

HC SURGICAL SPECIALISTS LIMITED

Incorporated in the Republic of Singapore
Registration No. 201533429G

AMENDED TERMS TO THE 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 an amended 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 2020 SPA (as defined herein), in view of Dr Ong's 2 years' suspension from 2 December 2022 to 1 December 2024 (the "**Suspension Period**"). 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, JOS and Dr Ong own 70%, 20% and 10% of the total issued shares in JOES respectively. JOS is wholly-owned by Dr Ong. JOS and Dr Ong are independent from the Company's Directors, Chief Executive Officer, as well as the 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 2022 ("**12M2022**"), the loss before tax of JOES was approximately S\$28,000 and the net tangible asset and net asset value of JOES as at 31 May 2022 were both S\$397,000.

2. RATIONALE FOR THE AMENDED SPA

In view of Dr Ong's Suspension Period, the Board is of the view that it would be prudent to remove the Company's commitment for the Proposed Acquisition. This was originally to occur one year after the suspension period as set out in the Company's announcement dated 31 December 2020 in relation to its acquisition of the Balance Sale Shares in JOES (the "**2020 Announcement**"). Under the amended SPA, the Proposed Acquisition is now an option at the Company's sole discretion.

The Board is of the view that it is in the interests of the Company to enter into the amended SPA, after taking into consideration that (i) Dr Ong has accepted that his actions were inappropriate and regrets his actions, (ii) the doctors and staff within the Group wish to give Dr Ong a second chance, (iii) it is not in the Company's interest to lose Dr Ong who is a skilled

surgeon and who is appreciative of the support given by the Group. In addition, Dr Ong has indicated that he will continue to work hard for the Group, (iv) the Group wishes to, through this episode, display that it will always allow due process to its doctors and that the Group will always act reasonably towards its doctors, and (v) the agreement of Dr Ong to extend his employment with the Company as set out in paragraph 3.2 below.

The Purchase Consideration (as defined herein) for the Proposed Acquisition will be paid in tranches. Dr Ong has granted the Company the Put Options (as defined herein) that require Dr Ong to re-purchase the shares of JOES in certain scenarios, in order 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

Acquisition of Balance Sale Shares

- 3.1 On 31 December 2020, the Company had entered into a sale and purchase agreement with the Vendors to acquire the Balance Sale Shares after one year from the end of the suspension period (the "**2020 SPA**"). Please refer to the 2020 Announcement for further details.

Further to renewed negotiations between the Company and the Vendors, the terms of the 2020 SPA will be amended and superseded in its entirety with the SPA. The SPA provides that each of the Vendors shall, for S\$1, grant the Company an option to purchase the Balance Sale Shares from each of them (the "**Option to Purchase**"), for the Purchase Consideration. Details of the Purchase Consideration are set out in paragraph 4 of this announcement. The Option to Purchase is exercisable by written notice from the Company to the Vendors during the period from and including 1 December 2025 to 30 November 2026.

Employment Terms

- 3.2 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:
- (a) Dr Ong shall be suspended from his Employment as a Specialist Surgeon during the Suspension Period;
 - (b) Dr Ong shall be employed as a marketing manager of the Company during the Suspension Period with effect from 1 February 2023; and
 - (c) the Employment as a Specialist Surgeon shall be further extended for a period of 11 years, commencing immediately after the Suspension Period. 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.
- 3.3 In addition, Dr Ong shall:
- (a) provide a letter of undertaking not to commit the charges that he has been found guilty of under the Court of Appeal. In the event that Dr Ong fails to abide by the undertaking, he shall pay the Company a sum of S\$4,000,000 in cash, in recognition of the reputational damages and tangible and intangible losses which the Group would suffer as a result; and

- (b) pay the Company a sum of S\$250,000 in cash as compensation for the damages the Company suffered as a result of the Singapore Medical Council complaint.

4. PURCHASE CONSIDERATION

Should the Company elect to exercise the Option to Purchase and proceed with the Proposed Acquisition, 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 1 December 2024 to 30 November 2025, multiplied by 0.30. In the event that the Purchase Consideration is a negative figure, the Purchase Consideration shall be S\$1 payable on the date of Completion (“**Completion Date**”).

In the event that the Purchase Consideration is an amount other than S\$1, 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, two years after the 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, five 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 five 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 synergistic benefits for the Group, the extension of the Employment, 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**"). These Put Options shall supersede all the previous agreements, which 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 Subject to Completion of the Proposed Acquisition, 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 sum of the Purchase Consideration and a percentage of the outstanding facility fee for the remaining Employment period.
- 5.3 In the event the Employment is terminated due to illness, incapacitation or death of Dr Ong after the date of the SPA but prior to the Completion Date, Dr Ong or his estate (as the case may be) shall pay the Company an amount of S\$3,000,000 in cash or in the event the employment is terminated due to illness, incapacitation or death after the Completion Date but prior to the end of the 11 years after the Suspension Period, 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 financial statements for the six months ended 30 November 2022 ("**HY2023**"), 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.	0.2% ⁽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 profits attributable to JOES for HY2023 of approximately S\$6,000 and the Group's net profit of approximately S\$2.8 million for HY2023.
- (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 does not expect 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 FY2022 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 2022 and the Purchase Consideration is based on the audited profit after tax of JOES for FY2022, the financial effect on NTA per share of the Company for FY2022 is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA attributable to the shareholders of the Company (S\$'000)	6,963	6,962
Number of issued shares (excluding treasury shares)	148,892,230	148,892,230 ⁽¹⁾
NTA per share (Singapore cents)	4.68	4.68

Effect on EPS

Assuming the Proposed Acquisition was effected at the beginning of the most recently completed financial year ended 31 May 2022 and the Purchase Consideration is based on the audited profit after tax of JOES for FY2022, the financial effect on the Company’s EPS for FY2022 is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Net profits attributable to shareholders of the Company after tax (S\$'000)	3,497	3,496
Weighted average number of issued shares (excluding treasury shares)	148,892,230	148,892,230 ⁽¹⁾
EPS (Singapore cents)	2.35	2.35

Note:

- (1) As JOES had incurred a loss in FY2022, the Purchase Consideration is assumed to be S\$1 and there is no Consideration Shares being issued.

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 will be 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

20 January 2023

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 16 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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