

## HC SURGICAL SPECIALISTS LIMITED

Incorporated in the Republic of Singapore

Registration No. 201533429G

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### RESPONSE TO SGX-ST QUERIES OF 1 MAY 2020

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The Board of Directors (the “**Board**”) of HC Surgical Specialists Limited (the “**Company**” and together with its subsidiaries, the “**HCSS Group**”) refers to its announcements made on 11, 12, 21, 24 and 27 April 2020 relating to the Straits Times article of 10 April 2020 “Surgeon loses defamation suit as judge upholds woman’s claim that he took advantage of vulnerable patients” (the “**Announcements**”).

*Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as that in the Announcements.*

The Board would like to provide the Company’s response to further queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**” or the “**Exchange**”) on 1 May 2020 in relation to the Announcements as follows.

#### Query 1

The Exchange notes that the Singapore Medical Council (“**SMC**”) had informed Dr Ong of the Complaint on 27 February 2019. Please clarify whether SMC had informed him that a complaint had been lodged against him or that the SMC was investigating the complaint. Did SMC request for information or seek Dr Ong’s assistance on the complaint / investigation thereafter? If so, please provide details of such requests.

#### *Company’s response*

The Company understands from Dr Ong that the SMC had on 27 February 2019 informed Dr Ong that the Complaint had been lodged against him, which they were in the midst of investigating and required his assistance on the Complaint. At that time, Dr Ong informed the Company that these were one-sided statements made by an unrelated third party who was not his patient, and the Complaint constituted groundless accusations. Dr Ong emphasised that these statements were untrue and he had pursued the matter against the defendant through the Suit. Dr Ong also mentioned that he had obtained confirmation from a third party referred to in the statements that the allegations were untrue.

The Company understands that Dr Ong responded to SMC’s queries at such time and submitted his defence to the Complaint, and also to respond to further queries on 14 April 2020, when SMC invited him to give the Undertaking.

#### Query 2

The Company acquired 51% in Julian Ong Endoscopy & Surgery Pte Ltd (“**JOES**”) from Dr Ong in February 2017. In October 2019, the Company acquired an additional 19% in JOES, bringing its shareholdings in JOES to 70%. In its announcement of 3 September 2019, the Board explained that the rationale for acquiring the additional 19% in JOES is to “motivate Dr Julian Ong” and that the

acquisition will “continue to enhance the working relationship upon which Dr Julian Ong, coupled with the Company’s resources, will be able to further improve the profitability of JOES”. The Exchange further notes that JOES contributed approximately 17% and 13% to the HCSS Group’s revenue and profits respectively for the half year ended 30 November 2019. The acquisition of JOES was a commercial decision and driven by profitability of JOES and collaboration with Dr Julian Ong, the key driver of JOES financial performance.

Given the ongoing SMC investigation on Dr Julian Ong, the commercial rationale for the acquisition would potentially be jeopardised should there be adverse developments arising from SMC’s investigation. In view of the significance of JOES’ contribution to the Company’s financial performance and the need to safeguard the Company’s interest in this investment, please provide the following information:

- (a) The terms of the sale and purchase agreement (“SPA”) on the acquisition of 19% in JOES provide for the grant of an option by Dr Ong to require Dr Ong to re-purchase 70% of the shares in JOES (“**Put Option**”) should his employment with the HCSS Group be terminated.
  - (i) Please provide details of the salient terms of the Put Option, including the consideration to be received by the Company upon exercise of the Put Option.

*Company’s response*

The Put Option was put in place to safeguard the Company’s interests should Dr Ong resign or be terminated by the Company under certain circumstances. The consideration to be received by the Company is based on a percentage of the amount that the Company had paid for the acquisition of the 19% in JOES, and this percentage will decrease with each year of Dr Ong’s employment given that Dr Ong would have contributed to the HCSS Group. Nonetheless, the minimum consideration that the Company could receive should the Put Option be exercised, would be more than the amount paid by the Company for the acquisition of the 70% interest in JOES.

- (ii) In addition, please state what are the terms with regards to termination of Dr Ong’s employment; the circumstances under which the Put Option can be exercised by the Company, as well as the termination clause highlighted in the service agreement with Dr Ong and referred to in the SPA.

*Company’s response*

The service agreement with Dr Ong is for a period of 10 years from 1 April 2017. Based on the terms of the service agreement, the employment may be terminated by either party giving three months’ notice. The service agreement can also be terminated by the Company under certain circumstances, including but not limited to, Dr Ong being guilty for dishonesty or serious or persistent misconduct, whether or not in connection with his employment, if Dr Ong does anything which may bring serious discredit with any group company or if Dr Ong is struck off the register of doctors.

In the event that the service agreement is terminated, the Put Option can be exercised by the Company. As stated above, the minimum consideration that the Company could receive should the Put Option be exercised, would be more than the amount paid by the Company for the acquisition of the 70% interest in JOES.

- (b) The Put Option is exercisable within the 30<sup>th</sup> month to the 48<sup>th</sup> month of Dr Ong's employment with the HCSS Group. The 48<sup>th</sup> month of Dr Ong's employment falls on 31 March 2021. Given that the investigations by SMC is ongoing and should there be any protracted delay in the completion of the investigation, are there any provisions to allow for the exercise period of this option to be extended?

*Company's response*

The intention by the Company at the point of acquiring the additional 19% in JOES, barring any unforeseen circumstances, was to acquire 100% of JOES. The SPA provides an additional safeguard by granting the Company an additional put option for 100% after the acquisition of the remaining 30%. It was always the Company's intention to further work with, nurture and monitor the performance of JOES to maximise its return on its investment.

Based on the current state of affairs, the Company is currently evaluating the potential outcomes that may result from the SMC investigation. As and when the Company makes such a determination, the Company will make the necessary announcements in accordance with the Catalist Rules.

- (c) Has the Board fully considered if the Company's 70% interest in JOES is safeguarded? Please provide details on steps taken and options considered by the Board.

*Company's response*

In considering the safeguards, the Board had, as mentioned in 2(a)(i) above, taken into consideration that the minimum consideration that the Company will receive under the Put Option is more than the amount paid by the Company for the acquisition of the 70% interest in JOES.

- (d) Are there any plans to acquire the remaining 30% in JOES at a later stage subject to a separate sale and purchase agreement to be entered into? If so, what are the bases?

*Company's response*

Based on the current state of affairs, as the SMC investigation into the Complaint is ongoing, the Company has not determined whether to proceed to acquire the remaining 30% in JOES subsequently. As and when the Company makes such a determination, the Company will make the necessary announcements in accordance with the Catalist Rules.

- (e) In the event that the outcome of the SMC investigations impact on Dr Ong's ability to continue practising (such as a prolonged suspension or removal of his licence to practice), please confirm that:

- (i) The Board has considered this outcome and its implications in deciding to enter into the SPA to acquire a further 19% in JOES. Please state the Board's views and rationale in this regard.
- (ii) In respect of questions 2(b) and 2(c) above, the rationale and considerations of the Board in arriving at such decision.

- (iii) In respect of questions 2(b) and 2(c) above, the Board is satisfied that the current arrangements are sufficient for safeguarding shareholders' interests and fulfilment of its fiduciary duties to shareholders and the basis for this view.
- (iv) The Board is satisfied that it has put in place the necessary measures and safeguards to protect the Company's and shareholders' interest in the event of adverse outcome from the SMC investigation. Please specify the measures and the Board's considerations in this regard.

*Company's response*

The Board had assessed JOES' profitability and growth potential since Dr Ong started his employment with the Company on 1 April 2017, before deciding to acquire the additional 19% interest in JOES. Under the terms of the sale and purchase agreement between the Company and Dr Ong for the initial 51%, the parties were to conclude the acquisition of the remaining 49% by 1 April 2021. When the Company first acquired a 51% interest in JOES in 2017, the estimated profit before tax ("**PBT**") was approximately S\$660,000 based on records from Dr Ong's previous employment. JOES' PBT increased to approximately S\$1.79 million for the financial year ended 31 May 2018 and was approximately S\$1.88 million for the financial year ended 31 May 2019, an increase of more than 50% per year on average. As such, the Board expects JOES' profit to continue to grow, and the acquisition of the additional 19% interest in JOES would, therefore, be beneficial to the HCSS Group.

With such considerations in mind, the Board was still prudent and determined that it would be in the best interests of the Company to acquire an additional 19% in JOES, bringing its shareholding to 70% rather than acquiring the entire 49% in JOES.

To further protect the Company's interests, the Put Option in the SPA was a safeguard put in place to protect the consideration that the Company had paid, in the event of any cessation of employment, which could arise as a result of, among others, an adverse outcome from the SMC pursuant to the Complaint. The Board would like to reiterate that the Put Option consideration, in the event that it is exercised, would be in excess of the amount the Company paid for its 70% interest in JOES.

Furthermore, HCSS Group currently has four other general surgeons (specialists who can perform endoscopy and surgery), with a fifth general surgeon who will be joining HCSS Group on or around 1 July 2020, as announced on 20 April 2020. As such, HCSS Group remains equipped with the resources and manpower to service its patients, including Dr Ong's patients, should an arrangement to transfer Dr Ong's patients to other specialists in HCSS Group be necessary.

With the addition of Dr Goh Minghui ("**Dr Goh**") on or around July 2020, the Board is of the opinion that Dr Goh, being a female general surgeon, will instil confidence in the HCSS Group to serve the interests of its patients, the general public and all vested parties accordingly. In addition, it promotes gender diversity, which is in line with HCSS Group's long-term strategy.

Additionally, Dr Ong had provided the Undertaking to SMC, namely, that for so long as the inquiry into the Complaint is ongoing, he will: (a) refrain from contacting his female patients for purposes that are outside the scope of his medical practice; (b) comply fully with the provisions of the SMC's Ethical Code and Ethical Guidelines (2016 Edition), in particular, Guidelines C4 and C12; and (c) refrain from conduct

which brings disrepute to the medical profession. The Company has also obtained a similar undertaking from Dr Ong.

Based on the above, the Board is satisfied that it has put in place the necessary measures and safeguards to protect the Company's and shareholders' interest in the event of an adverse outcome from the SMC investigation.

The Board is of the view that based on the information available to them at the respective times and after due and careful inquiry, they have at all times, honestly believed that they have acted in the best interests of the Company and accordingly, the shareholders.

### Query 3

The Exchange notes that the Parkway Group has suspended Dr Ong's accreditation and clinical privileges at Gleneagles, Mount Elizabeth, Mount Elizabeth Novena and Parkway East Hospital with effect from 20 April 2020 until SMC dismisses the complaint against Dr Ong. Dr Ong will continue to practice from the HCSS Group's heartland centres and utilise facilities at an alternative hospital for inpatients, where necessary. The Board has required Dr Ong to inform all his patients of the matters alluded to in the SMC Complaint prior to any consultation and obtain the consent of each patient to act as their physician if they should so agree, save for emergency consultation.

Please provide an assessment of the adequacy and effectiveness of such controls, processes and procedures put in place to safeguard the interest of the Company, and address potential risks, including but not limited to legal, reputational, financial, operational and compliance risks if there are lapses in the arrangements put in place.

#### *Company's response*

In the course of providing patients with the information of the matters alluded to in the SMC Complaint, Dr Ong will always have a staff nurse to witness the process and Dr Ong will document in the medical records system that the consent of the patient had been sought and the name of the witness.

Going forward, the Board has also required Dr Ong to provide a statement of facts relating to the Complaint for all patients to read and to provide their written consent for Dr Ong to continue to act as their physician if they should so agree. Should any patient have any questions, they will be able to speak to him on their concerns prior to any consultation, in front of another staff nurse.

The Company has assessed the adequacy and effectiveness of the foregoing procedures and is of the view that these procedures will ensure that there are no lapses as the consent had previously been documented in Dr Ong's system, and going forward, with the statement of facts provided at all times, and for the patients' written consent to be first provided prior to any consultation, there have been, and will continue to be, proper records.

### Query 4

In view of the above developments, please provide a confirmation from the Board that:

- (a) In arriving at its decision on the above matter, the Board has taken all steps and carefully examined all options available to the HCSS Group to ensure that decisions made and actions

taken are in the best interest of the Company and its shareholders. Please confirm the steps taken in this respect and the rationale for these steps.

- (b) The Board has put in place adequate and effective controls to safeguard the interest of the Company and its shareholders. Please confirm the controls taken in this respect and the rationale for putting in place such controls.

*Company's response*

As set out in the foregoing responses, on the bases of the safeguards implemented and steps taken, the Board had at all relevant times, based on the information available to them then, taken all steps and carefully examined all options available to the HCSS Group at such time to, in their honest belief, ensure that the decisions made and actions taken were in the best interests of the Company and its shareholders. The Board was also at the relevant times, of the view that the controls were adequate and effective. As the situation develops, pending the SMC investigation, the Board will not hesitate to consider further action that may need to be taken.

By Order of the Board

Dr. Heah Sieu Min  
Executive Director and Chief Executive Officer  
4 May 2020

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**About HC Surgical Specialists Limited**

HC Surgical Specialists Limited (the "Company") was incorporated on 1 September 2015 in Singapore and listed on 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 17 clinics located throughout Singapore.

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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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