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

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND SHAREHOLDERS IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MAY 2024

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*Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the annual report issued to shareholders on 4 September 2024 (the "**Annual Report**").*

The Board of Directors (the "**Board**") of HC Surgical Specialists Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") and two shareholders relating to the Company's Annual Report for the financial year ended 31 May 2024 ("**FY2024**"). The Company has made some editorial amendments to the questions received from the shareholders to ensure that the questions are clear. For the avoidance of doubt, the editorial amendments do not change the meaning of the questions from the shareholders.

The Company wishes to provide its responses to the questions as follows: -

Question 1 from SIAS:

As noted in the message to shareholders, the Group expanded into orthopaedics during the year, with the chairman expressing his optimism about the growth potential of this new arm.

The Group acquired a 35% stake in Total Orthopaedics Pte. Ltd. ("**TOPL**"), with a forward purchase agreement for the remaining 65%, effective within six months after 30 September 2028 or 30 September 2030. The implied goodwill arising from the acquisition amounted to S$2.3 million, which represents the entire present value of the purchase consideration.

TOPL achieved revenue of S$1.14 million and a loss of S$(231,000).

For FY2024, the Group's consolidated revenue declined by 1.4% to S$18.81 million compared to the previous year.

(Source: Company's Annual Report)

(i) What specific clinical services or patient care approaches differentiate TOPL from its competitors in the orthopaedics space? Could management elaborate on how these differentiators enhance both patient outcomes and operational efficiencies, thus positioning the Company for long-term growth?

(ii) What is the timeline management envisions for TOPL to achieve breakeven? Have specific operational milestones been set to track its financial progress?

(iii) Considering that the entire purchase price for TOPL is attributed to goodwill, what valuation methodology did the Board use to assess the economic merits of this acquisition? What hurdle rate was applied in evaluating the potential returns of this acquisition?

(iv) Has the Board critically assessed the Group's acquisition strategy given that the operating income has been on the decline for several years and the Group's revenue and income are at the pre-pandemic levels (FY2018 and FY2019)?

(v) Would management consider providing a detailed disclosure of operational performance of the core endoscopy and surgery business? Has the Group maintained or increased its market share?

Employee benefits expense increased by 4.6% to S$6.95 million even though revenue was lower at S$18.81 million. As a percentage, employee benefits expense accounts for 37.0% of the Group's total revenue in FY2024 (FY2023: 34.8%).

(vi) Has the Board explored cost containment strategies, such as optimising productivity or aligning compensation with performance metrics? How does the Board balance cost-cutting initiatives with the need to retain and attract top talent in a competitive labour market while maintaining/improving the quality of patient care?

Company's responses:-

(i) TOPL is helmed by 3 experienced orthopaedic surgeons, Dr. Benjamin Seah, Dr. Huang Yilun and Dr. Hamid Razak, who specialise in upper limb, spine and lower limb respectively. With this holistic care and focus on joint preservation, patients will have more treatment options under its 3 well-located orthopaedic centres at Shaw House, Novena Medical Centre and Tampines heartland area, as well as all the Group's network of clinics. With more than 15 years' experience for each of the surgeons, coupled with the holistic care approach, patients will be well taken care of for their medical needs.

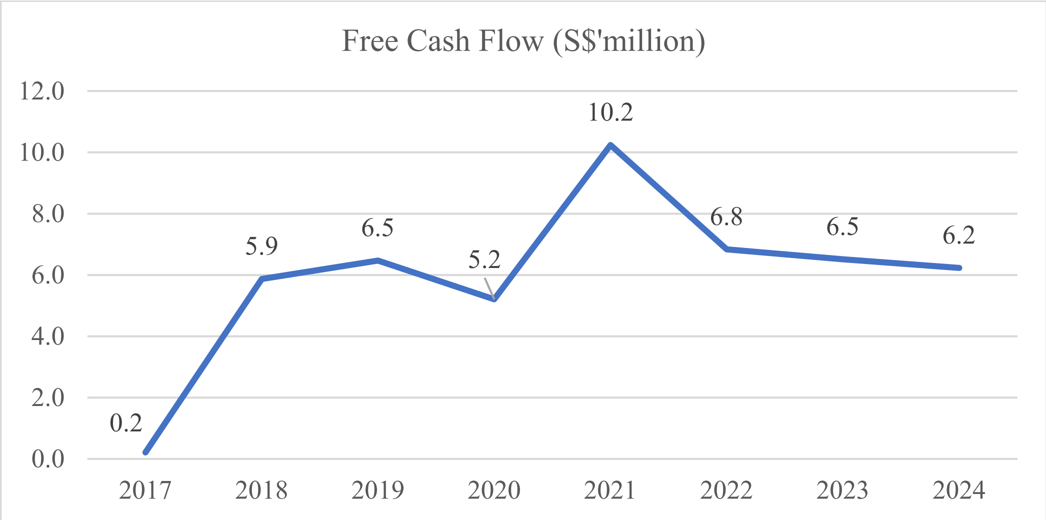
(ii) Management tracks the financial progress of TOPL on a monthly basis. The Company is unable to disclose any forecast for breakeven.

(iii) With the growing ageing population, orthopaedics is an area that is in demand and sustainable for the long run. The Company aims to facilitate the growth of TOPL with its extensive business network and centres all over the country. With the surgeons holding the majority of the shares of TOPL, the Company believes that they are also committed to grow the business. The broadening of the spectrum of the Group's medical services is in line with the Group's long-term plans for growth and to enhance shareholders' value. In addition, the acquisition also included terms to protect the Company's interests in the event a surgeon resigns, is terminated for cause or unable to continue with the employment due to illness.

(iv) The decrease in the Group's revenue and operating income was mainly due to Dr. Julian Ong being suspended since 2 December 2022. The company he managed, Julian Ong Endoscopy & Surgery Pte. Ltd. ("**JOES**"), had contributed revenue of S$2.67 million in FY2018 and S$2.76 million in FY2019, representing 16.6% and 15.1% of the Group's revenue for the respective financial year. The non-contribution from JOES was more than offset by the growth of existing and previously-acquired subsidiaries, with the Group's revenue being higher than FY2018 and FY2019. Dr. Julian Ong's suspension will be ending on 1 December 2024, and he will be able to contribute to the Group's revenue thereafter.

Post pandemic, the increasing cost of doing business, in particular higher salaries, are necessary to recruit and retain nurses due to the global shortage and higher overall market salary benchmark (as reported in the Straits Times on 12 August 2022[1] and 20 February 2024[2]). This was a major contributing factor to the decrease in operating income. Since then, the Group had also restrategised its operations, including closing its Anchorvale centre to focus on its newly opened Siglap centre in late 2022.

Despite of the decrease in operating income, the Group has been able to maintain its level of free cash flow as shown in the chart below.

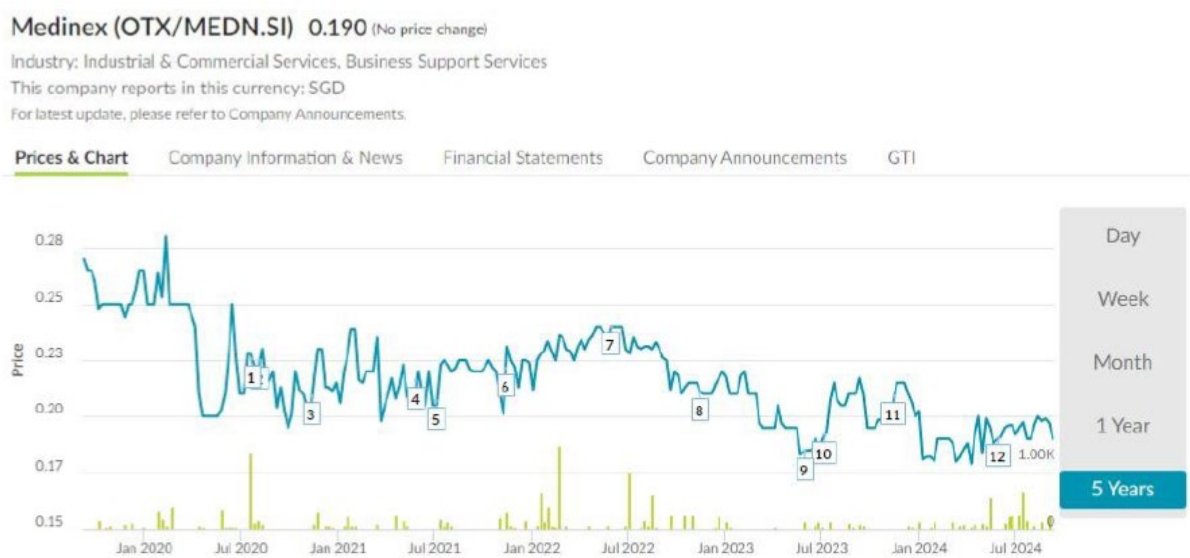


(v) The Group's revenue was made up of its core endoscopy and surgery business, and the fluctuations had been explained in (iv) above.

(vi) As mentioned in (iv), the Group had restrategised its operations, including closing its Anchorvale centre to focus on its newly opened Siglap centre since 2022. The Group had also sourced for alternative lower cost vendors for its operational needs such as consumables, printing requirements as well as collating purchases for bulk discounts. Bonuses to staff are dependent on the Group's profitability and individual performance appraisal. Our stringent on-the-job training ensures that our staff place patient care as the top priority.

<u>Question 2 from SIAS:</u>

As at 31 May 2024, the carrying value of the Group's "Investment III" amounted to S$5.74 million. This refers to the Group's holding of Medinex Limited ("**Medinex**"), which is listed on the Singapore Exchange.



(Source: https://investors.sgx.com/securities/stocks?security=OTX)

(i) Can the Board provide shareholders an updated perspective on the strategic value of the Group's investment in Medinex? How does this stake align with the Group's long-term objectives and growth strategy?

(ii) Has the Board or management conducted a review of Medinex? Is the Board satisfied with its financial and operational performance?

(iii) Given the Group does not have the ability to influence Medinex's financial or operational policy decisions, how does the management intend to add value to this passive investment? Has the Group explored options to enhance returns beyond simply holding the stake?

(iv) Has the Board outlined a strategy for potentially divesting its stake in Medinex to unlock shareholder value? What are the key financial and market conditions that would guide the decision-making process, and is there a defined exit strategy to maximise returns? Has the Board contemplated distributing the Medinex stake to shareholders?

Company's responses:-

(i) Medinex is a medical support services provider, specialising in providing professional support services to medical clinics. The Board views the investment in Medinex as a way of managing business risk, as it has been giving a stable stream of dividends, averaging approximately S$505,000 per annum. Furthermore, the risk profile is similar to that of the Group's and the Company is of the view that Medinex is recession proof. Since Medinex's initial public offering in December 2018, the Company has recorded a total dividend income of S$2.5 million.

(ii) The Board and management are satisfied with the stable dividend yield of Medinex.

(iii) The Group has been working with Medinex for its supplies of medicine and the corporate secretarial services for its subsidiaries. The current view of the Board is to keep this investment for its consistent dividend income.

(iv) The Board has not contemplated divesting its stake in Medinex at the moment, as it adds a stable return to the Company's income annually.

<u>Question 3 from SIAS:</u>

At the annual general meeting (the "**AGM**") scheduled to be held on 26 September 2024, Mr. Chong Weng Hoe ("**Mr. Chong**") will retire in accordance with the provisions of the Company's constitution and is seeking his re-election.

The biography of the director can be found on page 12 of the Annual Report. Additional information on directors seeking re-election can be found on pages 152 to 158.

Mr. Chong was appointed as the non-executive chairman and independent director on 28 September 2016. Mr. Ooi Seng Soon, the only other independent director, was also appointed on the same date.

(i) What is the total shareholder return since the Company's IPO on 3 November 2016?

(ii) How did the nominating committee ("**NC**") evaluate the performance and effectiveness of the Board, the board committees, individual directors and the chairman? Could the NC provide insights into the specific metrics or benchmarks used for this evaluation?

The Board is aware that the independent directors will reach the nine-year tenure limit by September 2025 and has stated that the Board is on the search for new independent directors.

(iii) What is the search and nomination process for directors, especially independent directors? What steps has the Board taken to ensure a smooth transition?

(iv) Will the Board consider leveraging a professional search firm to identify candidates with the right skills, diversity, and independence for the Board?

In FY2023, the Board set a target to have at least 1 female director by FY2028.

(v) What progress has the Board made in its board diversity which aims for an appropriate balance and mix of skills, knowledge, experience, age and gender?

Company's responses:-

(i) Including the final dividend to be approved at the upcoming AGM, total dividend declared since the Company's IPO is S\$0.188 per share or approximately S\$28.1 million. The Company's closing share price was S\$0.28 on 31 May 2024. This represented an increase of S\$0.01 or 3.7% from its IPO price of S\$0.27. Hence, the total shareholder return since IPO is 73.3%.

(ii) Please refer to pages 47 and 48 of the Annual Report for board performance evaluation process. The evaluation makes reference to the standard of conduct, commitment, performance against the respective terms of reference, Code of Corporate Governance and knowledge of various aspects of the business and industry.

(iii) Please refer to page 46 of the Annual Report on the selection process of new directors. The Board has started on its search process and aims to appoint new independent directors before the existing two independent directors retire in September 2025. To ensure a smooth transition and continuity, Mr. Chong has agreed to stay on as non-independent non-executive director if required, after the nine years. Please also refer to page 41 of the Annual Report on the inception process of new directors.

(iv) As stated on page 46 of the Annual Report, the Company may appoint a professional search firm to identify potential candidates.

(v) With the ongoing search for new independent directors, the Board is mindful of its board diversity policy, and has set the criteria in its search for potential candidates. Nonetheless, the selection of female candidates will be dependent on the necessary skills, knowledge and experience of the candidates. The ultimate decision will be based on merit and contribution the chosen candidate will bring to the Board.

Question 4 from Shareholder:

(i) Please refer to Page 98 of the Annual Report on "Intangible Assets – Impairment test for goodwill". What is the reason for expecting lower revenue growth from Jason Lim Endoscopy and Surgery Pte. Ltd. ("**JLES**") and GMH Endoscopy & Surgery Pte. Ltd. ("**GMH**"), while the rest except for Julian Ong Endoscopy & Surgery Pte. Ltd. are either stable or increasing? Why does the expected revenue growth rate of GMH fell by 4% from last year?

(ii) On Page 10 of the Annual Report on "Performance Review", what is the loss on modification of deferred consideration for JLES of S$0.32 million incurred in FY2023?

Company's responses:-

(i) The revenue growth rates used in the discounted cash flow projections are made with reference to historical trends and the future business plan of each company. JLES has grown rapidly over the past few years, hence we had projected a lower revenue growth as its business stabilises. GMHES's growth is at a slower pace based on historical trend, hence we had projected a lower revenue growth.

(ii) The loss on modification of deferred consideration for JLES related to FY2023, as part of the consideration payable for the acquisition of the balance 49% equity interest in JLES was deferred by a year and adjusted for the share of profits for the period 1 August 2021 to 31 July 2022 as set out in the sale and purchase agreement.

Question 5 from Shareholder:

The Company seemed stable as well as stagnant. There is a small investment in the orthopaedics area. Can the CEO or Board share why the Company is stagnating? Is it due to competition in Singapore, Company losing market share or loss of business to Johor Bahru? What are the plans for the Company going forward?

Company's responses:-

Please refer to the replies in Question 1 (iv). In addition, the Group's business relies on the local population, hence it is more stable. The Company is always on the lookout for potential expansion opportunities, both locally and overseas, to improve the long-term prospects for its stakeholders.

Question 6 from Shareholder:

Please explain the rationale for the Group to expand into orthopaedics rather than other specialties. How does this complement the Group's core specialisation?

Company's responses:-

As many of the Group's existing patients require orthopaedic services, and minor procedures can be done in the Group's network of centres, there is synergy between orthopaedics and the Group's core specialisation for cross referrals and increasing the utilisation rate of the Group's facilities.

Question 7 from Shareholder:

Going forward for the next 5 years, what would be the Group's Business Model?

Company's responses:-

The Group will focus on growing its core endoscopy and surgery business, as well as the orthopaedics arm, in addition to looking for expansion opportunities both locally and overseas.

Question 8 from Shareholder:

Please elaborate on current and near future status on JOES's impact on the Group (financially and other factors).

Company's responses:-

Dr. Julian Ong's suspension will be ending on 1 December 2024. Once his licence is issued, he will be back in practice and will be able to contribute to the Group's revenue.

Question 9 from Shareholder:

(i) Please elaborate on the Group's original objectives/business model in the investments in Medinex, Singapore Paincare Holdings Limited ("**SPCH**"), Aoxin Q & M Dental Group Limited ("**Aoxin**") and the extent currently how the original objectives have been met?

(ii) What will be the business strategy for these investments moving forward, in the next 5 years?

(iii) Please explain what is reported as "direct interest" and "deemed interest" in the above investments (page 10 of the Annual Report)?

Company's responses:-

(i) Please refer to the replies in Question 2 above regarding Medinex.

The investment in SPCH arose from a share swap in July 2019, where the Company disposed its 51% stake in its subsidiary, HMC Medical Pte. Ltd. for a 4.82% stake in SPCH, based on a valuation of S$655,000. This provided the Company an opportunity to participate in SPCH's specialisation in pain management services. In FY2023, the Board decided to divest this investment at appropriate market prices, after taking into consideration factors such as its cashflow requirements, SPCH's dividend yield, share price and announced internal developments.

The investment in Aoxin arose from the winding up exercise conducted in Acumen Holdings Pte. Ltd. in November 2022, valued at approximately S$296,000. Aoxin is a leading provider of private dental healthcare services in Northern China, and its main shareholder is Q & M Dental Group (Singapore) Limited with 32.79% shareholding as at 13 March 2024 (extracted from Aoxin FY2023 Annual Report). Its latest results announcement for its half year ended June 2024 showed a profit of RMB7.3 million, compared to a loss of RMB1.1 million in the previous comparative period. The Board is of the view to hold this investment for the time being, in view of Aoxin's growth potential.

(ii) Please refer to the replies in (i) above.

(iii) Direct interest in the investments means that the Company is a direct shareholder of the investee companies. Deemed interest in Medinex referred to the Company's interest in Medinex via the Company's investment in HSN Healthcare Pte. Ltd., which holds 9.39% of the equity interest in Medinex.

Question 10 from Shareholder:

Please elaborate on the original objective(s) in the investment in Nuffield Holdings Pte. Ltd. ("**Nuffield**") and SPCH and the rationale in the disposal of these investments and the timing of disposal (page 11 of the Annual Report)?

Company's responses:-

Please refer to the replies in Question 9 above regarding SPCH.

The investment in Nuffield arose from a S$625,000 redeemable convertible loan in May 2019, which was converted into shares in Nuffield in October 2021, with a further subscription of shares at S$200,000, bringing the Company's investment to a 4.67% equity interest in Nuffield in January 2022. As set out in the Company's announcement on 2 May 2019, Nuffield had a laboratory and a chain of nine dental clinics in Singapore, and was the sole exclusive clinic network affiliated to Malo Clinic by franchise. Malo Clinic is founded in 1995, based in Portugal and recognised worldwide for its know-how and innovation, which included the All-On-4® Dental Implant Protocol. Nuffield provides treatments such as dental implants, cosmetic dentistry, veneers, crowns and bridges, teeth whitening, invisalign, wisdom teeth surgery and emergency dental services. In addition to basic dentistry, Nuffield provides chao pinhole surgery for gum recession, myofunctional orthodontics, smile makeovers, complex full mouth rehabilitation and management of nervous patients. In February 2019, Nuffield was ranked by the Straits Times as Singapore's second fastest growing company, with compound annual growth rate of 186.8% between 2014 and 2017.

In FY2024, the Board decided to divest the investment in Nuffield for a consideration of approximately S$1.3 million, after taking into consideration its cashflow requirements for the acquisitions of JLES and TOPL.

By Order of the Board

Dr. Heah Sieu Min
Executive Director and Chief Executive Officer
20 September 2024

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 companies 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.

The contact person for the Sponsor is Mr. Pong Chen Yih, Chief Operating Officer, at 7 Temasek Boulevard, #04-02 Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.

[1] https://www.straitstimes.com/singapore/health/who-will-nurse-you-spores-nursing-crunch-likely-to-remain-in-coming-years

[2] https://www.channelnewsasia.com/singapore/nurses-retention-payout-bonus-100000-over-20-years-age-46-angel-scheme-4135971