

HC SURGICAL SPECIALISTS LIMITED

Incorporated in the Republic of Singapore

Registration No. 201533429G

PROPOSED ACQUISITION OF 51.0% OF THE ENTIRE ISSUED SHARE CAPITAL IN MEDICAL L & C SERVICES PTE. LTD.

1. INTRODUCTION

The Board of Directors (the "**Board**") of HC Surgical Specialists Limited (the "**Company**") and together with its subsidiaries, the "**Group**") is pleased to inform shareholders that it has today, entered into a sale and purchase agreement ("**SPA**") with Lai Junxu ("**Vendor**") to acquire 51.0% of the total issued and paid-up share capital of Medical L & C Services Pte. Ltd. ("**MLCS**") (the "**Sale Shares**") (the "**Proposed Acquisition**").

As at the date of this announcement, MLCS has a paid-up share capital consisting of 1,000 ordinary shares of S\$0.001 each. The Vendor holds 100% of the total issued shares in MLCS. The Vendor is independent from the Company's Directors, Chief Executive Officer and controlling shareholders. Following the completion of the Proposed Acquisition, MLCS will be a subsidiary of the Company. MLCS was incorporated on 21 July 2014 in the Republic of Singapore and is in the business of providing chronic home care and palliative care.

Based on the unaudited management accounts of MLCS for the six months ended 31 December 2016, the profit before tax of MLCS was S\$122,000 and the net tangible asset and net asset value of MLCS as at 31 December 2016 was S\$362,000.

2. RATIONALE FOR THE PROPOSED ACQUISITION

The Proposed Acquisition is in line with the Group's promise to bring "quality healthcare to your doorstep". It also supports the Group's various heartland endoscopy centres (the Group recently opened 3 centres at Dleedon, Ghim Moh and Hillford) by increasing the Group's reach and market share. The Board is of the view that the Proposed Acquisition is in line with the Group's plan for growth, and will expand the Group's presence in Singapore.

The Company will employ the Vendor as a family physician with oversight over MLCS. The Vendor is an experienced home care doctor with outreach into primary healthcare in the heartlands amongst many other residential areas. The addition of the Vendor to the Group's number of experienced practitioners will also strengthen the Group's capabilities. Please refer to Section 4 below for further details on the proposed service agreement between the Vendor and the Company.

3. PRINCIPAL TERMS OF THE SPA

Completion of the Proposed Acquisition is subject to, *inter alia*, the following conditions:

- (a) the Vendor and the Company entering into a service contract relating to the employment of the Vendor as a family physician;

- (b) the appointment of Dr. Heah Sieu Min (the Company's Executive Director and Chief Executive Officer) and one other person to be nominated by the Company, as directors of MLCS; and
- (c) each of the Company and the Vendor having performed all of the covenants and agreements required to be performed or caused to be performed by them under the SPA on or before completion of the Proposed Acquisition.

3.1 Additional Sale Shares

Subject to completion of the Proposed Acquisition, the Company will enter into a separate sale and purchase agreement to buy the remaining 49.0% of the total issued and paid-up share capital in MLCS from the Vendor (the "**Additional Sale Shares**") at a later stage, with completion of the proposed acquisition of the Additional Sale Shares to occur by 1 August 2021 or such other date to be agreed between the Vendor and the Company, at an amount that is nine times the average of the audited profit after tax for the four financial years from 1 June 2017 to 31 May 2021, multiplied by 0.49 (the "**Additional Sale Shares Consideration**").

The Additional Sale Shares Consideration was arrived at based on arm's length commercial discussions between the Vendor and the Company, after considering factors including potential earnings and the synergies between MLCS and the Group.

The Company may elect to pay up to 25% of the Additional Sale Shares Consideration by way of issuance of the Company's shares at a price equivalent to the volume weighted average price for trades in the Company's shares done on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") for a full market day prior to the date of the signing of a separate sale and purchase agreement in respect of the Additional Sale Shares, subject to all applicable laws and regulations prevailing at such time.

The Company will make further announcements to disclose the details on the purchase of Additional Sale Shares upon the execution of the separate sale and purchase agreement at the relevant time, in accordance with the SGX-ST Listing Manual Section B: Rules of Catalyst ("**Catalist Rules**").

4. THE EMPLOYMENT, SALE SHARES PUT OPTION AND THE ADDITIONAL SALE SHARES PUT OPTION

4.1 The Employment

Under the terms of the SPA, the Vendor will be employed by the Company as a family physician, in the areas of his expertise with special interest in chronic home care and palliative care, subject to the terms and conditions of a service agreement as set out in the SPA, and as part of his employment, he shall manage MLCS (the "**Employment**").

Pursuant to the Employment, the Vendor shall manage MLCS for a minimum of a ten (10) year period.

Further to discussions and taking into account the Purchase Consideration (as defined below), the rationale and the long-term view behind the Proposed Acquisition, the Vendor has further agreed to pay the Company certain sums in the event he is unable to continue with the Employment in situations such as ill health.

4.2 Sale Shares Put Option and the Additional Sale Shares Put Option (collectively, the “Put Options”)

Under the terms of the SPA, subject to completion of the Proposed Acquisition, the Vendor shall grant the Company the right to require the Vendor to re-purchase the Sale Shares (the "**Sale Shares Put Option**") and the Additional Sale Shares Put Option (the "**Additional Sale Shares Put Option**") at certain purchase consideration, should the Employment be terminated (a) by the Vendor for any reason other than his inability to work due to illness or incapacitation or death; and (b) for cause pursuant to the terms of the Vendor's service agreement with the Company.

In the event that the Employment is terminated, the Sale Shares Put Option is exercisable by the Company within the first to fourth year of the Employment, while the Additional Sale Shares Put Option is exercisable by the Company within the fifth to tenth year of the Employment. Should any of the Put Options be exercised, the Vendor will be required to buy back the Sale Shares or the Additional Sale Shares (as the case may be), in cash, where the consideration will be based on a percentage of the Purchase Consideration (as defined in paragraph 5 below), such percentage to be dependent on the timing of termination of the Employment.

5. PURCHASE CONSIDERATION

The total purchase consideration for the Proposed Acquisition is S\$1,050,000 (“**Purchase Consideration**”) and will be satisfied in full in the following manner: (i) S\$140,000 cash payment to the Vendor upon the signing of the SPA; (ii) 448,000 new shares in the share capital of the Company (the "**Consideration Shares**"), to be issued pursuant to the Company's general share issue mandate obtained on 28 September 2016, upon commencement of the employment of the Vendor ("**Employment Date**") or such date to be agreed to by the Company and the Vendor, credited as fully paid, to the Vendor, at an issue price of S\$0.58 for each Consideration Share, calculated based on the weighted average price of the Company's shares on 22 May 2017; and (iii) S\$650,160 cash payment to the Vendor on the Employment Date.

The Consideration Shares, when issued and allotted, shall rank *pari passu* in all respects with the then existing issued and paid-up ordinary shares in the capital of the Company.

The Consideration Shares will be acquired by the Vendor free from all encumbrances and will carry all rights similar to the existing shares of the Company, 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 Company will be making an application to the SGX-ST via its continuing sponsor for the listing of, and quotation for, the Consideration Shares on the Catalist Board of SGX-ST and will make the relevant announcement upon receipt of the listing and quotation notice from the SGX-ST.

The Purchase Consideration was arrived at on a willing buyer willing seller basis, taking into account the future potential of MLCS. The aggregate cash payment in relation to the Proposed Acquisition will be funded through the net proceeds from its placement of shares pursuant to the Company's initial public offering ("**IPO**") in November 2016.

6. IPO PROCEEDS

As the Company has no immediate and definite plans to use a significant portion of the IPO net proceeds for the Group's working capital, the Company has reallocated S\$1.2 million of the IPO net proceeds (the "**Reallocated Proceeds**") initially allocated for the Group's working capital, to expand the Group's business operations locally and regionally instead (the "**Reallocation**"). The Company is of the view that the Reallocated Proceeds would be better utilised to expand its business operations, including the Proposed Acquisition.

Subsequent to the Reallocation, the status on the use of the IPO net proceeds is as follows:

<u>Use of IPO net proceeds</u>	<u>Amount allocated (S\$'000)</u>	<u>Amount allocated after Reallocation (S\$'000)</u>	<u>Amount utilised (S\$'000)</u>	<u>Balance (S\$'000)</u>
Expand business operations locally and regionally	2,800	4,000	(3,159) ⁽¹⁾	841
Expand surgical facilities	1,200	1,200	-	1,200
Working capital	2,180	980	-	980
Total	6,180	6,180	(3,159)	3,021

Note:

(1) Utilised for the following:-

- (a) investment in joint venture – S\$800,000;
- (b) acquisition of Julian Ong Endoscopy & Surgery Pte. Ltd. – S\$1,569,100; and
- (c) acquisition of MLCS – S\$790,160.

7. MORATORIUM

The Vendor 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 the Vendor ("**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.

8. RELATIVE FIGURES

Based on the Group's latest announced unaudited financial statements for the half year ended 30 November 2016 (“HY2017”), the relative figures of the Proposed Acquisition computed on the bases set out in Rule 1006 of the Catalyst 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)	(A) Including IPO expenses	(B) Excluding IPO expenses
The net profits attributable to the assets acquired ⁽²⁾ , compared with the Group's net profits.	62.63% ⁽³⁾	4.57% ⁽⁴⁾
1006(c)		
The aggregate value of the consideration given, compared with the issuer's market capitalization based on the total number of issued shares excluding treasury shares.	1.23% ⁽⁵⁾	
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.	0.30% ⁽⁶⁾	
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.	Not applicable.	

Notes:

- (1) "Net profits" means profit or loss before income tax, minority interests and extraordinary items.
- (2) Based on 51% of the net profits attributable to MLCS for the six months ended 31 December 2016 of S\$122,000, which is approximately S\$62,000.
- (3) The net profits of the Group for HY2017 was S\$99,000.
- (4) Excluding the Company's IPO expenses of S\$1,258,000 in HY2017, the net profits of the Group for HY2017 would have been S\$1,357,000.
- (5) Computed based on the Purchase Consideration of S\$1,050,000 and the market capitalisation of the Company of approximately S\$85,450,025, which is determined by multiplying the issued share capital of the Company of 147,327,630 shares with the volume weighted average price of such shares transacted on date preceding the date of SPA of S\$0.58 per share.
- (6) Based on the 448,000 Consideration Shares and the Company's issued share capital of 147,327,630 shares on the date of this announcement.

The Company is of the view that the relative figure under Catalyst Rule 1006(b), adjusted for the Company's IPO's expenses, is more meaningful given that the IPO expenses are non-recurring.

However, if the Company's IPO expenses are to be included in the computation of net profits, the only relative figure which exceeds 5% but less than 75% is Catalyst Rule 1006(b). Further, as the Proposed Acquisition is to be satisfied partly by the issuance of the Consideration Shares, the Company has therefore announced the Proposed Acquisition in accordance with the requirements for a "discloseable transaction" pursuant to the Catalyst Rules.

9. PRO FORMA FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

The pro forma financial effects of the Proposed Acquisition on the Company are set out below and are purely for illustrative purposes. The pro forma financial effects of the Proposed Acquisition on the Group's net tangible assets ("NTA") per share and earnings per share ("EPS") are based on the Group's audited financial statements for the financial year ended 31 May 2016.

- (a) NTA per share

FOR ILLUSTRATIVE PURPOSES ONLY: The pro forma financial effects of the Proposed Acquisition on the NTA per share of the Group as at 31 May 2016, as if the Proposed Acquisition was completed on 31 May 2016, are as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA attributable to equity holders of the Company (S\$'000)	2,152	2,432
Number of ordinary shares in issue ('000)	147,328	147,776

NTA per share (Singapore cents)	1.46	1.65
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(b) EPS

FOR ILLUSTRATIVE PURPOSES ONLY: The pro forma financial effects of the Proposed Acquisition on the EPS of the Group as at 31 May 2016, as if the Proposed Acquisition was completed on 1 June 2015, is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Profit attributable to equity holders of the Company (S\$'000)	2,738	2,842
Number of ordinary shares in issue ('000)	147,328	147,776
EPS (Singapore cents)	1.86	1.92

Note: For comparative and illustrative purposes, the number of ordinary shares before the Proposed Acquisition used to derive both the Group's NTA per share and EPS were computed based on 147,327,630 ordinary shares of the Company as at the date of this announcement.

10. 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).

11. SERVICE CONTRACTS

No directors are proposed to be appointed to the Board in connection with the Proposed Acquisition.

12. 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

1 June 2017

HC Surgical Specialists Limited (the "**Company**") was listed on Catalist of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 3 November 2016. The initial public offering of the Company was sponsored by PrimePartners Corporate Finance Pte. Ltd.

This announcement has been prepared by the Company and its contents have been reviewed by the Company's continuing sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"), for compliance with the SGX-ST Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.

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

The contact person for the Sponsor is Ms Jennifer Tan, Senior Manager, Continuing Sponsorship, at 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, telephone (65) 6229 8088.