

HC SURGICAL SPECIALISTS LIMITED

Incorporated in the Republic of Singapore

Registration No. 201533429G

RESPONSE TO SGX-ST QUERIES OF 24 AUGUST 2021

The Board of Directors (the “**Board**”) of HC Surgical Specialists Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to its announcement made on 23 August 2021 relating to the “Acquisition of the Remaining 49% of the Issued and Paid-up Share Capital in Jason Lim Endoscopy and Surgery Pte. Ltd.” (the “**Announcement**”).

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

The Board would like to provide the Company’s response to queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 24 August 2021 in relation to the Announcement as follows:

Query 1

It was announced that Dr Lim and JLH shall still be entitled to their respective share of profit in respect of the 49% issued share capital of JLES from 1 Aug 2021 to 31 July 2022 in view that the proposed acquisition is taking place “approximately one year ahead of the Initial Target Completion”.

- (a) Based on the announcement of 7 May 2018 on the Company’s acquisition of initial 51% in JLES (“**2018 SPA**”), it was stated that the Company could acquire the remaining 49% in JLES from the Vendors at a later stage, with completion to occur by 1 September 2022 or such other date to be agreed. As per the 2018 SPA, pls clarify if it is intended for the acquisition of remaining 49% stake in JLES to only be completed in 2022 or could the completion take place prior to 1 Sept 2022?
- (b) What did the Board consider in agreeing that Dr Lim and JLH shall still be entitled to their respective share of profit in respect of the 49% issued share capital of JLES from 1 Aug 2021 to 31 July 2022 despite HC Surgical acquiring the 49% stake?
- (c) Why is the above in the interest of the Company and its shareholders?

Company’s response

- (a) In the 2018 SPA, it was the intention of the Company as well as the Vendors for the acquisition of the remaining 49% stake in JLES to be completed by 1 September 2022, or such other date to be agreed, as it was envisaged that JLES will take approximately four years to reach stable growth. The Acquisition was completed on 23 August 2021, one year ahead of the Initial Target Completion, based on renewed negotiations and the better than expected performance of JLES.

- (b) The Board had considered the following:-
- (i) in the 2018 SPA, if the acquisition of the remaining 49% equity in JLES were to be completed by 1 September 2022, Dr. Lim and JLH would be entitled to their respective share of profit till 31 July 2022;
 - (ii) in view of the better than expected performance of JLES for the financial year ended 31 May 2021 (“FY2021”), the Board expects JLES performance to continue growing in the financial year ending 31 May 2022. This would have likely translated to a higher consideration for the acquisition of the remaining 49% equity in JLES based on the terms under the 2018 SPA;
 - (iii) the terms of the Acquisition provided for Dr. Lim’s Employment to be extended by another three years from the original 11-year period to a 14-year period till 31 July 2032; and
 - (iv) the terms of the Acquisition also provide for the Purchase Consideration to be paid in instalments over two years.
- (c) As set out in the Announcement under paragraph 8, the Acquisition is accretive as it would increase the EPS of the Company, assuming the Acquisition was effected at the beginning of FY2021. In addition, the terms of the Acquisition provided for the extension of Dr. Lim’s Employment for another three years, the payment of the Purchase Consideration in instalments and the expected lower Purchase Consideration are in the interest of the Company and its shareholders.

Query 2

The purchase consideration is based on unaudited financials of JLES.

- (a) Both JLES and the Company have financial year end of 31 May. Given that the Company needs to despatch its annual report by mid Sept 2021, the audit of the Group should be in progress. When will audited financials of JLES be ready?
- (b) Pursuant to the announcement of 7 May 2018, the Additional Sale Shares Consideration will be ten times the audited profit after tax of JLES. Why did the Board agree to use unaudited financials of JLES as the basis to compute the purchase consideration after renewed negotiations?
- (c) Will the purchase consideration be adjusted accordingly if there are material adjustments to the audited financials of JLES?

Company’s response

- (a) The audited financials of JLES is expected to be ready by end September 2021.
- (b) The Board had reviewed the status of the audit of JLES for FY2021 and no material audit adjustments are expected. As the Board had considered the terms of the SPA, as stated above, to be in the interest of the Company, it decided to proceed with the Acquisition.
- (c) As JLES is a subsidiary of the Group, its results are consolidated in the Group’s full year financial statements. The Company does not expect to have any material adjustments to the audited financials of JLES for FY2021.

Query 3

Further to renewed negotiations, the purchase consideration of the 49% Shares Sale will be based on ten times the unaudited profit after tax, after adjustments to exclude the expenses incurred in the form of the facility management fee, Dr. Lim's profit-share and salary increment under the terms of his employment contract, and other non-recurring income that arose due to, *inter alia*, the COVID-19 pandemic, for the financial year ended 31 May 2021, multiplied by 0.49.

- (a) Please explain the bases and considerations behind the computation of the purchase consideration.
- (b) Did the adjustments increase or decrease the unaudited profit after tax, and in turn the Purchase Consideration?
- (c) Why did the Company agree to adjust the unaudited profit after tax value? Why is that in the interest of the Company and its shareholders?

Company's response

- (a) The adjustments to the Purchase Consideration were based on negotiations mutually agreed for the Acquisition, which have also taken into account, *inter alia*, (i) the extension of Dr. Lim's Employment for a further three years; (ii) the Acquisition being carried out one year earlier than the Initial Target Completion so that the Company would not have to pay a higher consideration as JLES is expected to achieve a higher profit in the following year; and (iii) the instalment payments of the Purchase Consideration; all of which are in the interests of the Company and its shareholders.
- (b) The adjustments, if they were not made, would have resulted in a decrease in the unaudited profit after tax and in turn the Purchase Consideration if the basis for the calculation of the Purchase Consideration remained at ten times the unaudited profit after tax of JLES. As mentioned, the Purchase Consideration was arrived at after extensive discussions and negotiations between Dr. Lim and the Company, and the adjustments were made due to certain fees, expenses and other non-recurring income that arose due to, *inter alia*, the COVID-19 pandemic for FY2021, which at the conclusion of the discussions and negotiations, the Company and Dr. Lim mutually agreed that the adjustments reflected a more accurate state of affairs of JLES. The adjustments amounted to no more than S\$10,000 and has a less than 1% impact on the Purchase Consideration.
- (c) As mentioned above, there are many considerations for the Board to arrive at to acquire JLES one year ahead of the Initial Target Completion. Based on, *inter alia*, the various factors set out above, the Board is of the view that it is in the best interests of the Company to proceed with the Acquisition.

Query 4

There will be issuance of shares in the Company, equivalent to approximately 20% of the Purchase Consideration (the "**Consideration Shares**"), to Dr. Lim. What is the maximum number and percentage of shareholding in the enlarged share capital of the Company that will be issued to Dr. Lim, as part of the Purchase Consideration?

Company's response

As the issue price of the Consideration Shares will be based on the Company's market price at the respective issue dates, this will in turn affect the number of Consideration Shares to be issued. The Company is not able to provide a maximum number and percentage of shareholding in the enlarged share capital of the Company, but has provided illustrative figures as set out in the Announcement under paragraph 7. Based on the volume weighted average price of the shares of the Company transacted on the market day preceding the date of SPA on 23 August 2021 of S\$0.5078, the estimated number of the Consideration Shares to be issued to Dr. Lim is 3,568,000 (rounded down to the nearest thousand). This represents approximately 2.3% of the enlarged share capital of the Company, excluding treasury shares, of 152,460,230 shares.

By Order of the Board

Dr. Heah Sieu Min
Executive Director and Chief Executive Officer
26 August 2021

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 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.

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