

HEALTHWAY MEDICAL CORPORATION LIMITED

(Company Registration No.: 200708625C)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) FOR ANNUAL GENERAL MEETING FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The board of directors (“**Board**” or “**Directors**”) of Healthway Medical Corporation Limited (“**Company**”, and together with its subsidiaries, “**Group**”) refers to the publishing of its annual report and related documents on the SGXNET on 15 April 2020. The Company has received questions from the Securities Investors Association (Singapore) (“**SIAS**”) which substantively relate to the following, and to which the Company wishes to provide its responses:-

Q1. As noted in the chairman’s statement, the group reduced its loss for the financial year ended 31 December 2019 to \$(2.94) million. The performance of the group is shown below:

- FY2014: \$9.84 million
- FY2015: \$1.68 million
- FY2016: \$(44.1) million
- FY2017: \$(34.8) million
- FY2018: \$(5.81) million
- FY2019: \$(2.94) million

In the quarterly business update and financial performance for the quarter ended 31 March 2020, the group reported a 1.8% increase in revenue to \$27.6 million and a profit attributable to shareholders of \$186,000.

- (i) **Can management help shareholders understand the key factors affecting the group’s profitability in 2019? In addition, can management elaborate further on the specific factors that allowed the group to report a profit of \$186,000 in 1Q2020?:**

Response:

The Group underwent a change in the Management and Board of directors during the middle of FY2017. Over the last three years, the Board and the Management undertook a series of measures to steer the Group to return to profitability with an aim to enhance shareholders’ value on a sustainable basis.

The key initiatives undertaken by the Board and the Management in the past three years includes:

- Undertook a detailed review of the performance of each business unit and took decisive steps to close down certain non-performing clinics with an aim to improve operational efficiency.
- Exited from China operations and divested from a non-core Wellness segment.
- Implemented Group rebranding exercise and progressively refurbished its GP and Specialist clinics to complement the vision of a network of clinics that is technology-enabled and hospitality led. With the completion of clinic refurbishments, our clinics are now better equipped to handle higher patient loads, with greater efficiency and personalized care.
- Ensure that all the clinics are adequately staffed with qualified and skilled workforce.
- Implementation and upgradation of its IT system to improve both front and back end operations.

- Implemented Group restructuring exercise whereby ten subsidiaries were amalgamated into two operating entities to bring in operational efficiencies and reduce operating costs.
- Acquisition of GP clinics to further expand its network.

Having said this, the Board and the Management shall continue to focus on improving the operational efficacy and look for both organic and inorganic expansion going forward.

Kindly refer to the Quarterly Business update and financial performance for the quarter ended 31 March 2020 announced on 12 May 2020 as well as full yearly results for FY2019 announced on 24 February 2020.

In FY2018 and FY2019, staff costs accounted for 65%-66% of total revenue. For comparison, the staff costs-revenue ratio for large listed medical group was at a 50%-51% level.

(ii) Has the board reviewed the overall competitiveness of the group, in particular its staff costs?

Response: We are unable to comment on the staff costs-revenue ratio for other medical group as some of these medical groups are not directly comparable to Healthway Group considering the geographies that they operate, in as well as the nature and proportion of the services that they offer. The Board and the Management, however, continuously evaluates and negotiate the compensation structures for its employees, including the doctors with the long-term aim of group sustainability and staff retention. The Board and the management have over the last three years undergone various staff costs optimisation measures and shall continue to do so.

(iii) With a network of 91 clinics and medical centres, does the group enjoy any significant economies of scale?

Response:

- Yes. The Group has over the last few years focused on integration and process standardisation to improve efficiency across its clinics and backend operations.
- The entire back office operations are centralised and the end-to-end integration between the back-office and the front-end IT system will allow us to harness process standardisation, reduce time and operating costs.
- The Group is continuously monitoring and improving its integration and process standardisation. The Management expect to reap further economies of scale across its various business units.
- The above will also future-proof both organic and inorganic expansion and achieve greater economies of skill and scale by leveraging on its best practices across the organisation.

Q2. On 21 April 2017, the company raised \$59.8 million from the issuance of Tranche 2 of the Convertible Notes (page 42). On 2 July 2019, the company extended the intended use of proceeds to include the acquisition of other business supplementary or complementary to the existing business of the group. Out of the total amount of \$20 million allocated to acquisition and investment in GP and specialist clinics, the unutilised amount as at 31 March 2020 was \$14.82 million.

(i) Is the group still focused on an acquisition-oriented growth strategy?

Response:

- The Group's growth strategy includes the ongoing optimisation of business operations to improve overall operational efficiency.

- While optimising our business through internal reviews and assessments, we continue to be on the lookout for strategic partners and inorganic growth opportunities to enhance and expand our portfolio of offerings, enhancing shareholder value.

As disclosed in Note 16 (page 107 – Intangible assets), the group had recognised goodwill of over \$201 million (at cost) and an additional \$32.5 million in brand names from its acquisitions. The total accumulated impairment losses to goodwill amounted to \$(89.5) million. For instance, out of the \$60.8 million in goodwill attributed to Paediatrics, the group has recognised an impairment of \$(46.9) million while the \$7.2 million in goodwill for Dentistry has been totally impaired.

	Goodwill				
	Cost	Accumulated	Brand	Net book	Net book
		2019			
	2019	losses	2019	2019	2018
\$'000	\$'000	\$'000	\$'000	\$'000	
Service groups					
Family medicine	69,024	(4,500)	8,000	72,524	70,438
Dentistry	7,191	(7,191)	–	–	–
Paediatrics	60,761	(46,911)	9,656	23,506	23,506
Orthopaedics	35,196	(18,293)	9,657	26,560	26,560
Wellness and aesthetic	4,657	(4,657)	–	–	–
Obstetrics & gynaecology	3,792	(1,904)	–	1,888	1,888
Nobel specialist	20,844	(6,000)	5,081	19,925	19,925
	201,465	(89,456)	32,394	144,403	142,317

(Source: company annual report)

- (ii) What guidance has the board given to management as it carries out its acquisitions? Specifically, how does the group maintain prudence and acquire companies/businesses at fair prices without overpaying for aggressive assumptions in its valuation models?**

The mandate from the current Board to the Management is to look for acquisition opportunities which are accretive, synergistic from either a revenue or cost standpoint, scalable and align with the Group's long-term growth strategy. One of the key factors in our acquisition strategy is also to ensure long term sustainability of the business with the aim to improve return on investments.

- (iii) In addition, how is the group structuring transactions to ensure that the interests of the vendors are aligned with that of the company in the long term?**

As mentioned above, the Group's acquisition strategy is to look for businesses/companies which are accretive, synergistic, scalable and align with the Group's long-term growth strategy.

Having said that, the Group also ensures that the interest of the Vendors, who are typically doctors who will continue practicing for the Group following the completion of acquisitions, are aligned with that of the Group's goal of empowering healthier lives with a patient centric approach.

Q3. In the Report on corporate governance, the company has stated that Mr Lin Weiwen, Moses, an independent director of the company has expressed his intention to retire as a director of the company at the conclusion of the company's forthcoming Annual General Meeting ("AGM").

The company is proposing the appointment of Ms Poh Mui Hoon as an independent director of the company.

Further information regarding Ms Poh Mui Hoon can be found on pages 52 to 56. The nominating committee (NC) has stated that it sources candidates via suggestions from directors or management, or from external sources.

(i) Would the NC help shareholders understand how the current practice supports the board diversity policy?

Response:

- The Board and Board Committees comprise Directors who as a group provide core competencies such as accounting or finance, business management, legal or corporate governance, industry knowledge, strategic planning and customer based experiences. The breakdown of the core competencies on the balance and diversity of the Board can be found on page 25 of the Annual Report.
- The Board's policy in identifying director nominees is primarily to have an appropriate mix of members with complementary skills, core competencies and experience for the Group, regardless of gender.
- The Company has put in place a Board Diversity Policy which provides that, in reviewing the Board composition, the NC will consider the benefit of all aspects of diversity, including diversity of skills, experiences, gender, age, ethnicity and other relevant factors.
- In the nomination and selection process, the NC identifies the candidates and reviews the nominations for the appointments based on these criteria (i) at least half of directors shall be independent directors; and (ii) the candidate shall be a fit and proper person to hold such office, and the most qualified candidate nominated for the office, taking into account the candidate's track record, age, experience, capabilities and other relevant factors.
- The NC will interview the shortlisted candidates and assess them based on objective criteria approved by the Board such as integrity, independent mindedness, possession of the relevant skills required or skills needed to complement the existing Board members, ability to commit the time and effort to carry out his responsibilities, good decision making track record, relevant experience and financial literacy.

It was also disclosed that Ms Poh is a shareholder, executive director and co-founder of Esseplere Pte. Ltd., a company in which Mr Sin Boon Ann, the independent chairman of the company is a shareholder, executive chairman and founder of. Notwithstanding the preexisting business relationship between Ms Poh and Mr Sin, the said relationship is not expected to affect Ms Poh's independence as an independent director of the company.

(ii) On what basis did the board/NC determine that the said relationship between the proposed director and the chairman would not compromise the independence of the proposed director?

Response:

- Director independence is primarily determined by considering whether there are any, or the nature of, relationships that the proposed new director and his/her immediate family have with the issuer, its related corporations or substantial shareholders. Pursuant to the Catalist Rules and the Code of Corporate Governance 2018, a director's tenure at the issuer is also a factor affecting his/her independence.

Based on all information known to, and publicly disclosed by, the Company, the NC and Board have determined Ms Poh to be independent and suitable to be appointed as an independent director of the Company. The NC and Board have considered her independence in accordance with the Catalist Rules and the Code of Corporate

Governance 2018. Mr Sin Boon Ann has abstained from all matters in relation to the appointment of Ms Poh as an independent director of the Company in both the NC and the Board.

- Ms Poh brings a unique combination of skill sets in technology, digital experience and gender diversity to the Board. Ms Poh will contribute to the Board with her vast experience in the digital economy and her in depth understanding of the latest technologies which the Board intends to harness.

(iii) How does the board improve its diversity so as to avoid groupthink and to foster constructive debate?

Response:

- With the NC's recommendation and in accordance with the Board diversity policy, proposed candidates are assessed and appointed as director after taking into account their respective core competencies which will contribute to greater diversity on the Board and will also foster constructive debate among the directors.
- With this mix of competence, knowledge, skills and expertise amongst the Board members, the Board is encouraged to have open and constructive debates with Management on its strategy proposals and performance.
- Board members are well-supported by a Management with accurate, complete and timely information to enable them to make informed decisions.

BY ORDER OF THE BOARD

Raymond Lam Kuo Wei
Company Secretary

22 June 2020

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor") in accordance with Rules 226(2)(b) and 753(2) 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. 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 Ms Gillian Goh, Director, Head of Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg)