TITIJAYA LAND BERHAD ("TITIJAYA" OR THE "COMPANY")

PROPOSED DIVERSIFICATION OF THE EXISTING PRINCIPAL ACTIVITIES OF TITIJAYA AND ITS SUBSIDIARIES TO INCLUDE SALES, TRADING, DISTRIBUTION, PRODUCTION AND DEVELOPMENT OF MEDICAL AND HOSPITAL EQUIPMENT, DEVICES AND PRODUCTS, PERSONAL PROTECTIVE EQUIPMENT, AND MEDICAL RELATED REAL ESTATE ("PROPOSED DIVERSIFICATION")

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1. INTRODUCTION

Reference is made to the following Company's announcements:-

(i) On 29 April 2020, a strategic collaboration agreement was entered into between Titijaya Resources Sdn Bhd ("**TRSB**"), a wholly-owned subsidiary of Titijaya, and Sinopharm Medical Equipment QuanZhou Co. Ltd. ("**SMEQ**") on 28 April 2020 ("**Strategic Collaboration Agreement I**"), to jointly develop business in the marketing and sales, trading and supply of medical and hospital equipment and products, and medical related real estate;

(ii) On 9 June 2020, a strategic collaboration agreement was entered into between TRSB and China SINOMACH Heavy Industry Corporation ("**SINOMACH**") on 9 June 2020 ("**Strategic Collaboration Agreement II**"), to jointly develop medical supply security base in Malaysia (i.e. construction base), production plant and equipment and to produce melt-blown fabric and non-woven fabric for medical related products such as personal protection equipment and medical use surgical face mask; and

(iii) On 12 August 2020, a collaboration and distribution agreement was entered into between TRSB and Rubberex Corporation (M) Berhad ("**Rubberex**") to collaborate, distribute, export and sell gloves to the People's Republic of China ("**China**") market via SMEQ and also, to collaborate, distribute, import and sell the personal protection equipment and medical products from SMEQ ("**Strategic Collaboration Agreement III**").

(Strategic Collaboration Agreement I, Strategic Collaboration Agreement II and Strategic Collaboration Agreement III are collectively referred to as "**Strategic Collaboration Agreements**").

Pursuant to the Strategic Collaboration Agreements, on behalf of the Board of Directors of Titijaya ("**Board**"), UOB Kay Hian Securities (M) Sdn Bhd ("**UOB Kay Hian**") wishes to announce that the Company proposes to expand and diversify the existing principal activities of Titijaya and its subsidiaries (collectively, "**Titijaya Group**" or the "**Group**") to include sales, trading, distribution, production and development of medical and hospital equipment, devices and products, personal protective equipment, including medical face masks and gloves, other medical instruments, apparatus and appliances and medical related real estates ("**New Business**") ("**Proposed Diversification**").

2. DETAILS OF THE PROPOSED DIVERSIFICATION

At present, the Group is principally involved in property development business activities, which involve the development of housing and commercial units and industrial lots for sales. Over the past 2 audited financial years up to the financial year ended ("**FYE**") 30 June 2019, the breakdown of the financial contribution from each business segment under Titijaya Group is set out as follows:-

	FYE 30 June 2019				FYE 30 June 2018			
Business segments	**Revenue RM**	**%**	**Net profit RM**	**%**	**Revenue RM**	**%**	**Net profit RM**	**%**
Property development	**311,825,749**	**99.74**	**79,498,341**	**218.83**	**380,396,348**	**99.73**	**177,536,688**	**244.46**
Investment holding & others	827,507	0.26	15,277,051	42.05	1,038,351	0.27	36,392,048	50.11
Adjustment & eliminations			(58,446,658)	(160.88)			(141,304,949)	(194.57)
Total	**312,653,256**	**100.00**	**36,328,734**	**100.00**	**381,434,699**	**100.00**	**72,623,787**	**100.00**

The Group's financial performance over the financial years under review had mainly relied on a single business segment, i.e. property development business. The execution of the Strategic Collaboration Agreements provides the Group an opportunity to venture into the New Business, which is within a growing industry with demand and sustainability potential given the increasing awareness for preventative healthcare, the emphasis placed on the significance of medical care equipment and related products as well as regulatory compliance regulations and requirements, which enforces the usage of medical products and/ or equipment for e.g. face masks or gloves nationwide in current circumstance.

Pursuant to the Strategic Collaboration Agreements, the product offerings under the New Business comprise, amongst others, personal protection equipment, surgical face masks (including melt-blown fabric and non-woven fabric), sanitizers, medical equipment, reverse transcriptase-polymerase chain reaction (RT-PCR) test kits, rapid test kits, mobile test labs and purpose-built medical base.

As the prevailing public awareness on the need for self-protection and hygienic practices increases not only in Malaysia, but also in other countries such as China, Japan, Hong Kong and Taiwan, the Board expects a sustainable demand for these protective equipment and devices in view that the practices of wearing face masks and frequent sanitisation are the new normal in today's society and are adopted in the global context. Moreover, self-diagnostic kits are now in widespread use as more convenient alternatives to assist patients in detecting or monitoring certain medical conditions, and can be conducted at home.

Strategic Collaboration Agreement I has a tenure of 5 years from the date of signing on 28 April 2020, and subject to a renewable period of 5 years, Strategic Collaboration Agreement II does not have specified tenure, whilst Strategic Collaboration Agreement III has a tenure of 12 months from the date of signing on 12 August 2020 or any extended period as may be agreed between the parties to the Strategic Collaboration Agreement III. Premised on the above and barring any unforeseen circumstances, the New Business is expected to create a sustainable revenue and earnings stream for the Group over the medium to long term.

The Strategic Collaborations Agreements are on unincorporated basis, which solely lies on the provisions under the respective Strategic Collaboration Agreements. For avoidance of doubt, TRSB and SMEQ agreed to the terms that form the framework of the Strategic Collaboration Agreement I and shall enter into another complete documentation to set out the terms and conditions of the said collaboration. Similarly, TRSB and SINOMACH will enter into a definitive agreement to set out further terms and conditions in respect of their collaborations at a later stage. The details on the definitive agreements shall be announced by the Company upon the execution of these agreements.

Pursuant to the Strategic Collaboration Agreements, the respective responsibilities and the contributions from each parties are set out below:-

Strategic Collaboration Agreement I

TRSB and SMEQ shall be exclusively responsible and to develop the New Business as set out in the Strategic Collaboration Agreement I in their specified territory as follows:-

TRSB: Malaysia, Singapore, Indonesia, Thailand and Australia
SMEQ: China

(i) TRSB's responsibility and contribution

TRSB shall be responsible in the area of medical related real estate by providing infrastructures, land and facilities for the medical operators recommended by Sinopharm Group or SMEQ pertaining to the New Business.

(ii) SMEQ's responsibility and contribution

SMEQ undertakes to supply the medical and hospital equipment and products under the New Business as set out in the Strategic Collaboration Agreement I.

Strategic Collaboration Agreement II

(i) TRSB's responsibility and contribution

TRSB undertakes to provide funding to meet the financing conditions for the construction base and be responsible for the related development and construction conditions of the construction base for the purpose of the New Business as set out in Strategic Collaboration Agreement II.

(ii) SINOMACH's responsibility and contribution

SINOMACH undertakes to assist TRSB in sourcing for funding, and to provide resources in any manners, at the construction base, for the supply of equipment, technological and technical support for the New Business.

Strategic Collaboration Agreement III

Rubberex shall sell, and TRSB shall buy gloves from Rubberex, and export to the China market via SMEQ. Further, TRSB shall distribute and import the personal protection equipment and medical products from SMEQ, and sell to Rubberex.

The Board anticipates that the net profit attributable to the New Business may contribute more than 25.0% of the total net profit of Titijaya Group in the financial years moving forward. Accordingly, the Board proposes to seek for the approval from the shareholders of Titijaya at an extraordinary general meeting ("**EGM**") to be convened for the Proposed Diversification pursuant to Paragraph 10.13(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**"). Notwithstanding the Proposed Diversification, the Board intends to continue with the existing business activities of Titijaya Group in the same manner.

Key Management Personnel

Through the execution of the Strategic Collaboration Agreements, Titijaya is able to leverage on the skills and expertise of SMEQ and SINOMACH management teams, who have the requisite skillset and expertise in the respective business activities under the New Business. For avoidance of doubt, SMEQ is part of China National Pharmaceutical Group Co. Ltd. ("**Sinopharm Group**"), a healthcare group based in China, whilst SINOMACH is a wholly-owned subsidiary of China National Machinery Industry Corporation Ltd., an equipment manufacturing company based in China.

Notwithstanding the above, for Titijaya Group, the New Business will be led by Tan Sri Dato' Lim Soon Peng ("**Tan Sri Dato' Lim**")**,** the Group Managing Director of Titijaya and Mr. Lim Poh Yit ("**Mr. Lim**"), the Deputy Group Managing Director of Titijaya, as the key personnel to spearhead the initiative for the New Business under Titijaya Group. Set out below are the brief profiles of the key management personnel:-

(i) **Tan Sri Dato' Lim**, a Malaysian aged 65, will be responsible for the strategic planning, business development and business direction of the New Business. He is experienced in the areas of business management, development and strategy, and has accumulated more than 40 years of experience in the property development industry.

(ii) **Mr. Lim**, a Malaysian aged 37, will be responsible for the day-to-day operations and the overall management of the New Business. He is experienced in the areas of management and executions of business planning as well as supervision of the daily business operations, and has accumulated more than 15 years in the property development industry.

The management teams of Titijaya may, from time to time, review the capabilities and resources needed for the New Business. Should the needs arise, Titijaya will recruit additional personnel who are experience, and with the relevant qualification, skillset and networks specifically in the New Business, to support this new business segment. At this juncture, Titijaya will embark on the skillsets from SMEQ and SINOMACH, and under the leadership of Tan Sri Dato' Lim and Mr. Lim to embark on this new business segment.

2.1 Information of SMEQ

SMEQ was incorporated in China, and is part of the Sinopharm China National Medical Device Company, whose holding company is China National Pharmaceutical Group Co. Ltd. Sinopharm Group, founded in 1998, is a healthcare group held by the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, in China.

Sinopharm Group is an integrated chain in healthcare industry covering research and development, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, exhibitions and conferences, international business and financial services.

2.2 Information of SINOMACH

SINOMACH was incorporated in China, and is a wholly-owned subsidiary of China National Machinery Industry Corporation Ltd., which is principally involved in the equipment manufacturing and modern manufacturing services in relation to mechanical equipment, technical research and development, project contracting, and trade and services.

SINOMACH's holding company, is held by the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, in China.

2.3 Information on Rubberex

Rubberex is a public company listed on the Main Market of Bursa Securities. Rubberex and its subsidiaries are principally involved in the manufacturing and sales of gloves, producing household or general-purpose gloves, industrial gloves as well as nitrile disposable gloves for the export market.

As at 12 August 2020, Rubberex has a market capitalization size of approximately RM1,323.32 million.

2.4 Source of funding for the collaboration and the commencement of New Business

In accordance with the terms of Strategic Collaboration Agreement I, TRSB shall provide infrastructures, land and facilities for the medical operators recommended by Sinopharm Group or SMEQ in relation to the business operation. Save for the above, there is no upfront fee or cost to be provided by TRSB or Titijaya Group to commence the New Business. However, should the needs arise, the capital expenditures or general working capital required for the business operations under Strategic Collaboration Agreement I shall be financed through cash or any form of assets, as agreed between the parties of the Strategic Collaboration Agreement I, by TRSB via its internally generated funds and/ or bank borrowings, the allocation of which are yet to be determined at this juncture.

On the other hand, TRSB shall provide funding to meet the financing conditions for the construction base for the purpose of the business operations as provided in the Strategic Collaboration Agreement II. Therefore, TRSB shall fulfil the funding requirement via its internally generated funds and/ or bank borrowings, the allocation of which are yet to be determined at this juncture.

Pursuant to the terms of Strategic Collaboration Agreement III, there is no upfront fee or cost to be provided by TRSB or Titijaya Group to fulfill its obligations. However, should the needs arise, the capital expenditures or general working capital required for the business operations under Strategic Collaboration Agreement III shall be financed through cash or any form of assets, as agreed between the parties of the Strategic Collaboration Agreement III, by TRSB via its internally generated funds and/ or bank borrowings, the allocation of which are yet to be determined at this juncture.

2.5 Liabilities to be assumed by TRSB or Titijaya Group

Save for the obligation and liabilities as stated in the Strategic Collaboration Agreements, there are no other liabilities including contingent liabilities and/ or guarantees to be assumed by TRSB or Titijaya arising from the Strategic Collaboration Agreements and New Business.

2.6 Additional financial commitment required

Save as mentioned in **Section 2.4** of this announcement, there is no additional financial commitment required by TRSB or Titijaya to put the New Business on-stream at this juncture.

3. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSED DIVERSIFICATION

As set out in **Section 2** of the announcement, the Proposed Diversification provides an opportunity to the Group to venture into the New Business, which is a growing industry with foreseeable sustainable demand given current healthcare and environmental condition that enforces the usage of medical products and/ or equipment in a global context.

With the Proposed Diversification, it allows the Group to continuously seek for viable ventures into New Business, which include, but are not limited to, strategic businesses/ investments, joint ventures, collaborative arrangements, and/ or mergers and acquisitions of suitable businesses/ investments within similar areas of medical and healthcare, personal protective equipment, other medical instruments, and medical related real estates.

The recent COVID-19 outbreak, which has led to the enforcement of strict standard operating procedures by the Government has also resulted in an increase in the demand for medical products and/ or equipment, personal protective equipment and COVID-19 testing kits in Malaysia. The Board expects that such demand will continue to be sustainable even after the recovery of COVID-19 pandemic due to the prevailing public awareness on the need for self-protection and hygienic practices. Therefore, the Board deems the entrances of the Strategic Collaboration Agreements and the Proposed Diversification as timely for the Group to capture the growing market demand for the products offerings under the New Business so as to gain the greatest possible advantage from COVID-19 outbreak.

Additionally, the Proposed Diversification presents as an alternative income stream to the Group's existing business, which will reduce its business concentration risk mitigating its reliance solely on property development business segment. Premised on the above, the Board anticipates that the Proposed Diversification provides an opportunity for the Group to grow its revenue and enhance its business portfolio to drive an improved financial performance.

4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

4.1 Overview and outlook of the Malaysian economy

For 2019 as a whole, the economy expanded by 4.3% (2018: 4.7%).

(Source: Developments in the Malaysian Economy, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2019, Bank Negara Malaysia)

The Malaysian economy registered a lower growth of 0.7% in the first quarter of 2020, which was the lowest growth since 3Q 2009 of -1.1%, reflecting the early impact of measures taken both globally and domestically to contain the spread of the COVID-19 pandemic, including the introduction of the Movement Control Order ("**MCO**") in Malaysia. On the supply side, the services and manufacturing sectors moderated, while the other sectors contracted. From the expenditure side, domestic demand moderated, while exports of goods and services recorded a sharper decline. On a quarter-on-quarter seasonally-adjusted basis, the economy declined by 2.0%.

Following two months of steady expansion, economic activity experienced a sharp downshift in March as a result of the MCO. This was evidenced by the decline in the Industrial Production Index and Index of Wholesale and Retail Trade which recorded an average growth of 3.4% and 5.5%, respectively, over January and February before contracting to -4.9% and -6.1% in March (1Q 2020: 0.4% and 1.5%, respectively). The MCO comprised government closure of schools, universities and non-essential services, border closures and restrictions on public movement, work and operating hours, as well as mandatory social distancing and personal protection measures. Essential services include telecommunications, finance, production and the provision of food supplies, healthcare, utilities, electrical and electronics, as well as selected industries in the primary and consumer clusters in the manufacturing sector. Sectors which were more labour intensive and require face-to-face interaction were more impacted by the MCO. In particular, construction activity was completely prohibited during the MCO phase. In contrast, the production capacity in industries which were more capital intensive, such as mining and the electrical and electronics manufacturing subsector, were affected to a lesser extent. The MCO also led to weaker private sector activity given mobility restrictions, closures of non-essential services, such as retail subsectors, and a temporary halt in ongoing investments.

Domestic demand registered a modest growth of 3.7% in the first quarter of 2020 (4Q 2019: 4.8%), due mainly to weaker capital spending by both the private and public sectors. The subdued investment activity was mainly attributable to the containment measures undertaken by authorities both globally and domestically. Domestic demand was also affected by weaker consumer sentiments and business confidence, given the heightened uncertainty surrounding COVID-19. In addition, net exports performance was also a large drag to growth during the quarter. Nonetheless, growth was supported by continued expansion in private and public consumption.

During the first quarter, private consumption growth moderated to 6.7% (4Q 2019: 8.1%). In January and February, retail and financing data indicated continued strength in consumption spending growth. The MCO in the second half of March affected spending to some extent, but mainly for big-ticket and leisure-related items such as car purchases and recreational services. Amid soft labour market conditions, stimulus measures such as bringing forward the Bantuan Sara Hidup disbursement from the second quarter to March, and the cut in the Overnight Policy Rate particularly in January provided important support to spending. The availability of online delivery platforms also cushioned the impact of movement restrictions. Public consumption expanded at a faster pace of 5.0% (4Q 2019: 1.3%), supported by higher spending on both emoluments and supplies and services.

Gross fixed capital formation registered a larger contraction of 4.6% (4Q 2019: -0.7%), weighed by lower capital spending from both the private and public sectors. This reflected weaker global demand conditions and disruptions to supply chains, which led to slower progress in capital spending. Furthermore, ongoing investment projects were temporarily halted during the MCO. By type of assets, the weakness was broad-based, as investment in structures as well as machinery and equipment declined by 4.0% (4Q 2019: 0.1%) and 6.2% (4Q 2019: -2.6%), respectively. Private investment growth registered its first contraction of -2.3%, since the fourth quarter of 2010 (4Q 2019: 4.3%), as subdued external conditions and heightened uncertainty affected business sentiments and investment intentions. In addition, the MCO had resulted in some disruption to ongoing construction projects and delivery of machinery and equipment. Public investment recorded a larger decline of 11.3% (4Q 2019: -8.0%). This was due to a larger contraction in capital spending by both general government and public corporations during the quarter.

(Source: Developments in the Malaysian Economy, Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2020, Bank Negara Malaysia)

Against a highly challenging global economic outlook, Malaysia's gross domestic product ("**GDP**") growth is projected to be between -2.0 to 0.5% in 2020. The domestic economy will be impacted by the necessary global and domestic actions taken to contain the COVID-19 outbreak. Of significance, tourism-related sectors are expected to be affected by broad-based travel restrictions and travel risk aversion, while production disruptions in the global supply chain will weigh on the manufacturing sector and exports. The implementation and subsequent extension of the MCO, while critical, will dampen economic activity following the suspension of operations by non-essential service providers and lower operating capacity of manufacturing firms. Beyond the MCO period, reduced social and recreational activities until the pandemic is fully controlled globally and domestically will continue to dampen consumption and investment activity. Apart from the pandemic, the domestic economy will also be affected by the sharp decline and volatile shifts in crude oil prices and continued supply disruption in the commodities sector. Unfavourable weather conditions and maintenance works will weigh on the production of oil palm, crude oil and natural gas.

Given the significant headwinds to growth arising from COVID-19, the Government and Bank Negara Malaysia have introduced large countercyclical policy measures to mitigate the economic impact of the pandemic. Two economic stimulus packages amounting to RM250 billion were introduced to provide immediate relief to affected households and businesses. These packages also include loan guarantees and an automatic 6-month moratorium on loan repayments for individuals and small and medium enterprises. The economic stimulus measures were complemented by two consecutive Overnight Policy Rate reductions early this year and measures to provide additional liquidity in the banking system.

Private consumption is expected to be dampened by weak labour market conditions, mobility restrictions and subdued sentiments. Nonetheless, policy measures introduced in the two economic stimulus packages, including cash transfers to vulnerable households, flexibility to withdraw from Employees Provident Fund savings and the moratorium on loan repayments will increase disposable income and improve cash flow for households. In addition to supporting household spending, these broad-based measures will facilitate a gradual recovery in private consumption as labour market conditions eventually stabilise following the projected improvement in global and domestic economic activities.

Domestic growth prospects are expected to improve towards the end of the year, in line with the projected recovery in global demand and amid continued support from policy measures. Recovering external demand will lift growth in the export-oriented sectors. Consumer sentiments are also expected to gradually improve following the easing of travel restrictions and resumption of tourism activities as risks from the pandemic subside. In addition, the anticipated recovery from supply disruptions in the commodities sector and higher public sector expenditure will support the gradual improvement in the Malaysian economy in the latter part of the year. Public sector spending will be underpinned by the continuation of large-scale transport-related projects by public corporations and the implementation of more small-scale projects worth RM4 billion by the Federal Government.

Overall risks to the domestic growth outlook are tilted to the downside, mainly due to the risk of a prolonged and wider spread of COVID-19 and its effects on the global and domestic economy. Domestic growth also remains susceptible to a recurrence of commodities supply shocks and continued low commodity prices which could pose additional risks to production in the commodities sector, exports and income growth. In addition, heightened financial market volatility due to ongoing external uncertainties may lead to tighter domestic financial market conditions. The baseline growth projection could, however, be lifted by a stronger-than-expected impact from the various stimulus measures by the Federal Government and additional measures implemented by several state governments.

(Source: Executive Summary, Economic and Monetary Review 2019, Bank Negara Malaysia)

4.2 Overview and outlook of the healthcare industry in Malaysia

Provision of quality healthcare services is one of the main priorities of the Government. The main challenge in achieving this objective is the escalating cost of healthcare vis-à-vis constraint on Government finance. In 2018, Malaysia recorded the second-highest healthcare inflation in Asia after Vietnam. Besides, the Auditor General's Report 2018 highlights that only 58.7% to 74.5% of patients were treated in less than four to six hours in the Emergency and Trauma Department in public hospitals. Furthermore, Malaysia has the highest rate of diabetics in Asia and one of the highest in the world. The changing pattern of diseases, including those related to lifestyle and ageing population will further increase the healthcare cost. This not only leads to increasing public expenditure but also impacts the economy.

To further elevate healthcare quality, the Government will strengthen its services by providing a comfortable environment for the people while receiving treatment in public hospitals and clinics. An allocation will be provided to upgrade healthcare infrastructure, as well as enhance the capacity and capability of healthcare personnel. Concurrently, the Government will promote a healthy lifestyle and extend preventive care programmes nationwide.

(Source: Economic Management and Prospects, Economic Outlook 2020, Ministry of Finance Malaysia)

The other services subsector is projected to grow by 5.1% in 2020. This is due to strong demand for private education and healthcare services. The number of foreign students is expected to remain favourable attributed to the cost competitiveness of education offered in the country. Meanwhile, the private healthcare segment will be supported by the Malaysia Year of Healthcare Travel 2020 campaign which seeks to reinforce Malaysia as a reputable and global healthcare travel destination, especially in the areas of cardiology, oncology, fertility, orthopaedics and cosmetic surgery.

Meanwhile, the health tourism industry is growing rapidly and Malaysia is recognized as one of the five best in the world. In 2018, the number of healthcare travelers surged 15% to 1.2 million with revenue increasing 13% to RM1.4 billion, particularly from China, India and Indonesia. The quality of healthcare system; international qualified medical professionals and accredited medical facilities; competitive cost; availability of latest procedures and treatment technologies; as well as accessibility through air and land routes are the factors contributing to the growth of this industry. In conjunction with the Malaysia Year of Healthcare Travel 2020 campaign to establish Malaysia as a leading global destination for healthcare, the Government is targeting total revenue of RM2.2 billion in 2020. This campaign is targeting several new ASEAN markets and the Middle East, especially in the areas of cardiology, oncology and fertility.

The Government's development expenditure during 2019 and 2020 will remain high and mostly concentrated in the economic and social sectors. Investment in economic sector mainly channeled into transportation system; energy and public utilities; as well as trade and industry. Meanwhile, the bulk of expenditure in the social sector is channeled into education and healthcare.

(Source: Macroeconomic Outlook, Economic Outlook 2020, Ministry of Finance Malaysia)

4.3 Overview and outlook of the medical device industry in Malaysia

At a time where the global economic outlook is unfavourable amidst new trade challenges, the future outlook for Malaysia's medical device industry remains very positive, with the majority of Association of Malaysian Medical Industries ("**AMMI**") respondents bullish about their business prospects in 2020 and the years to come. AMMI survey respondents plan to invest a collective amount of RM765 million in plant expansion, new product development and research and development ("**R&D**") in 2020. Global exports of medical devices from Malaysia rose by a healthy 15% from RM19.8 billion in 2017 to RM22.9 billion in 2018. Significantly, AMMI members collectively accounted for over 55% of the export value. According to AMMI's analysis, the export of medical devices from Malaysia will likely achieve RM25.7 billion in 2019 and RM28.8 billion in 2020, based on the projected 12% year-on-year growth.

In 2018, the total value of cumulative investments by AMMI members totalled RM7.8 billion, nearly doubling 2014's total of RM4.3 billion. Based on AMMI's analysis, the value of cumulative investments reported by AMMI members grew at an impressive compound annual growth rate of 16.4% between 2014 and 2018. AMMI members doubled their R&D spending from RM58 million in 2017 to RM115 million in 2018. R&D personnel also increased significantly, growing 33% from 348 in 2017 to 462 personnel. AMMI members collectively employed a 36,249 strong workforce in 2018. This is a growth of 12% compared to 2017. This upward trend indicates AMMI members' confidence in the value and strengths of Malaysia as a hub for medical device manufacturing, as well as their commitment to growing and evolving in tandem with the industry.

In commending AMMI's latest industry report, Dato' Azman Mahmud, Chief Executive Officer of the Malaysian Investment Development Authority ("**MIDA**") said, "*Malaysia continues to evolve as a manufacturing hub for medical devices in Asia. The medical device industry manufactures higher value-added and technologically-advanced products such as cardiac pacemakers, stents, orthopedic implantable devices, electro-medical, therapeutic and monitoring devices is expected to have a positive impact on the Malaysian economy. As of 2018, 382 medical devices projects with investments worth RM18.4 billion have been implemented in Malaysia, creating more than 71,000 jobs for the country. In addition, MIDA has approved 21 projects in the medical device industry worth RM2.12 billion from January to September of 2019.*"

(Source: Media release entitled "AMMI Members Will Invest a Collective Amount of RM765 million in Plant Expansion, New Product Development and R&D In 2020" dated 5 December 2019, MIDA)

4.4 Prospects of the Proposed Diversification

The Proposed Diversification represents a timely opportunity for Titijaya Group to venture into a new business, which has growing demand and may yield favourable and sustainable earnings to the Group over the medium to long term.

The Strategic Collaboration Agreements serve as entry points into the healthcare and medical industries by the Group without significant investment commitment, whilst enable the Group to leverage on the skills and expertise of the counterparties, namely SMEQ and Sinopharm Group, as well as SINOMACH and China National Machinery Industry Corporation Ltd. group of companies, in the healthcare and medical industries. Further, Titijaya Group may leverage on its existing real estate/ land banks to fulfill its responsibility as provisioned under the Strategic Collaboration Agreements by providing the infrastructures, land, facilities and construction base for the medical operators pertaining to the New Business. Nevertheless, Titijaya Group will only focus on the penetration and expansion into Malaysia and China markets, where the counter parties are based at and does not have any immediate plan to expand its New Business to any other overseas markets at this juncture.

In view of the positive outlooks of the healthcare and medical industries as set out in **Sections 4.2 and 4.3** of this announcement, respectively and barring any unforeseen circumstances, the Board is optimistic of the outlook of the New Business and that the Proposed Diversification is expected to enhance the future financial performance of the Group moving forward.

5. RISK FACTORS

Pursuant to the Proposed Diversification, the Group will be exposed to new risks inherent in the healthcare and medical device industries, which include, but are not limited to, the following:-

5.1 Business diversification risk

The Group will be subject to risks inherent in the healthcare and medical device industries, which the Group was not previously exposed to. These include, but are not limited to, changes in the supply and demand conditions for healthcare and medical products and equipment, amendments to the regulation governing the healthcare and medical device, downturns in regional and/ or national economies, changes in law and tax regulations, increase in production cost, and changes in business and credit conditions.

Notwithstanding that, Titijaya will conduct periodical reviews of its business and operations and also adopt prudent financial management and efficient operating procedures to limit the impact of the aforementioned risks. However, there can be no assurance that the Group may be able to successfully mitigate the various risks inherent in the healthcare and medical device industries, and if unable to do so, the business operation and financial performance of the Group may be adversely affected.

5.2. Political, economic and regulatory risk

With the participation of the Group in the medical device industry, its business, prospects, financial condition and level of profitability will be subject, to a certain extent, to the developments in rules and regulations of the medical device industry, from domestic health authorities such as the Medical Device Authority and Ministry of Health, and the economic, political and regulatory environment of Malaysia.

Notwithstanding that, the Group will constantly keep abreast with the political, economic and regulatory developments through various media, events and/ or seminars, and may also engage in discussion or meeting with the relevant stakeholders to evaluate, introduce and/ or undertake measures with the aim of mitigating impact of the aforementioned risks. However, there can be no assurance that any adverse development in the economic, political and regulatory environment in Malaysia will not have any material adverse effect on the business operation and financial performance of the Group.

5.3. Licensing risk

Pursuant to the Medical Device Act, 2012, all medical devices manufactured, imported, exported or placed in the Malaysian market are required to be registered with the Medical Device Authority, a body under the Ministry of Health Malaysia, which is responsible in regulating the medical device industry. As such, it is paramount that the necessary licences or approvals be obtained in order for Titijaya Group or its authorised representative(s) to carry out its medical equipment trading activities. If the Group or its authorised representative(s) fails to retain or renew any of these licenses in a timely manner or at all, or that in event of any non-compliance of terms and conditions resulting in the revocation of such licences, the operations and financial result of the Group's medical equipment trading may be adversely affected.

Notwithstanding that, the Group intends to constantly keep abreast with developments pertaining to the licenses required for medical equipment trading and also to implement strict compliance procedures to adhere to the regulations and requirements of such licenses. However, there can be no assurance that such licenses may be retained or renewed in a timely manner especially due to unforeseen circumstances such as unfavorable revision/ amendments to the relevant rules and regulations.

5.4. Agreement risk

The success of the Strategic Collaboration Agreements are subject to the fulfillment of responsibilities from the respective parties of the agreements as set out in **Section 2** of this announcement. Therefore, there can be no certainty that all the provisions of the Strategic Collaboration Agreements will be satisfied and that all parties involved are able to reach a mutual agreement throughout the tenure of the agreements. In the event any of the provisions are not satisfied (in accordance with the terms of the Strategic Collaboration Agreements), the collaboration will not be successful, and may result in the termination of the agreements.

Notwithstanding the foregoing, Titijaya shall endeavor to ensure that TRSB's responsibilities and contributions as set out in the Strategic Collaboration Agreements are fulfilled to facilitate the development of the New Business.

5.5. Dependency on key management personnel

The success of the Proposed Diversification will depend to a significant extent upon the abilities, skills, experience, competency and continued efforts of the key management personnel and SMEQ and SINOMACH management teams. The loss of key management personnel without suitable and timely replacement, or the termination or default by any parties to the collaboration agreements that may lead to the termination of the collaboration agreements could materially affect the Group's business and consequently, the Group's revenue and profitability.

Recognizing the importance to retain the key management personnel, the Group will adopt appropriate approaches, including incentives, remuneration packages as well as provide a good working environment to promote productivity and loyalty. Suitable consultant(s), partner(s) and/ or third party service provider(s) will be engaged in the areas necessary for the operation and/ or management of medical equipment trading to manage the risk arising from dependency on key management personnel. Notwithstanding that, there is no assurance that the loss of any such key personnel will not adversely affect the Group's ability to succeed in the New Business.

5.6. Competition risk

The Group faces competition from existing competitors and/ or new entrants operating in similar business related to the New Business. Nevertheless, the Group will take proactive measures to remain competitive in this business by, amongst others, constantly keeping abreast with the latest market conditions, and making efforts in maintaining a competitive edge in terms of cost efficiency, service quality, product quality and reliability.

However, there can be no assurance that the Group will be able to compete effectively with existing and new entrants in similar business related to the New Business in the future, which may materially affect the Group's financial performance.

5.7. Financial risk

As set out in **Section 2** of this announcement, TRSB is responsible for providing funding to meet the financing conditions for the construction base for the purpose of the production of melt-blown fabric and non-woven fabric for medical related products such as personal protection equipment and medical use surgical face mask in accordance to Strategic Collaboration Agreement II. As at the date of this announcement, the management is still in the midst of planning the source of funding for the New Business.

In the event TRSB decides to fund the required funding via bank borrowings, the Group may be exposed to fluctuations in interest rate and subject to the financing repayment commitments.

The interest rates of borrowings are dependent on various factors, which include general economic and capital market conditions, credit availability from banks or other lenders, lenders' confidence in the Group and political and social conditions in Malaysia. Accordingly, there can be no assurance that the bank borrowings will be available in amounts or on terms acceptable to the Group. Notwithstanding the above, the Group will be mindful of the repayment obligations so as to ensure that any bank borrowings made will not adversely affect the financial position of the Group.

6. EFFECTS OF THE PROPOSED DIVERSIFICATION

The effects of the Proposed Diversification on the issued share capital, net asset ("**NA**") and gearing level of the Company, substantial shareholders' shareholdings, earnings and earnings per share of Titijaya Group are set out below:-

6.1 Issued share capital and substantial shareholders' shareholding

The Proposed Diversification will not have any effect on the issued share capital and the substantial shareholders' shareholdings of the Company as the Proposed Diversification does not involve any issuance of new shares of Titijaya.

6.2 NA per share and gearing level

The Proposed Diversification is not expected to have any immediate material effect on the NA or NA per share, and gearing level of the Group. However, the future NA and/ or gearing level of the Group will depend on the manner of funding chosen for the New Business and the financial contribution from the New Business.

6.3 Earnings and earnings per Share

The Proposed Diversification is not expected to have any immediate material effect on the earnings of the Group. However, as set out in **Section 4** of this announcement, barring any unforeseen circumstances, the Proposed Diversification is expected to contribute positively to the future earnings of the Group as and when the benefits therefrom are realized.

6.4 Convertible securities

Save for the outstanding 725,340,298 irredeemable convertible preference shares ("**ICPS**") as at 11 August 2020, the Company does not have any other convertible securities.

The Proposed Diversification is not expected to give rise to any adjustments on the exercise price and/ or subscription rights of the ICPS.

7. APPROVALS REQUIRED

The Proposed Diversification is subject to the approval being obtained from Titijaya's shareholders at an EGM to be convened.

The Proposed Diversification is not conditional upon any other proposals undertaken or to be undertaken by the Company.

For shareholders' information, should the Proposed Diversification not be approved by the majority shareholders of Titijaya, the Board will continue with the New Business but at a lesser extent to ensure that the contribution from the New Business does not tantamount to a diversification of business activities of the Group.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED WITH THEM

None of the Directors and/ or major shareholders of Titijaya and/ or persons connected with them have any interest, whether direct or indirect, in the Proposed Diversification.

9. DIRECTORS' STATEMENT

The Board, save for the Interested Directors, having considered all aspects of the Proposed Diversification, including the rationale and justification, the outlook and prospects of the New Business and the effects of the Proposed Diversification, is of the opinion that the Proposed Diversification is in the best interest of the Company and is not detrimental to the interests of the shareholders of Titijaya.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approval being obtained, the Proposed Diversification is expected to be completed by November 2020. For shareholders' information purpose, the Proposed Diversification shall take immediate effect upon obtaining the approval of Titijaya's shareholders at the EGM.

11. ADVISER

UOB Kay Hian has been appointed as the Adviser for the Proposed Diversification.

This announcement is dated 12 August 2020.

APPENDIX I

SALIENT TERMS OF THE STRATEGIC COLLABORATION AGREEMENTS

1. STRATEGIC COLLABORATION AGREEMENT I

(i) The Strategic Collaboration Agreement I was entered into between TRSB and SMEQ to jointly develop business in the marketing and sales, trading and supply of medical and hospital equipment and products, and medical related real estate. TRSB and SMEQ have further to enter into another complete documentation to set out the terms and conditions of the said collaboration.

(ii) TRSB and SMEQ shall be exclusively responsible and to develop the New Business as set out in the Strategic Collaboration Agreement I in their specified territory as follows:-

a) TRSB: Malaysia, Singapore, Indonesia, Thailand and Australia
b) SMEQ: China

(iii) SMEQ and TRSB shall develop the New Business in each other's respective territory through each other exclusively.

(iv) SMEQ and TRSB shall give each other the full liberty and autonomy to govern and develop the New Business in each other's respective territory, during the tenure of this Strategic Collaboration Agreement I.

(v) This Strategic Collaboration Agreement I shall remain in force for a period of 5 years and subject to a renewable period of 5 years, which shall be subject to further agreement between TRSB and SMEQ.

(vi) This Strategic Collaboration Agreement I can only be terminated by mutual consent from TRSB and SMEQ.

2. STRATEGIC COLLABORATION AGREEMENT II

(i) The Strategic Collaboration Agreement II was entered into between TRSB and SINOMACH to establish/ develop a medical supply security base in Malaysia (i.e. construction base) and produce melt-blown fabric and non-woven fabric for medical related products such as personal protection equipment and medical use surgical face mask.

(ii) During the construction phase of the medical supply security base, TRSB will cooperate with SINOMACH on equipment and technology, whilst SINOMACH will coordinate, integrate internal and external resources, and support TRSB on construction base, equipment supply and technical support.

(iii) Any affairs that are not covered in this Strategic Collaboration Agreement II shall be settled by TRSB and SINOMACH through negotiation or a supplementary agreement to be signed by TRSB and SINOMACH, in such event, the supplementary agreement shall prevail.

3. STRATEGIC COLLABORATION AGREEMENT III

(i) TRSB and Rubberex agreed to collaborate, distribute, export and sell gloves to the China market via SMEQ and also, to collaborate, distribute, import and sell the personal protection equipment and medical products from SMEQ.

(ii) Where necessary, a special purpose corporate vehicle will be incorporated.

(iii) This Strategic Collaboration Agreement III shall be valid for a period of 12 months from the date of the agreement or any extended period as may be agreed between the parties to the Strategic Collaboration Agreement III.

APPENDIX II

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Strategic Collaborative Agreements will be made available for inspection at the Company's Registered Office at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan during normal office hours from Monday to Friday (except for public holidays) for a period of 3 months from the date of this announcement.