

HC SURGICAL SPECIALISTS LIMITED

Incorporated in the Republic of Singapore

Registration No. 201533429G

**RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 MAY 2022**

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 5 September 2022 (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**") relating to the Company's Annual Report for the financial year ended 31 May 2022 ("**FY2022**").

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

Question 1:

Revenue decreased from S\$23.4 million in FY2021 to S\$19.3 million in FY2022. The decrease has been attributed to lower number of patients selecting to pursue "elective medical treatment" in view of the lifting of the COVID-19 restrictions and easing of borders restrictions which paved way for overseas travel.

- (i) Are the Group's medical procedures considered "elective" and/or discretionary/non-essential? Is there evidence that (potential) patients have put off or cancelled their procedures now that they are able to travel overseas?
- (ii) What is management's strategy to increase the number of patients/medical procedures and to increase revenue/profitability?
- (iii) What are the reasons that the two clinics at Mount Alvernia and Dleedon were closed? Were the two clinics underperforming? In addition, what were the objectives of the internal restructuring? Are there any changes to the Group's operations and strategy following the internal restructuring?
- (iv) How has management finetuned its (local) expansion strategy? Can the Company (re)state its expansion strategy?

In the CEO's statement, it was shared that there is "currently an unprecedented shortage of operating room, endoscopy room and ward bed availability". One of the reasons is the exodus of foreign medical staff that have left Singapore due to personal reasons.

- (v) What were the utilisation rates of the Group's 11 endoscopy centres?
- (vi) Have the Group's operations been affected by manpower constraints? Is the Group successful in retaining experienced nurses and staff?

Company's responses:-

- (i) The decrease in revenue in FY2022 was in comparison to FY2021, which was exceptionally high due to the pent-up demand after the circuit breaker measures were lifted on 2 June 2020. Compared to FY2020 where revenue was S\$16.7 million, FY2022 revenue of S\$19.3 million represented an increase of approximately 15.6%. The lifting of the COVID-19 restrictions and easing of borders restrictions towards the end of FY2022 have encouraged people to travel overseas for leisure as well as business purposes. However, this was mitigated as foreign patients are now allowed to come to Singapore to seek treatment.

Medical procedures can be "elective" like the screening services that the Group provides under the contract signed with AIA Singapore Private Limited and can be essential depending on individual patient's condition. During the times when COVID-19 measures are tightened and social distancing is in force amidst the high number of COVID-19 cases, there are patients who postponed their appointments due to them having COVID-19, being close contact with COVID-19 patients, or having respiratory symptoms. The Group had also advised patients, who are not in an urgent condition for treatment, to defer their appointments where necessary in consideration of their safety and in adherence to the government recommendations.

- (ii) Patients' well-being has always been the utmost priority of the Group. In addition, the Group also aims to provide convenience and accessibility by setting up our medical centres in the heartlands, thereby bringing "Specialist care to the doorsteps" of the residents. In line with the Group's expansion plans, construction of another endoscopy centre in the east is ongoing.
- (iii) The closure of the Mount Alvernia and Dleedon clinics is part of the Group's restructuring plans to re-focus on its centres with more growth potential and improve the efficiency of staff allocation.
- (iv) The Company is always on the lookout for opportunities and suitable partners in its expansion plans, in addition to the ongoing search for young, talented specialists to join the Group to reinforce the Group's specialist platform to support the next generation of specialists. As stated in the Company's Offer Document, the Company's business strategy includes the following:-
 - (a) Expansion of business operations locally and regionally;
 - (b) Expansion of surgical facilities; and
 - (c) Growing its patient base.
- (v) The Group's 11 endoscopy centres are not at full capacity as our team of doctors and staff go to the various centres on an appointment basis.

- (vi) As the Group is always on the lookout for expansion, it is continuously seeking suitable candidates to grow its team, which mainly comprises of locals and permanent residents.

Question 2:

As disclosed in Note 5 (page 100; Intangible assets), the Group has made an impairment loss of approximately S\$745,000 to Julian Ong Endoscopy & Surgery Pte. Ltd. (“**JOES**”) in FY2022. The carrying amount of JOES, which represents a CGU by itself, was determined to be higher than its recoverable amount of approximately S\$1,672,000 based on its current financial performance.

JOES recognised a profit of S\$1.01 million in FY2020 and losses of S\$(157,000) and S\$(14,000) in FY2021 and FY2022 respectively. Revenue from FY2022 was S\$2.76 million, S\$1.15 million and S\$0.91 million respectively.

In particular, it is noted that the assumed revenue growth rates of JOES were -36% to 81% in FY2021 and -65% to 245% in FY2022 (see table below). JOES is the only subsidiary in the Group that had negative growth rates in the value-in-use calculations.

5. INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill (Continued)

Key assumptions used for value-in-use calculations:

	Revenue growth rates		Discount rate	
	2022	2021	2022	2021
LBPL	2%	2%	10.5%	9.4%
JOES	-65% to 245%	-36% to 81%	10.5%	9.4%
MLCS	2% to 3%	2% to 3%	10.5%	9.4%
MST	2%	4%	10.5%	9.4%
JLES	5% to 15%	5% to 15%	10.5%	9.4%
GMH	15% to 20%	10% to 212%	10.5%	9.4%

(Source: Company’s Annual Report)

- (i) Can the Board, especially the independent directors, help shareholders understand if the directors have reviewed the performance of JOES given that revenue had decreased in the past two years and JOES has been loss-making? In comparison, the Group and its subsidiaries (such as LBPL, JLES) have been profitable in the past two years and LBPL has been able to increase revenue and profits in the past two years.
- (ii) Did the Group overpay for the acquisition of JOES given that the Group has made impairment for goodwill on JOES of S\$722,000 in FY2020 and S\$745,000 in FY2022?
- (iii) Going forward, what are the levers available to the Group to improve the performance of JOES?
- (iv) For the benefit of shareholders, can the Board, especially the independent directors, help shareholders better understand the Board’s decision making and approval processes for

the proposed acquisition of the remaining 30% of the total issued and paid-up share capital of JOES that was announced on 31 December 2020 (the “**Dec2020 Announcement**”)?

The Group has a put option that would require the non-controlling interest to repurchase the issued and fully paid-up share capital held by the Company in JOES, at an amount in excess of the Company’s investment. In Note 14 (page 118; Derivative financial instruments), the Company has disclosed that “management” assessed that the probability of exercising the put option is low.

- (v) Would it be timely for the independent directors to carry out a strategic review to determine if the Group would benefit from exercising the put option to safeguard shareholder value after considering all the factors, including but not limited to reputation risks of the Group, performance of JOES in the past two FYs?

Company’s responses:-

- (i) The Board, including the independent directors, reviews the performance of JOES every half-yearly and the decrease in revenue and profit is within the expectations of the Board, in view of the negative publicity and pending the outcome of the Singapore Medical Council (“**SMC**”) complaint.
- (ii) The acquisition of JOES was a long-term investment. As set out in the Company’s Dec2020 Announcement, the Company had revised its proposed acquisition of the remaining 30% equity interest in JOES to protect shareholders’ interest. Please refer to the Dec2020 Announcement for more details.
- (iii) Going forward, the Group will continue to support JOES with its network of medical centres and patient base.
- (iv) Please refer to the Dec2020 Announcement on the rationale for the proposed acquisition of the remaining 30% equity interest.
- (v) As Dr. Julian Ong is in the process of appealing against the SMC’s decision, the Company will wait for due process to take place before considering its next steps and hence, is unable to comment at this point in time.

Question 3:

As noted in the corporate governance report, the Company switched its service provider for the internal audit function from TRS Forensics Pte Ltd to NLA Risk Consulting Pte Ltd with effect from 1 February 2022.

- (i) Can the audit committee (“**AC**”) help shareholders better understand the reasons for the change?
- (ii) What were the criteria used by the AC to shortlist and select the new internal auditor?
- (iii) What were the scope and the key findings of the internal audit in FY2022?

- (iv) How long is the internal audit cycle?
- (v) What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations of the internal auditors?

Company's responses:-

- (i) As mentioned on page 52 of the Annual Report, "Notwithstanding the change in the internal auditing firm, Mr. Gary Ng, the head of internal audit in NLA, was previously the head of internal audit in TRS, providing continuity to the Group for its FY2022 internal audit." The AC has been satisfied with the internal audit function led by Mr. Gary Ng when he was in TRS and hence, has engaged NLA, the new firm that Mr. Gary Ng joined, to be the new service provider.
- (ii) As mentioned in (i) above, the head of the internal audit function remains the same, despite the change in the firm.
- (iii) The scope of the internal audit includes evaluation of the internal controls, review of cybersecurity measures in place, review of the financial, operational and compliance controls and overall risk management of the Company. There were no material findings of the internal audit in FY2022.
- (iv) The internal audit cycle is a three-year work plan covering the key processes of the Group's operations.
- (v) The AC conducts regular meetings with the internal auditors and the management, to ensure that the recommendations of the internal auditors are being acted upon.

By Order of the Board

Dr. Heah Sieu Min
Executive Director and Chief Executive Officer
22 September 2022

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 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.

The contact person for the Sponsor is Mr. Pong Chen Yih, Chief Operating Officer, at 7 Temasek Boulevard, #18-03B Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.