

HC SURGICAL SPECIALISTS LIMITED

Incorporated in the Republic of Singapore

Registration No. 201533429G

PROPOSED ACQUISITION OF THE REMAINING 30% OF THE ISSUED AND PAID-UP SHARE CAPITAL IN JULIAN ONG ENDOSCOPY & SURGERY PTE. LTD.

1. INTRODUCTION

The Board of Directors (the "**Board**") of HC Surgical Specialists Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that it has today, entered into a conditional sale and purchase agreement ("**SPA**") with Julian Ong Surgery Pte. Ltd. ("**JOS**") and Dr. Julian Ong ("**Dr Ong**") (collectively the "**Vendors**") in respect of the proposed acquisition of 30% of the total issued and paid-up share capital (the "**Balance Sale Shares**") of the Company's 70% subsidiary, Julian Ong Endoscopy & Surgery Pte. Ltd. ("**JOES**") (the "**Proposed Acquisition**").

The Company has entered into the SPA to amend the terms relating to the acquisition of the Balance Sale Shares under the 2019 SPA (as defined herein). As the Singapore Medical Council Disciplinary Tribunal is presently investigating a complaint lodged against Dr Ong, the acquisition of the Balance Sale Shares, and the terms of such acquisition, shall be conditional upon the outcome of such investigation (the "**Outcome**"). Please refer to paragraph 3 of this announcement for further details.

As at the date of this announcement, JOES has a paid-up share capital consisting of 100 ordinary shares of S\$1 each. As of the date of the SPA, the Company, the Vendor and Dr Ong own 70%, 20% and 10% of the total issued shares in JOES respectively. The Vendor is wholly-owned by Dr Ong. The Vendor and Dr Ong are independent from the Company's Directors, Chief Executive Officer and controlling shareholders and their respective associates. Following the completion of the Proposed Acquisition ("**Completion**"), JOES will become a wholly-owned subsidiary of the Company. JOES was incorporated on 3 January 2017 in the Republic of Singapore and currently operates from the Group's Ang Mo Kio endoscopy clinic.

Based on the audited accounts of JOES for the twelve months ended 31 May 2020 ("**12M2020**"), the profit before tax of JOES was approximately S\$1,174,000 and the net tangible asset and net asset value of JOES as at 31 May 2020 were S\$571,000 and S\$572,000 respectively.

2. RATIONALE FOR THE PROPOSED ACQUISITION

As set out in the Company's announcement dated 3 September 2019 in relation to its acquisition of a 19% interest of the issued and paid-up share capital in JOES (the "**2019 Announcement**"), the Board is of the view that the Proposed Acquisition is in line with the Group's long-term plans for growth, and that the working relationship between Dr Ong and the Group will be enhanced whereby Dr Ong, coupled with the Group's resources, will be able to further improve the profitability of JOES, which will in turn, benefit the Group.

Nonetheless, the Board is cognisant of the investigation against Dr Ong and pending the Outcome, is of the view that it is in the Company's interest to delay the acquisition of the

Balance Sale Shares, which was to occur by 31 October 2021 as announced in the 2019 Announcement.

After taking into consideration that (i) Dr Ong has won the defamation suit against Ms Serene Tiong and the dismissal by the Court of Appeal of Ms Serene Tiong's application for leave to appeal; and (ii) the agreement of Dr Ong to extend his employment with the Company as set out in paragraph 3.3 below; the Board is of the view that it is in the interests of the Company to proceed with the Proposed Acquisition, with Completion to occur one year after the Outcome or, if any, the suspension period.

The Purchase Consideration (as defined herein) for the Proposed Acquisition will be paid in tranches and Dr Ong has granted the Company the Put Options (as defined herein) to require Dr Ong to re-purchase the shares of JOES in certain scenarios, to safeguard the Company's interests. Details of the Purchase Consideration are set out in paragraph 4 of this announcement,

3. AMENDMENTS TO PREVIOUS TERMS

Completion Date

- 3.1 On 3 September 2019, the Company had entered into a sale and purchase agreement with JOS to acquire an additional 19% interest in the total issued share capital of JOES (the "2019 SPA"), which was at such time, a 51% subsidiary of the Company. As set out in the 2019 Announcement, the 2019 SPA included terms and conditions relating to the acquisition of the Balance Sale Shares by the Company, with completion of such acquisition to occur by 31 October 2021. Please refer to the 2019 Announcement for further details.
- 3.2 Further to renewed negotiations between the Company and the Vendors, the terms of the SPA provide that Completion of the Balance Sale Shares is subject to the continued employment of Dr Ong and the Outcome and:
- (a) where Dr Ong is allowed to continue his medical practice, the Company shall purchase the Balance Sale Shares after a period of one year from the date of the Outcome, at the Purchase Consideration and subject to the terms and conditions set out under the SPA; or
 - (b) where Dr Ong's medical registration is suspended for up to three years¹, the Company shall purchase the Balance Sale Shares after one year from the end of the suspension period, at the Purchase Consideration and subject to the terms and conditions set out under the SPA.

Completion shall take place not later than 1.5 years from (a) the date of the Outcome (in the case set out under paragraph 3.2(a)) or (b) the end of the suspension period (in the case set out under paragraph 3.2(b)), or (c) such other date as may be mutually agreed to in writing (the "Completion Date").

Employment Terms

- 3.3 The employment terms of Dr Ong will also be amended from the original ten-year period commencing 1 April 2017 (the "Employment") to the following:

¹ Under the Medical Registration Act s53(2)(b), a doctor may have his medical registration suspended by the Disciplinary Tribunal for no more than three years.

- (a) where Dr Ong is allowed to continue his medical practice, the Employment shall be extended by Dr Ong working for a period of 8 years from the date of the Outcome;
- (b) where Dr Ong's medical registration is suspended for up to three years, the Employment may be suspended during the suspension period at the Company's sole discretion, and shall be further extended by Dr Ong working for a period of 8 years plus the suspension period, commencing from the end of the suspension period; or
- (c) where the Outcome is none of the above, the Company shall have the right to consider its options under the terms of the Executive's existing employment contract. For the avoidance of doubt, in connection with such options, the Company shall accordingly have the right to, including but not limited to, exercise the 70% Shares Put Option (as defined herein).

For (a) and (b) above, the Employment shall be automatically renewed annually for such annual period thereafter unless otherwise agreed in writing between the Company and Dr Ong or terminated in accordance with Dr Ong's employment contract.

- 3.4 In addition, where Dr Ong has his registration suspended for up to three years, he shall place a cash deposit with the Company, equivalent to the pro-rated amount of the 19% Consideration based on the period of suspension in the 91-month period commencing 1 September 2019. This deposit shall be returned to Dr Ong at the end of the suspension period or shall be used to make partial settlement under the Put Options should his Employment be terminated for any reason during the suspension period.

4. PURCHASE CONSIDERATION

Should the Proposed Acquisition proceed, the total purchase consideration ("**Purchase Consideration**") for the Balance Sale Shares shall be an amount that is ten times the audited profit after tax of JOES, after adjustments to exclude the expenses incurred in the form of the facility management fee and Dr Ong's profit-share under the terms of his employment contract, if any, for the one-year period commencing from the month after the Outcome if Dr Ong's registration is not suspended, or the month after the end of the suspension period, as the case may be, multiplied by 0.30.

The Purchase Consideration will be satisfied in full in the following manner: (i) 50% of the Purchase Consideration in cash to the Vendors in the proportion of their shareholding in JOES, on Completion Date; (ii) the issuance of new shares in the share capital of the Company (the "**Consideration Shares**") equivalent to approximately 25% of the Purchase Consideration, credited as fully paid, and in JOS' case, to Dr Ong as JOS' nominee, two years after Completion Date or such other date as may be agreed to, at an issue price equal to the weighted average price for trades done on the Company's shares ("**Shares**") on the full market day immediately preceding the day of issuance of the Consideration Shares; and (iii) the balance Purchase Consideration in cash to the Vendors two years after Completion Date or such other date as may be agreed to.

The Consideration Shares will be issued to Dr Ong free from all encumbrances and will carry all rights similar to the existing Shares, except that they will not rank for any dividend, rights, allotment or other distribution, the record date for which falls on or before the date of issuance and allotment of the Consideration Shares.

The Purchase Consideration was arrived at based on arm's length commercial discussions between the Vendors and the Company, on a willing buyer willing seller basis, taking into

account the future potential of JOES, the synergistic benefits for the Group, the extension of the Employment, the results of Dr Ong's defamation suit against Ms Serene Tiong, the structure of the Purchase Consideration in tranches and the Put Options.

The aggregate cash payment in relation to the Proposed Acquisition will be funded by internal resources.

5. **70% SHARES PUT OPTION AND TOTAL SALE SHARES PUT OPTION (COLLECTIVELY, THE "PUT OPTIONS")**

Under the terms of the SPA, Dr Ong has granted the Company the following Put Options should the Employment be terminated: (a) for the period after the date of the SPA to Completion Date, the right to require Dr Ong to re-purchase 70% of the total issued shares in JOES held by the Company (the "**70% Sale Shares**") (the "**70% Shares Put Option**") and (b) after the acquisition of the Balance Sale Shares, the right to require Dr Ong to re-purchase 100% of the total issued shares in JOES (the "**Total Sale Shares Put Option**"). The 70% Sale Shares Put Option (as defined in the 2019 SPA) previously granted by Dr Ong under the terms of the 2019 SPA have been superseded and shall cease to have effect.

- 5.1 In the event that the Employment is terminated by either Dr Ong or by the Company prior to the Completion Date for any reason other than illness, incapacitation or death of Dr Ong, the 70% Shares Put Option is exercisable by the Company and Dr Ong would be required to purchase the 70% Sale Shares in cash, at an amount in excess of the Company's investment in JOES.
- 5.2 In the event that the Employment is terminated by either Dr Ong or the Company after the Completion Date, the Total Sale Shares Put Option is exercisable by the Company, and Dr Ong would be required to purchase all the shares of JOES from the Company in cash, at an amount being a percentage of the sum of the future profit after tax of JOES based on a 5% annual compound growth rate from JOES' most recent audited profit after tax, for the remaining Employment period, subject to a minimum amount equivalent to the Purchase Consideration.
- 5.3 In the event the Employment is terminated due to illness, incapacitation or death of Dr Ong, Dr Ong or his estate (as the case may be) shall pay the Company a proportion of the 19% Consideration and/or the Purchase Consideration based on the number of days not worked over the respective Employment period.
- 5.4 In the event the Put Options are exercised before the Purchase Consideration is paid in full, the Company shall not be liable to pay any outstanding amount of the Purchase Consideration.

6. **MORATORIUM**

Dr Ong has undertaken to the Company, in respect of the Consideration Shares, not to sell, contract to sell, realise, assign, transfer, pledge, grant any option to dispose of or enter into any agreement that will directly or indirectly constitute or will be deemed as a disposal of any part of the Consideration Shares in the following manner:

- (a) the entire amount of the Consideration Shares for the period from the date of issue and allotment of the Consideration Shares to Dr Ong ("**Issuance Date**") until the date falling one year from the Issuance Date (the "**First Moratorium Period**");
- (b) three quarters of the total number of Consideration Shares for the period of one year

commencing immediately from the expiry of the First Moratorium Period (the "**Second Moratorium Period**");

- (c) half of the total number of Consideration Shares for the period of one year commencing immediately from the expiry of the Second Moratorium Period (the "**Third Moratorium Period**"); and
- (d) one quarter of the total number of Consideration Shares for the period of one year commencing immediately from the expiry of the Third Moratorium Period.

7. RELATIVE FIGURES

Based on the Group's latest announced audited financial statements for the financial year ended 31 May 2020 ("FY2020"), the relative figures of the Proposed Acquisition computed on the bases set out in Rule 1006 of the SGX-ST's Listing Manual Section B: Rules of Catalyst (the "Catalist Rules") are as follows:

Catalist Rule	Relative Figures
1006(a)	
The net asset value of the assets to be disposed of, compared with the group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable
1006(b)	
The net profits ⁽¹⁾ attributable to the assets acquired or disposed of, compared with the group's net profits.	7.3% ⁽²⁾
1006(c)	
The aggregate value of the consideration given or received, compared with the market capitalisation based on the total number of issued shares excluding treasury shares.	-(³)
1006(d)	
The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue.	-(³)
1006(e)	
The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets. If the reserves are not directly comparable, the SGX-ST may permit valuations to be used instead of volume or amount.	Not applicable

Notes:

- (1) "Net profits" means profits or loss before income tax, minority interests and extraordinary items.

- (2) Computed based on 30% of the net profit attributable to JOES for 12M2020 of approximately S\$352,000 and the Group's net profit of approximately S\$4.8 million for FY2020.
- (3) The value of the Purchase Consideration can only be determined at a later date, based on the formula set out in paragraph 4 of this announcement. Accordingly, the relative figures for Rules 1006(c) and 1006(d) can only be subsequently calculated. As of the date of this announcement, the Company expects that the Proposed Acquisition will be a disclosable transaction pursuant to Chapter 10 of the Catalist Rules. It should be noted that Completion is conditional upon, among others, all necessary approvals and consents having been obtained. Accordingly, if the Proposed Acquisition is subsequently ascertained to be a major transaction in respect of the relative figures calculated under Rules 1006(c) or 1006(d), the Company will seek shareholders' approval in accordance with the requirements of the Catalist Rules.

The Company will announce the Rule 1006 relative figures upon the finalisation of the Purchase Consideration.

8. PRO FORMA FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

FOR ILLUSTRATIVE PURPOSES ONLY: The pro forma financial effects of the Proposed Acquisition on the net tangible assets ("NTA") per share and earnings per share ("EPS") of the Company based on the latest announced audited financial statements of the Group for the financial year ended 31 May 2020 are as follows:

Effect on NTA

Assuming the Proposed Acquisition was effected at the end of the most recently completed financial year ended 31 May 2020 and the Purchase Consideration is based on the audited profit after tax of JOES for FY2020, the financial effect on NTA per share of the Company for FY2020 is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA attributable to the shareholders of the Company (S\$'000)	12,219	9,295
Number of issued shares (excluding treasury shares)	150,565,730	154,091,230 ⁽¹⁾
NTA per share (Singapore cents)	8.12	6.03

Note:

- (1) The total number of issued shares (excluding treasury shares) include an assumed issuance of 3,525,500 Consideration Shares at an issue price of S\$0.305, being the closing price on 29 May 2020.

Effect on EPS

Assuming the Proposed Acquisition was effected at the beginning of the most recently completed financial year ended 31 May 2020 and the Purchase Consideration is based on the audited profit after tax of JOES for FY2020, the financial effect on the Company's EPS for FY2020 is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Net profits attributable to shareholders of the Company after tax (S\$'000)	3,498	3,799
Weighted average number of issued shares (excluding treasury shares)	149,930,976	151,851,176 ⁽¹⁾
EPS (Singapore cents)	2.33	2.50

Note:

- (1) The weighted average number of issued shares (excluding treasury shares) include an assumed issuance of 1,920,200 Consideration Shares at an issue price of S\$0.560, being the closing price on 31 May 2019.

9. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition, other than through their respective shareholdings in the Company (if any).

10. NO SERVICE CONTRACTS

No directors are proposed to be appointed to the board of directors of the Company in connection with the Proposed Acquisition.

11. DOCUMENT FOR INSPECTION

A copy of the SPA is available for inspection during normal business hours at the Company's registered office for three months from the date of this announcement.

By Order of the Board

Dr. Heah Sieu Min
Executive Director and Chief Executive Officer

31 December 2020

About HC Surgical Specialists Limited

HC Surgical Specialists Limited (the “Company”) was incorporated on 1 September 2015 in Singapore and listed on the Catalist of the Singapore Exchange Securities Trading Limited on 3 November 2016. The Company, its subsidiaries and associated company are a medical services group primarily engaged in the provision of endoscopic procedures, including gastroscopies and colonoscopies, and general surgery services with a focus on colorectal procedures across a network of 18 clinics located throughout Singapore.

This announcement has been prepared by the Company and reviewed by the Company’s sponsor, Novus Corporate Finance Pte. Ltd. (the “Sponsor”), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the “SGX-ST”) Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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