**HC SURGICAL SPECIALISTS LIMITED**
Incorporated in the Republic of Singapore
Registration No. 201533429G

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# PROPOSED ACQUISITION OF 49.0% EQUITY INTEREST IN MEDINEX PTE. LTD.

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## 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 Ms Jessie Low Mui Choo ("**Vendor**") to acquire 49.0% equity interest in Medinex Pte. Ltd. ("**Medinex**") (the “**Sale Shares**”) (the "**Proposed Acquisition**").

As at the date of this announcement, Medinex has a paid-up share capital consisting of 10,002 ordinary shares of S$1 each. The Vendor holds 95% of the total issued shares in Medinex. The Vendor is independent from the Company’s Directors, Chief Executive Officer and controlling shareholders.

Pursuant to the completion of the Proposed Acquisition, Medinex will be an associated company of the Company. Medinex was incorporated on 12 January 2009 in the Republic of Singapore and is a management and service provider (“**MSP**”) for the medical clinics industry.

The services provided by Medinex include, amongst others, the following:

(a) setting up medical clinics and applying medical clinics licenses;
(b) setting up medical clinic systems such as Clinic Assist;
(c) training nurses and administrative staffs to familiarise with the medical clinic systems and filing standards to smoothly integrate with back-end financial system and operations;
(d) provide full suite of back-end accounting, tax, secretarial services and advices for both medical (65%) and non-medical corporate clients (35%); and
(e) provide third party administrator concierge services platform for local and overseas customers to medical specialists.

Based on the unaudited management accounts of Medinex for the twelve months ended 31 December 2016, the profit before tax of Medinex was S$1,334,000 and the net tangible asset and net asset value of Medinex as at 31 December 2016 was S$307,000.

## 2. RATIONALE FOR THE PROPOSED ACQUISITION

The Board is of the view that the Proposed Acquisition is in line with the Group's plan for growth, and will enhance value for its shareholders in the following areas:-

(a) manage business risk by providing an additional revenue stream from the medical-related business where the risk profile is similar to that of the Group’s and recession proof; and

(b) integrate with the MSP platform of the Company's joint venture partner, JILB International Pte. Ltd. (the "**JV Partner**"). The JV Partner's subsidiary has a suite of comprehensive primary healthcare management services for general practitioners ("**GPs**"). The Company would like to provide a secondary healthcare MSP to integrate with the JV Partner so as to provide a wider range of services to specialists, GPs, corporate clients and patients.

## 3. PRINCIPAL TERMS OF THE SPA

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

(a) the Vendor and Medinex entering into a service contract relating to the employment of the Vendor as a chief executive officer of Medinex (the "**Service Agreement**"); and

(b) 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 Profit Guarantee

Under the terms of the Proposed Acquisition, the Vendor will be providing the Company with a profit guarantee of S$2.94 million based on the aggregate audited profit after tax attributable to the Company's 49% equity interest in Medinex for 4.5 years (the "**Profit Guarantee**"), commencing from the start of the Service Agreement.

The quantum of the Profit Guarantee was calculated based on arm's length commercial discussions between the Company and the Vendor, after taking into account Medinex's clientele base, and making certain assumptions about future clientele base and operations including certain assumptions about factoring in future prospects arising from the expansion plans of Medinex.

In the event the Profit Guarantee is not met, the Vendor will pay the Company the shortfall within 30 days of the Company's written notice, a sum equal to the shortfall between the guaranteed profit and the actual aggregate audited profit after tax attributable to the Company's 49% equity interest in Medinex for 4.5 years. Given the Board's assessment of the profit and cashflow potential of Medinex, the quantum of the Profit Guarantee across the period of the Profit Guarantee and the consideration by the Board that the Proposed Acquisition and the employment of the Vendor is expected to be a long-term commitment between both parties with close oversight and collaboration, the Board had no further discussion on the basis of compensation.

The Board is of the view that the Profit Guarantee from the Vendor would be beneficial to, and helps to safeguard the interests of, the Company and its shareholders as the Company will receive a guaranteed return from the Proposed Acquisition of Medinex, which was a factor considered in negotiating the terms of the Proposed Acquisition. In accepting the Profit Guarantee, the Board took into consideration the following factors:

(a) the track record of Medinex and the Vendor;

(b) the potential for growth of Medinex based on its expansion plans; and

(c) the prospects based on the Vendor's existing network and clientele base as an established businesswoman, having been in business for over 21 years.

### 3.2 Service Agreement

Under the terms of the SPA, the Vendor will be employed by Medinex as a chief executive officer, in the areas of her expertise, subject to the terms and conditions of a service agreement as set out in the SPA, and as part of her employment, she shall manage Medinex (the "**Employment**").

Pursuant to the Employment, the Vendor shall manage Medinex 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 cash should the Employment be terminated (a) by the Vendor for any reason other than her inability to work due to illness or incapacitation or death; (b) for cause pursuant to the terms of the Vendor's Service Agreement with Medinex; and (c) due to illness or incapacitation or death.

## 4. PURCHASE CONSIDERATION

The total purchase consideration for the Proposed Acquisition is S$4,316,000 ("**Purchase Consideration**") and will be satisfied in full in the following manner: (i) S$350,000 cash payment to the Vendor upon the signing of the SPA; (ii) 1,860,000 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$2,887,200 cash payment for the Sale Shares on the Employment Date or such date to be agreed to by the Company and the Vendor.

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 Singapore Exchange Securities Trading Limited ("**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 consideration the following:-

(a) 13.7% yearly return on investment based on purchase consideration of S$4.316 million;

(b) the Proposed Acquisition is earnings accretive; where the Group's EPS (as defined below) would have improved from 1.86 Singapore cents to 2.25 Singapore cents based on the Group's results for the financial year ended 31 May 2016 ("**FY2016**"), assuming that the Proposed Acquisition had been completed on 1 June 2015; and

(c) the Profit Guarantee of S$2.94 million which will be provided for 4.5 years from the commencement of the Service Agreement, which represents approximately 91% of the initial cash outlay of S$3.237 million for the Proposed Acquisition.

The aggregate cash payment in relation to the Proposed Acquisition will be funded via internally generated funds of the Group, and not from the net proceeds from its placement of shares pursuant to the Company's initial public offering ("**IPO**") in November 2016.

## 5. 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.

## 6. 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 SGX-ST Listing Manual Section B: Rules of Catalist ("**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. |

| Catalist Rule | Relative Figures | |
|---|---|---|
| | | |
| **1006(b)** | **(A)**<br>**Including IPO expenses** | **(B)**<br>**Excluding IPO expenses** |
| The net profits attributable to the assets acquired(2), compared with the Group's net profits. | 330.13% (3) | 24.08% (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. | 5.05% (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. | 1.26% (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 49% of the net profits attributable to Medinex for the twelve months ended 31 December 2016 of S$1,334,000, pro-rated on a 6 months basis, which is approximately S$326,830.

(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$4,316,000 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 the date preceding the date of the SPA of S$0.58 per share.

(6) Based on the 1,860,000 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 Catalist Rule 1006(b), adjusted for the Company's IPO's expenses, is more meaningful given that the IPO expenses are non-recurring. Accordingly, the Proposed Acquisition constitutes a "discloseable transaction" under Chapter 10 of the Catalist Rules.

However, if the Company's IPO expenses are to be included in the computation of net profits, the only relative figure which exceeds 100% is Catalist Rule 1006(b). Catalist Rule 1015(8) states that "Rule 1015 does not apply in the case of an acquisition of profitable asset(s) if the only limit breached is Rule 1006(b)."

Accordingly, no shareholders' approval is required for the Proposed Acquisition based on the relative figures as presented above.

## 7. 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 | 3,382 |
| Number of ordinary shares in issue ('000) | 147,328 | 149,188 |
| NTA per share (Singapore cents) | 1.46 | 2.27 |

(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 | 3,358 |
| Number of ordinary shares in issue ('000) | 147,328 | 149,188 |
| EPS (Singapore cents) | 1.86 | 2.25 |

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.

## 8. 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).

## 9. SERVICE CONTRACTS

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

## 10. 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

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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.