 million.

Apart from the changes above, the change in accounting policy also resulted in an increase in deferred tax liability by RM67.0 million. The net impact on retained earnings on 1 January 2019 was a decrease of RM348.0 million.

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A5 CHANGE IN ACCOUNTING ESTIMATES AND POLICIES (CONTINUED)

MFRS 16 'Leases' (continued)

(d) Impact on adoption of MFRS 16 (continued)

- ii. The reconciliation between EBITDA and profit before tax for continuing operations for the period ended 30 September 2019 is shown below:

	RM'000
EBITDA with MFRS 16 impact	464,833
Impact on adoption of MFRS 16:	
- Lease rental	(72,099)
EBITDA without MFRS 16 impact	<u>392,734</u>
Profit before tax with MFRS 16 impact	203,480
Impact on adoption of MFRS 16:	
- Depreciation	33,045
- Finance costs	47,526
- Lease rental	(72,099)
	<u>8,472</u>
Profit before tax without MFRS 16 impact	<u>211,952</u>

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**A NOTES TO THE INTERIM FINANCIAL REPORT
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2019 (CONTINUED)****A6 DEBT AND EQUITY SECURITIES**

There has been no issuance of shares and repayments of debt and equity securities by the Company in the current period under review, except the followings:

EQUITY SECURITIES**i. Treasury shares**

On 18 April 2019, at the Annual General Meeting, the shareholders of the Company renewed their approval for the Company to buy-back its own shares of up to ten percent (10%) of the issued and paid-up share capital of the Company.

Up to 31 December 2018, 115,197,500 units of KPJ Healthcare Berhad shares were bought by the Company from the open market, listed on the Bursa Malaysia for a total consideration of RM111,318,576.

During the period ended 30 September 2019, the Company repurchased 39,533,800 ordinary shares of its issued share capital from the open market at an average price of RM0.94 per share. The repurchase transactions were financed by internally generated funds. The shares repurchased are held as treasury shares and accounted for in accordance with the requirement of Section 127 of the Companies Act 2016.

As at 30 September 2019, the Company held a total of 154,731,300 of its 4,438,848,655 issued ordinary shares as treasury shares. Such treasury shares are held at a carrying amount of RM 148,447,197.

ii. Employees Share Option Scheme (ESOS)

An Employees Share Option Scheme ("ESOS") was implemented on 27 February 2015 for the benefit of senior executives and certain employees of the Company. The ESOS shall be in-force for a period of 5 years. The fair value of each share option on the grant date is RM0.25. The options are to be settled only by the issuance and allocation of new ordinary shares of the Company. There are no cash settlement alternatives.

The exercise price of the share options granted under the ESOS is RM0.91 each. The options granted are divided into 5 equal tranches which vest on 14 April 2015, 27 February 2016, 27 February 2017, 27 February 2018 and 27 February 2019. The vesting condition is that the offeree must be an employee or director, as the case may be, of the Company or its subsidiaries on the respective vesting and exercise dates. The option will expire on 27 February 2020.

Movement of ESOS during the period:

	<u>30.09.2019</u> Units '000	<u>30.09.2018</u> Units '000
Outstanding as at 1 January	212,955	260,007
- Granted	1,089	1,792
- Exercised	(16,816)	(19,300)
- Lapsed	(6,913)	(8,993)
At end of financial period	<u>190,315</u>	<u>233,506</u>

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**A NOTES TO THE INTERIM FINANCIAL REPORT
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2019 (CONTINUED)**

A6 DEBT AND EQUITY SECURITIES (CONTINUED)

There has been no issuance of shares and repayments of debt and equity securities by the Company in the current financial year under review, except the followings: (continued)

EQUITY SECURITIES (CONTINUED)

The number of issued and paid up ordinary share capital as a result of the above mentioned exercise is as follows:

	<u>30.09.2019</u>	<u>30.09.2019</u>
	Number of shares ('000)	RM'000
At start of the financial year	4,399,148	860,295
Issued during the financial period		
- exercise of warrant	22,884	25,230
- exercise of ESOS	16,816	19,892
At end of financial period	<u>4,438,848</u>	<u>905,417</u>

A7 DIVIDENDS

In respect of the financial year ending 31 December 2019, the Directors declared:

- i. First interim dividend of 0.50 sen per share on 4,319,667,986 ordinary shares amounting to RM21,598,340. The dividend was declared on 19 February 2019 and was fully paid on 19 April 2019.
- ii. Second interim dividend of 0.50 sen per share on 4,322,068,715 ordinary shares amounting to RM 21,610,343. The dividend was declared on 31 May 2019 and was fully paid on 28 June 2019.
- iii. Third interim dividend of 0.50 sen per share on 4,284,117,355 ordinary shares amounting to RM 21,420,587. The dividend was declared on 30 August 2019 and was fully paid on 10 October 2019.

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2019 (CONTINUED)**

A8 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal management reporting provided to the chief operating decision maker (“CODM”), which is the Board of Directors (“BOD”). The BOD considers the business by geographical location. The reportable segments have been identified as follows:

Continuing operations

- i. Malaysia - All healthcare activities including the private hospitals, pathology and laboratory services and distribution of pharmaceutical, medical and consumer healthcare products.
- ii. Others – Operating segments involved in provision of hospital services in Indonesia, Thailand and Bangladesh, private university college of nursing and allied health and sale of hospital merchandise and other similar activities, none of which are individually significant to warrant separate disclosure per quantitative thresholds required by MFRS 8.

Discontinued operation

- i. Australia - Providing retirement village and aged care facilities.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The BOD assesses the performance of the operating segments based on earnings before interest, tax, depreciation and amortisation (“EBITDA”) and profit before tax.

Individual quarter 3 months ended

	<u>Continuing operations</u>			<u>Discontinued operation</u>	
	<u>Malaysia</u>	<u>Others</u>	<u>Sub-total</u>	<u>Australia</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30 September 2019</u>					
<u>Revenue</u>					
Revenue from external customers	876,493	29,943	906,436	12,668	919,104
<u>Results</u>					
EBITDA*	151,443	5,084	156,527	(1,867)	154,660
Profit before tax	69,265	2,615	71,880	(2,197)	69,683
Total assets	5,127,110	403,994	5,531,104	131,366	5,662,470
Total liabilities	3,413,975	226,281	3,640,256	153,148	3,793,404
Additions to property, plant and equipment	120,419	651	121,070	-	121,070

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2019 (CONTINUED)**

A8 SEGMENT REPORTING (CONTINUED)

Individual quarter 3 months ended (continued)

	<u>Continuing operations</u>			<u>Discontinued</u>	<u>Total</u> RM'000
	<u>Malaysia</u> RM'000	<u>Others</u> RM'000	<u>Sub-total</u> RM'000	<u>operation</u> <u>Australia</u> RM'000	
<u>30 September 2018</u>					
<u>Revenue</u>					
Revenue from external customers	794,887	25,673	820,560	14,601	835,161
<u>Results</u>					
EBITDA*	116,977	1,306	118,283	342	118,625
Profit before tax	59,880	2,009	61,889	(666)	61,223
Total assets	4,114,528	331,469	4,445,997	160,302	4,606,299
Total liabilities	2,358,966	72,168	2,431,134	175,592	2,606,726
Additions to property, plant and equipment	52,855	5,874	58,729	-	58,729

The functional currency for Indonesia and Australia operation is as follows:

	<u>Indonesia</u> IDR'000	<u>Indonesia</u> RM'000	<u>Australia</u> AUD'000	<u>Australia</u> RM'000
<u>30 September 2019</u>				
<u>Revenue</u>				
Revenue from external customers	48,306,931	14,212	4,509	12,668
<u>Results</u>				
EBITDA*	12,209,228	3,589	(661)	(1,867)
Profit before tax	15,030,000	4,368	(781)	(2,197)
Total assets	520,101,695	153,430	46,399	131,366
Total liabilities	132,779,661	39,170	54,093	153,148
Additions to property, plant and equipment	873,935	308	-	-

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2019 (CONTINUED)**

A8 SEGMENT REPORTING (CONTINUED)

Individual quarter 3 months ended (continued)

The functional currency for Indonesia and Australia operation is as follows: (continued)

	<u>Indonesia</u> IDR'000	<u>Indonesia</u> RM'000	<u>Australia</u> AUD'000	<u>Australia</u> RM'000
<u>30 September 2018</u>				
<u>Revenue</u>				
Revenue from external customers	38,378,781	10,916	4,738	14,601
<u>Results</u>				
EBITDA*	5,788,789	1,661	111	342
Profit before tax	4,272,283	1,251	(216)	(666)
Total assets	499,855,856	138,710	53,697	160,302
Total liabilities	138,796,396	38,516	58,819	175,592
Additions to property, plant and equipment	4,240,453	1,154	-	-

Cumulative 9 months ended

	<u>Continuing operations</u>			<u>Discontinued</u> <u>operation</u>	<u>Total</u> RM'000
	<u>Malaysia</u> RM'000	<u>Others</u> RM'000	<u>Sub-total</u> RM'000	<u>Australia</u> RM'000	
<u>30 September 2019</u>					
<u>Revenue</u>					
Revenue from external customers	2,536,233	85,643	2,621,876	38,485	2,660,361
<u>Results</u>					
EBITDA*	452,926	11,907	464,833	(4,943)	459,890
Profit before tax	208,718	(5,238)	203,480	(6,421)	197,059
Total assets	5,127,110	403,994	5,531,104	131,366	5,662,470
Total liabilities	3,413,975	226,281	3,640,256	153,148	3,793,404
Additions to property, plant and equipment	258,350	4,655	263,005	-	263,005

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**A NOTES TO THE INTERIM FINANCIAL REPORT
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2019 (CONTINUED)**

A8 SEGMENT REPORTING (CONTINUED)

Cumulative 9 months ended (continued)

	<u>Continuing operations</u>			<u>Discontinued</u>	<u>Total</u> RM'000
	<u>Malaysia</u> RM'000	<u>Others</u> RM'000	<u>Sub-total</u> RM'000	<u>operation</u> <u>Australia</u> RM'000	
<u>30 September 2018</u>					
<u>Revenue</u>					
Revenue from external customers	2,369,930	74,842	2,444,772	44,289	2,489,061
<u>Results</u>					
EBITDA*	350,100	945	351,045	2,488	353,533
Profit before tax	185,093	(3,563)	181,530	(603)	180,927
Total assets	4,114,528	331,469	4,445,997	160,302	4,606,299
Total liabilities	2,358,966	72,168	2,431,134	175,592	2,606,726
Additions to property, plant and equipment	190,963	7,999	198,962	-	198,962

The functional currency for Indonesia and Australia operation is as follows:

	<u>Indonesia</u> IDR'000	<u>Indonesia</u> RM'000	<u>Australia</u> AUD'000	<u>Australia</u> RM'000
<u>30 September 2019</u>				
<u>Revenue</u>				
Revenue from external customers	144,968,966	42,041	13,386	38,485
<u>Results</u>				
EBITDA*	35,220,690	10,214	(1,719)	(4,943)
Profit before tax	19,458,621	5,643	(2,233)	(6,421)
Total assets	520,101,695	153,430	46,399	131,366
Total liabilities	132,779,661	39,170	54,093	153,148
Additions to property, plant and equipment	12,823,729	3,783	-	-

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**A NOTES TO THE INTERIM FINANCIAL REPORT
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2019 (CONTINUED)**

A8 SEGMENT REPORTING (CONTINUED)

Cumulative 9 months ended (continued)

The functional currency for Indonesia and Australia operation is as follows: (continued)

	<u>Indonesia</u> IDR'000	<u>Indonesia</u> RM'000	<u>Australia</u> AUD'000	<u>Australia</u> RM'000
<u>30 September 2018</u>				
<u>Revenue</u>				
Revenue from external customers	107,669,903	31,052	14,398	44,289
<u>Results</u>				
EBITDA*	9,646,325	2,782	809	2,488
Profit before tax	(4,306,519)	(1,242)	(196)	(603)
Total assets	499,855,856	138,710	53,697	160,302
Total liabilities	138,796,396	38,516	58,819	175,592
Additions to property, plant and equipment	9,405,405	2,610	-	-

* EBITDA for the period ended 30 September 2019 is stated after adoption of MFRS 16, while EBITDA for the period ended 30 September 2018 is stated before adoption of MFRS 16.

The key exchange rate used, provided by the ultimate holding corporation, is as follows;

	<u>30.09.2019</u>	<u>30.09.2018</u>
1 Australian Dollar		
Closing	2.8312	2.9853
Average	2.8751	3.0760
1,000 Indonesian Rupiah		
Closing	0.2950	0.2775
Average	0.2900	0.2884

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A NOTES TO THE INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

A9 VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

The Group's land and buildings, except right-of-use assets and for those under constructions were fully revalued as at 31 December 2015. As at period end, the Group assessed whether there is an indication that the carrying values of these assets have differed materially from its fair value. Where an indication exist, revaluations were carried out and the carrying value of these assets were updated to reflect its fair value based on independent valuation.

A10 MATERIAL EVENTS SUBSEQUENT TO THE END OF THE QUARTER

Except as stated in note B6, there were no material events subsequent to the third quarter ended 30 September 2019 that has not been reflected in this interim financial report.

A11 CHANGES IN THE COMPOSITION OF THE GROUP

There are no material changes in the composition of the Group during the current period.

A12 CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets since the statement of financial position as at 31 December 2018.

A13 RELATED PARTY TRANSACTIONS

All related party transactions within the Group had been entered into in the normal course of business and were carried out on normal commercial terms.

A14 CAPITAL COMMITMENTS

Capital expenditures not provided for in the interim financial report as at 30 September 2019 are as follows:

	RM'000
Approved by the Directors and contracted	98,029
Approved by the Directors but not contracted	145,643
	<hr/>
	243,672
	<hr/> <hr/>

Analysed as follows:

Building	77,269
Medical equipment	119,637
Other property, plant and equipment	46,766
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	243,672
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- B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**
- B1 REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES**

Additional information as required by Appendix 9B of Bursa Malaysia Listing Requirements:

- a. Review on statements of comprehensive income for current quarter compared to the corresponding quarter of the preceding year (3 months)

Group

The Group registered a decent growth of 10% in revenue from RM820.6 million in quarter 3, 2018 to RM906.4 million in the current quarter ended 30 September 2019 primarily driven by an improved performance by segments in continued operations.

EBITDA of the Group reported at RM156.5 million during the current quarter, 32% higher as compared to RM118.3 million in corresponding quarter. It was underpinned by the adoption of MFRS 16, which uplifted the Group's EBITDA since the Group did not recognise lease rental, and instead recognised depreciation and finance costs derived from the right-of-use assets and lease liabilities respectively. [Refer to Note A5(d)(ii) on the reconciliation between EBITDA and profit before tax with MFRS 16 impact].

The profit before tax for the 3 months ended 30 September 2019 closed at RM71.9 million, increased by 16% from RM61.9 million in 2018 contributed by cost optimisation and initiatives from the hospitals as well as revenue increment during the period.

Segment : Continuing operations

Malaysia

The Malaysia segment continued to excel with 10% revenue increment to RM876.5 million in current quarter supported by the increase in number of patient visits, radiology cases and surgeries especially for KPJ Johor, KPJ Selangor and KPJ Rawang. The new addition to the Group's group of hospitals, KPJ Batu Pahat, which commenced its operation on 18 September 2019, also contributed to the improved revenue of the period. Increased activities within the support companies also contributed to the revenue growth.

EBITDA for Malaysia was recorded at RM151.4 million in this quarter from RM117.0 million during the third quarter 2018. The double-digit increment arose from the exclusion of lease rental from the administrative expenses upon adopting MFRS 16. The lease rental amounted to RM21.1 million was deducted in arriving to the EBITDA in quarter 3, 2019.

Profit before tax recorded 16% increase to RM69.3 million during this quarter from RM59.9 million in the same quarter in 2018 led by the increase in revenue by 10%. Despite the fact that the increase in profit before tax has been set-off by the MFRS 16 impact recognised during the quarter especially on depreciation and finance costs amounting to RM9.7 million and RM14.0 million respectively, the Group managed to set higher profit before tax margin with 7.9% as compared to last year's 7.5%. This was due to cost optimisation and initiatives from the hospitals as well as better performance by support companies.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B1 REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES (CONTINUED)

Additional information as required by Appendix 9B of Bursa Malaysia Listing Requirements:

- a. Review on statements of comprehensive income for current quarter compared to the corresponding quarter of the preceding year (3 months) (continued)

Segment : Continuing operations (continued)

Others

Revenue from this segment improved favourably by 16% to RM29.9 million from RM25.7 million in corresponding quarter of the prior year mainly from Indonesian operation. Rumah Sakit Medika Bumi Serpong Damai reported 21% increase in number of patients mainly contributed by consecutive marketing activities and treatment packages offered throughout the quarter.

EBITDA recognised for Indonesian operation increased significantly by more than 100% from EBITDA of RM1.7 million in quarter 3, 2018 to EBITDA of RM3.6 million in 2019. Lower operational cost incurred and better utilisation of resources has led to the improved performance during the quarter.

Segment : Discontinued operation

Australia

Revenue from Australia segment narrowed from RM14.6 million in 2018 to RM12.7 million in current quarter. This was due to lower average residential occupancy rate reported in Jeta Gardens. The fall in occupancy rate was attributable to incline competition from newly-opened facilities close to Jeta Gardens and the increment in incentives from the Australia's government to encourage home care, thus, enabling people to stay in their own homes longer before admission into residential aged care.

EBITDA for this segment plummeted to loss EBITDA of RM1.9 million from EBITDA of RM0.3 million in the corresponding quarter of the preceding year. This was mainly due to inability to fully utilise the capacities and resources as a result of lower occupancy rate.

- b. Review on statements of comprehensive income for current financial period compared to prior financial period (9 months)

Group

The Group's revenue registered a positive growth of 7% from RM2,444.8 million as at 30 September 2018 to RM2,621.9 million as at 30 September 2019 primarily driven by improved performance by segments in continued operations.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B1 REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES (CONTINUED)

Additional information as required by Appendix 9B of Bursa Malaysia Listing Requirements: (continued)

b. Review on statements of comprehensive income for current financial period compared to prior financial period (9 months) (continued)

Group (continued)

EBITDA improved significantly by 32% disclosed at RM464.8 million during this period as compared to RM351.0 million in corresponding year. It was underpinned by the adoption of MFRS 16, which uplifted the Group's EBITDA since the Group did not recognise lease rental, and instead recognised depreciation and finance costs derived from the right-of-use assets and lease liabilities respectively. [Refer to Note A5(d)(ii) on the reconciliation between EBITDA and profit before tax with MFRS 16 impact].

The profit before tax for the 9 months ended 30 September 2019 was recorded at RM203.5 million, increased by 12% from RM181.5 million in 2018, consistent with the increase in revenue.

Segment : Continuing operations

Malaysia

The Malaysia segment recorded revenue of RM2,536.2 million increase by 7% from RM2,369.9 million in the same period in 2018. Higher revenue was steered by the increase in number of patient visits, radiology cases and surgeries performed especially for KPJ Johor, KPJ Rawang and KPJ Selangor. KPJ Batu Pahat which opened on 18 September 2019 has contributed to the Malaysia's segment revenue alongside with other newly-opened hospitals such as KPJ Perlis and KPJ Bandar Dato' Onn. Increased activities at the support companies also contributed to the revenue growth.

EBITDA for Malaysia has increased noticeably by 29% from RM350.1 million to RM452.9 million in this period. This was resulted from the exclusion of lease rental from the administrative expenses upon adoption of MFRS 16. The lease rental amounted to RM63.9 million was deducted in arriving to the EBITDA in 2018.

Profit before tax has increased by 13% to RM208.7 million as at 30 September 2019 from RM185.1 million in the corresponding period in 2018, contributed by the increase in revenue for the period. Higher profit before tax was attributable to the increase in share of profit from associates especially from Vejthani Hospital in Thailand. However, the increase in profit before tax has been set-off by the MFRS 16 impact amounting to RM6.9 million recognised during the period, dominantly contributed by higher depreciation and finance costs amounting to RM28.9 million and RM42.0 million respectively.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B1 REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES (CONTINUED)

Additional information as required by Appendix 9B of Bursa Malaysia Listing Requirements: (continued)

b. Review on statements of comprehensive income for current financial period compared to prior financial period (9 months) (continued)

Segment : Continuing operations (continued)

Others

Revenue from this segment improved favourably by 14% to RM85.6 million during this period from RM74.8 million in prior year mainly from Indonesian operation. Rumah Sakit Medika Bumi Serpong Damai reported additional 12 beds as compared to the same period in prior year. Furthermore, both Indonesian hospitals saw an overall increase in number of patients mainly contributed by consecutive marketing activities and treatment packages introduced during the period.

EBITDA recognised for Indonesian operation increased substantially by more than 100% from RM2.8 million in 2018 to RM10.2 million in 2019. Lower operational cost incurred and better utilisation of resources has led to the good performance during the period.

Segment : Discontinued operation

Australia

Revenue from Australia segment narrowed from RM44.3 million in 2018 to RM38.5 million during this period. The reduction was due to lower average residential occupancy rate in Jeta Gardens which recorded at 83% during this period-end as compared to 94% in the corresponding quarter. The fall in occupancy rate was due to incline competition from newly-opened facilities close to Jeta Gardens and the increment in incentives from the Australia's government to encourage home care, thus, enabling people to stay in their own homes longer before admission into residential aged care.

EBITDA for this segment plummeted to loss EBITDA of RM4.9 million from EBITDA of RM2.5 million in the corresponding period of the preceding year. This was mainly due to inability to fully utilise the capacities and resources as a result of lower occupancy rate.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B1 REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES (CONTINUED)

Additional information as required by Appendix 9B of Bursa Malaysia Listing Requirements: (continued)

c. Review on statements of financial position for current financial period compared to prior financial period

Group

The Group's total assets as at 30 September 2019 was RM5,662.5 million, an increase of 23% as compared to RM4,606.3 million as at 30 September 2018. The Group's total liabilities as at 30 September 2019 was RM3,793.4 million, increased by 46% as compared to RM2,606.7 million as at 30 September 2018. The increase was mainly contributed by the progress of new hospitals under development.

In line with adoption of MFRS 16, both total assets and total liabilities were notably high during this quarter due to recognition of right-of-use assets and lease liabilities amounting to RM769.3 million and RM1,060.1 million respectively. There were no such balances during the corresponding period-end.

Segment : Continuing operations

Malaysia

Total assets from Malaysia segment was reported at RM5,127.1 million, an increase of 25% in comparison to RM4,114.5 million as at 30 September 2018. The increment was mainly attributable to the additional investments in property, plant and equipment arising from the newly-opened hospitals, KPJ Bandar Dato Onn, KPJ Perlis and KPJ Batu Pahat and soon-to-be opened hospitals such as KPJ BDC and KPJ Miri which are currently under construction. Meanwhile, KPJ Ampang Puteri, KPJ Puteri, KPJ Seremban and KPJ Penang which are in the midst of expansion of the hospital building have also contributed to the increase in total assets. On top of that, the impact of adopting MFRS 16 has led to recognition of right-of-use assets as at 30 September 2019 amounting to RM670.9 million.

Total liabilities from this segment was reported at RM3,414.0 million increased by 45% in comparison to RM2,359.0 million as at 30 September 2018. The increase in liabilities was due to construction costs incurred during the period for the ongoing projects of new and existing hospitals. Apart from that, total lease liabilities was closed at RM937.2 million in as an impact from adoption of MFRS 16.

Others

Total assets for this segment is dominantly contributed by the Indonesian operations of RM153.4 million, increased by 11% in comparison to RM138.7 million as at 30 September 2018. Additional fair value of land and building is one of the factors to the increase in total assets by RM3.9 million.

Meanwhile, total liabilities from Indonesia operations was reported at RM39.2 million, 2% increase in comparison to RM38.5 million as at 30 September 2018.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B1 REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES (CONTINUED)

Additional information as required by Appendix 9B of Bursa Malaysia Listing Requirements: (continued)

c. Review on statements of financial position for current financial period compared to prior financial period (continued)

Segment : Continuing operations

Others

Included in total assets and total liabilities from others segment is amount recognised in relation to MFRS 16, which are right-of-use assets and lease liabilities amounting to RM98.4 million and RM123.0 million respectively. This addition was contributed by KPJ Healthcare University College and Malaysian College of Hospitality & Management.

Segment : Discontinued operation

Australia

The Australia segment reported total assets of RM131.4 million, a decrease of 18% as compared to RM160.3 million recorded as at 30 September 2018, as well as total liabilities which also reported a decrease by RM22.4 million or by 13% compared to RM175.6 million recorded as at 30 September 2018. The decrease in total assets and liabilities was contributed from the sale of investment in Al-'Aqar Healthcare REIT and repayment of loan respectively.

d. Review on statements of cash flows for current financial period compared to prior financial period (9 months)

Group

The statement of cash flows showed favourable cash inflows from operating activities consistent with the increase in profit during the financial period. Debtors' turnover days has improved to 41 days during this period as compared to the same period in 2018 of 48 days.

Cash used in investing activities mainly incurred on the development in KPJ BDC and KPJ Miri. Cash was also used to support expansion plans for existing hospitals such as KPJ Ampang Puteri, KPJ Puteri, KPJ Seremban and KPJ Penang. Despite of the cash outflows, investing activities was relieved by dividend received from associates, mainly from Al-'Aqar Healthcare REIT.

The cash generated from financing activities were mainly funds received from issuance of shares through warrants and ESOS amounting to RM38.4 million, government grant received by KPJ Bandar Dato' Onn in relation to the incentives for the development of hospital building amounting to RM10.4 million and drawdown on the borrowings amounting to RM49.2 million. The cash outflows for financing activities was mainly due to higher dividend paid to shareholders amounting to RM64.7 million as compared to only RM42.1 million in the corresponding period. This was due to timing difference at the point of payment. Also included in the cash flows from financing activities was repurchased of 39.5 million ordinary shares from the open market amounting to RM37.1 million.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B2 MATERIAL CHANGES IN QUARTERLY RESULTS

	Quarter ended 30.09.2019			Quarter ended 30.06.2019			Var
	Continuing	Discontinued	Total	Continuing	Discontinued	Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Revenue	906,436	12,668	919,104	847,311	12,958	860,269	7
Operating profit	94,902	(2,410)	92,492	93,117	(2,198)	90,919	2
EBITDA	156,526	(1,867)	154,659	153,755	(1,636)	152,119	2
Profit / (loss) before tax	71,880	(2,197)	69,683	65,516	(2,150)	63,366	10
Net profit / (loss) for the financial period	50,915	(2,197)	48,718	46,017	(2,150)	43,867	11
Total comprehensive income for the financial period	50,915	(2,197)	48,718	46,017	(2,150)	43,867	11
Profit attributable to Owners of the Company	47,665	(1,252)	46,413	43,053	(1,225)	41,828	11
No. of inpatient (episode)	87,001	-	87,001	78,765	-	78,765	10
No. of outpatient (episode)	744,335	-	744,335	704,301	-	704,301	6

Revenue in the current quarter for continuing operations was recorded at RM906.4 million, an increase of 7% as compared to the revenue in preceding quarter of RM847.3 million, contributed specifically by the 6% increase in number of patients. EBITDA showed a 2% rise in current quarter of RM156.5 million while profit before tax which improved by 10% and closed at RM71.9 million as compared to RM65.5 million in the preceding quarter.

As for discontinued operation, the revenue showed 2% decrease from RM13.0 million in preceding quarter to RM12.7 million in current quarter, while loss before tax has been on stagnant for both current and last quarter reported at RM 2.2 million. Loss EBITDA for discontinued operation are recorded at RM1.9 million in the current quarter, a slight decline as compared to the preceding quarter.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B3 CURRENT YEAR PROSPECTS

Group

The Group is confident to end the financial year ending 31 December 2019 with improved results from its matured and new hospitals, and foresee that the EBITDA and profit before tax margin will be sustainable amidst rising cost challenges.

As for the Others segment, the Group will continue to remain focused on putting in robust strategies in tandem with the improvement in the Group core activities of providing hospital services.

B4 PROFIT FORECAST / GUARANTEE

The Company is not subject to any variance of actual profit from forecast profit/profit guarantee for the current period under review.

B5 TAX

	Individual Quarter		Cumulative Quarter	
	3 months ended		9 months ended	
	<u>30.09.2019</u>	<u>30.09.2018</u>	<u>30.09.2019</u>	<u>30.09.2018</u>
	RM'000	RM'000	RM'000	RM'000
Income tax expense	20,965	20,136	61,150	49,778

Income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the year. The effective tax rate of the Group for the third quarter ended 30 September 2019 was above the statutory tax rate due to certain expenses not deductible for tax purposes and non-recognition of deferred tax assets arising from unutilised capital allowances and tax losses of a newly-opened companies due to uncertainties of recoverability to be offset with future profits.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B6 STATUS OF CORPORATE PROPOSALS

(a) Planned disposal of aged care operation in Australia

During the financial year 2017, the Directors have approved the divestment of aged care operations in Australia, by disposing its shares in Jeta Gardens (Qld) Pty Ltd (“Jeta Gardens”) and its subsidiaries.

In October 2019, the Board acknowledged that the aged care providers have been adversely affected by on-going Aged Care Royal Commission and increase in Home Care packages made available by the Australian Government. In this unfavourable situation, any exit will be difficult as potential buyers will be cautious about expanding their business until they are certain about the future. This has been reflected in the low number of interested parties and offers received.

It is more prudent to improve the operations of Jeta Gardens under the current climate and reconsider any divestment in the future, if required. The Board will review the financial structure and management of Jeta Gardens to improve sustainability and subsequently increase shareholders’ return.

Since the investment in Jeta Gardens no longer meets the criteria set in MFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, the amount will be reclassified to the continuing operations effective Quarter 4, 2019.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B7 BORROWINGS AND LEASE LIABILITIES

(a) Borrowings

Details of the Group's borrowings are as follows:

	Current		Non-current		Total borrowings	
	Foreign	RM	Foreign	RM	Foreign	RM
	'000	'000	'000	'000	'000	'000
<u>As at 30 September 2019</u>						
Secured:						
Term loans						
- Conventional						
AUD	4,147	11,740	-	-	4,147	11,740
- Syariah						
RM	-	23,991	-	366,048	-	390,039
USD	2,255	9,444	4,320	18,096	6,575	27,540
Hire purchase creditors and finance lease						
- Conventional						
RM	-	456	-	1,028	-	1,484
AUD	2	5	-	-	2	5
- Syariah						
RM	-	11,917	-	15,395	-	27,312
Unsecured:						
Revolving credits						
- Conventional						
AUD	1,854	5,250	-	-	1,854	5,250
- Syariah						
RM	-	192,000	-	-	-	192,000
Bank overdrafts						
- Syariah						
RM	-	10,099	-	-	-	10,099
Islamic Medium Term Notes						
	-	-	-	1,100,000	-	1,100,000
		<u>264,902</u>		<u>1,500,567</u>		<u>1,765,469</u>
Transfer to liabilities associated with assets held for sale						
AUD	(6,003)	(16,995)	-	-	(6,003)	(16,995)
Finance lease transfer to lease liabilities						
RM		(171)		(21)		(192)
Total		<u>247,736</u>		<u>1,500,546</u>		<u>1,748,282</u>

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B7 BORROWINGS AND LEASE LIABILITIES (CONTINUED)

(a) Borrowings (continued)

Details of the Group's borrowings are as follows (continued):

	Current		Non-current		Total borrowings	
	Foreign	RM	Foreign	RM	Foreign	RM
	'000	'000	'000	'000	'000	'000
<u>As at 30 September 2018</u>						
Secured:						
Term loans						
- Conventional						
RM	-	563	-	678	-	1,241
AUD	6,540	19,523	-	-	6,540	19,523
- Syariah						
RM	-	25,785	-	302,211	-	327,996
USD	2,173	8,989	5,193	21,483	7,366	30,472
Hire purchase creditors and finance lease						
- Conventional						
RM	-	390	-	1,694	-	2,084
AUD	6	18	-	-	6	18
- Syariah						
RM	-	10,175	-	16,514	-	26,689
Unsecured:						
Revolving credits						
- Conventional						
AUD	1,854	5,536	-	-	1,854	5,536
- Syariah						
RM	-	187,000	-	-	-	187,000
Bank overdrafts						
- Syariah						
RM	-	7,041	-	-	-	7,041
Islamic Medium						
Term Notes	-	-	-	1,100,000	-	1,100,000
		<u>265,020</u>		<u>1,442,580</u>		<u>1,707,600</u>
Transfer to liabilities associated with assets held for sale						
AUD	(8,400)	(25,077)	-	-	(8,400)	(25,077)
Total		<u>239,943</u>		<u>1,442,580</u>		<u>1,682,523</u>

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B7 BORROWINGS AND LEASE LIABILITIES (CONTINUED)

(a) Borrowings (continued)

Details of the Group's borrowings are as follows (continued):

The key exchange rate used is as follows:

	<u>30.09.2019</u>	<u>30.09.2018</u>
1 Australian Dollar	2.8312	2.9853
1 US Dollar	4.1888	4.1368

Material changes in borrowings

There was no material changes in borrowings during the current period as compared to the corresponding period. The increase was mainly due to the drawdown on term loans which were used to finance the development costs of the ongoing projects of new hospitals and renovation of existing hospitals.

Weighted average interest rate of borrowings are as follows:

- Term loan: 5.89% p.a. (2018: 5.05% p.a.)
- Hire purchase: 3.57% p.a. (2018: 3.13% p.a.)
- Islamic Medium Term Notes: 5.76% p.a. (2018: 5.73% p.a.)
- Overdraft: 6.65% p.a. (2018: 6.28% p.a.)
- Revolving credit: 4.53% p.a. (2018: 4.17% p.a.)

(b) Lease liabilities

	<u>30.09.2019</u> RM'000
Current	
- Finance lease previously classified as borrowings	192
- Lease liabilities*	32,512
	<u>32,704</u>
Non-current	
- Lease liabilities*	1,027,442
	<u>1,060,146</u>

* Included in the line item 'lease liabilities' in the consolidated statements of financial position. In the previous year, the Group only recognised lease liabilities in relation to leases that were classified as 'finance leases' under MFRS 117 Leases. These were presented as part of the Group's borrowings.

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B8 FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

As at the date of this report, there were no financial instruments with off balance sheet risk.

B9 MATERIAL LITIGATIONS

There were no pending material litigations since the date of the last statement of financial position.

B10 DIVIDENDS

In respect of the financial year ending 31 December 2019, the Directors declared:

- i. First interim dividend of 0.50 sen per share on 4,319,667,986 ordinary shares amounting to RM21,598,340. The dividend was declared on 19 February 2019 and was fully paid on 19 April 2019.
- ii. Second interim dividend of 0.50 sen per share on 4,322,068,715 ordinary shares amounting to RM 21,610,343. The dividend was declared on 31 May 2019 and was fully paid on 28 June 2019.
- iii. Third interim dividend of 0.50 sen per share on 4,284,117,355 ordinary shares amounting to RM 21,420,587. The dividend was declared on 30 August 2019 and was fully paid on 10 October 2019.

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the Group's net profit attributable to ordinary equity holders by the average number of ordinary shares in issue during the financial year.

	<u>As at</u> <u>30.09.2019</u>	<u>As at</u> <u>30.09.2018</u>
<u>Continuing operations</u>		
Profit attributable to Owners of the Company (RM'000)	131,027	126,464
Weighted average number of ordinary shares in issue ('000)	4,318,421	4,213,814
Basic earnings per share (sen)	<u>3.03</u>	<u>3.00</u>
<u>Discontinued operation</u>		
Loss attributable to Owners of the Company (RM'000)	(3,659)	(344)
Weighted average number of ordinary shares in issue ('000)	4,318,421	4,213,814
Basic earnings per share (sen)	<u>(0.08)</u>	<u>(0.01)</u>

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B ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA LISTING REQUIREMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (CONTINUED)

B11 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

For the diluted earnings per share calculation, the average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares for the Group are the warrants and ESOS.

For the warrants issued and ESOS granted to employees issued, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding warrants and ESOS. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants and ESOS. The difference is added to the denominator as an issue of ordinary shares for no consideration. This calculation serves to determine the 'bonus' element in the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to profit for the period for the warrants and ESOS calculation.

	As at 30.09.2019	As at 30.09.2018
<u>Continuing operations</u>		
Profit attributable to Owners of the Company (RM'000)	131,027	126,464
Weighted average number of ordinary shares in issue ('000)	4,318,421	4,213,814
Assumed shares issued from the		
- exercise of warrants ('000)	-	345,198
- exercise of ESOS ('000)	190,315	233,506
	<u>4,508,736</u>	<u>4,792,518</u>
Weighted average number of ordinary shares in issue ('000)	4,508,736	4,792,518
Diluted earnings per share (sen)	<u>2.91</u>	<u>2.64</u>
<u>Discontinued operation</u>		
Loss attributable to Owners of the Company (RM'000)	(3,659)	(344)
Weighted average number of ordinary shares in issue ('000)	4,318,421	4,213,814
Assumed shares issued from the		
- exercise of warrants ('000)	-	345,198
- exercise of ESOS ('000)	190,315	233,506
	<u>4,508,736</u>	<u>4,792,518</u>
Weighted average number of ordinary shares in issue ('000)	4,508,736	4,792,518
Diluted earnings per share (sen)	<u>(0.08)</u>	<u>(0.01)</u>