Health Management International

RESPONSES TO SIAS' QUESTIONS ON
HEALTH MANAGEMENT INTERNATIONAL'S ANNUAL REPORT FY2017

The Board of Directors (the "Board") of Health Management International Ltd (the "Company" and together with its subsidiaries, the "Group") refers to the questions on 30 October 2017 from the Securities Investors Association (Singapore) ("SIAS") relating to the Annual Report for FY2017 as part of their initiatives to improve the quality of Annual General Meetings. The requisite replies are appended as follows:

Q1. As highlighted in the Chairman's Message (pages 4 – 6 of the annual report), the group has consolidated the ownership of the two hospitals in Malaysia (namely Mahkota Medical Centre and Regency Specialist Hospital) to 100% each in the financial year.

It was also stated that the consolidation will afford the group with "the foundation to execute our regional growth strategies with greater operational flexibility and options for funding".

a) Can the board help shareholders understand what this means in terms of the pace to "execute our regional growth strategies"? What are the kinds of "synergistic acquisitions" in the region that might fit well with the group?

The Group's growth strategies are geared towards the ultimate goal of enhancing long-term shareholder value. On the organic front, the Group has strategies in place within key markets such as Malaysia, Singapore and Indonesia. With regard to the pace of their execution, two examples listed below will give you a better sense of the time frame.

In Malaysia, the Group owns two tertiary hospitals, Mahkota Medical Centre ("Mahkota") and Regency Specialist Hospital ("Regency"). At Mahkota, the Group's strategy is focused on improving utilisation within the existing building coupled with capacity expansion in order to strengthen its presence as a referral hub for local and medical tourists. During FY2018, the Group will be increasing bed capacity from 266 to 300.

Similarly at Regency, the Group's strategy is on capacity expansion with the construction of a new hospital extension block. Construction will commence in FY2018 and is expected to be commissioned by FY2021, subject to necessary approvals.

With regard to inorganic initiatives, the Group continues to explore partnerships and synergistic acquisitions. These initiatives will be undertaken with the goal of broadening patient referrals to both Regency and Mahkota. The Group also intends to leverage on potential acquisitions that can broaden its geographical footprint. In addition, strategic partnerships or investments catered towards enhancing clinical excellence will be pursued. This is line with the Group's overarching strategy of providing quality healthcare to patients from around the region.

b) Has the board/management considered if an asset-light strategy would fit in with the group's strategy to enhance long-term shareholder value?

The Group's key assets comprise of two tertiary hospitals in Malaysia, Mahkota in Malacca and Regency in Johor. The hospitals are supported by a network of patient referral centres across the region. The Group also owns and operates the HMI Institute of Health Sciences in Singapore, whose premises are leased. While the Group continues to streamline its operations in order to improve profitability margins, the nature of the Group's core business entails the efficient operation of its fixed assets.

Q2. Shareholders would like to ask the following questions to better understand the performance and prospects of the group. Specifically:

- Mahkota Medical Centre:

a) What are the current Centres of Excellence (COEs) and what are management's plans to introduce more of such COEs?

At present, Mahkota has the following Centres of Excellence (COEs):

- Bone & Joint Replacement Centre
- Cancer Centre
- Diabetes Centre
- Emergency & Trauma Centre
- Heart Centre
- Liver & Gastro Centre
- Men's Health Centre
- Neurological & Stroke Centre
- Wellness Centre
- Woman & Child Centre

As part of management's strategy, the Group intends to further develop these COEs. For example, part of the Group's growth initiatives at Mahkota is in line with the development of its cancer centre. Currently, Mahkota has expanded its cancer programme to include nuclear medicine services through the addition of a new Positron Emission Tomography (PET) scanner, which is the first PET machine in Malacca. Mahkota also has three full-time oncologists and provides radiotherapy and chemotherapy treatment options for patients.

Looking ahead, the Group will continue to move up the value chain by recruiting more sub-specialty consultants to further develop the various COEs. In addition, the Group will focus its efforts on expanding overall service offerings through continuous investment into medical technology, training and initiatives geared towards increasing the comprehensiveness of our COEs.

b) The bed capacity at Mahkota will be increased from 266 to 300 beds in FY2018. Can management disclose more detail of its plans to further grow Mahkota to 340 beds in the future? When is that expected to be completed? Would it require additional physical space to be added?

Due to structural factors such as an ageing population, the increasing prevalence of chronic diseases and rising affluence, Mahkota will need to expand bed capacity to cope with the increasing patient load. In the current financial year, bed capacity will be increased from 266 to 300 beds. The Group expects to further grow Mahkota to 340 beds within the existing building, and this is expected to occur within the next few years. Further, the Group also has a land bank available for future potential development.

- Regency Specialist Hospital:

c) While the construction costs for the extension block at Regency is estimated to cost RM160 million, what is the expected capital expenditure to fit-out the new extension block with beds and equipment?

The estimated cost of RM160 million excludes the capital expenditure required for beds and equipment. Medical equipment for the new building will be bought in phases, along with recruitment of relevant full-time specialist consultants.

d) The occupancy at Regency will be increased to 200 in FY2018 and to 380 with the extension block in FY2021. Can management help shareholders understand the depth of its management team and the project team to oversee existing operations and the expansion? How does management ensure that quality of patient care and experience is not affected during the expansion stage?

Given the size of investment and her prior experience as CEO of Regency, Ms Chin Wei Jia, the Group Chief Executive, continues to provide direct strategic oversight of the project. The development team for the new hospital extension block is spearheaded by an experienced healthcare professional who has developed a number of hospitals in her 30 plus years in healthcare, and comprises experienced facilities management, clinical services and nursing professionals. This team works closely alongside an experienced team of architects, engineers and other consultants for the project.

The new development is built behind the existing hospital, with a separate access road at the back to minimise disruptions to ongoing operations at the hospital.

As the Group embarks on its expansion plans, it is imperative for the Group to continue to not only attract the right talent, but nurture and retain them for the long term. More recently, the Group appointed a Chief People Officer, Ms Serena Yong, to oversee human capital development initiatives. The Group's employees are provided learning and development opportunities, and are given the appropriate training to handle their daily tasks. Further, the Group supports continuous professional development of its specialist consultants through the organization of industry-wide medical conferences, talks and workshops. The Group also supports the continuous development of its nurses and allied health professionals through talks and workshops as well as active participation in post-basic training programmes.

e) Can the company also provide some visibility on the Bed Occupancy Rate of the two hospitals?

In reference to the Group's 4Q17 Results Presentation uploaded onto SGXNet on 24 August 2017, midnight bed occupancy at the Group's two hospitals for FY2017 were as follows:

- Mahkota: 61.8%
- Regency: 63.8%

- Financials:

f) In Note 28 (page 96 – Credit risk), the group made allowance for trade receivables of RM2.8 million in 2017. The total allowance for impairment is RM12.6 million. Can management breakdown the amount of impaired trade receivables attributable to corporate clients and individual customers?

For trade and other receivables, the Group adopts the policy of dealing with customers and counterparties of appropriate credit history to mitigate credit risk. The proportion of impaired trade receivables attributable to corporate clients and individual customers is approximately 75%-25%.

Q3. As disclosed in the Code of Corporate Governance Report (page 28), as at 30 June 2017, two of the three Non-Executive Directors have served on the Board for more than nine years.

Professor Tan Chin Tiong and Dr Cheah Way Mun were both appointed to the board on 8 September 1999. As at 30 June 2017, each of Professor Tan and Dr Cheah has served for more than 17 years 9 months.

The Nominating committee (NC) comprises Professor Tan Chin Tiong (as Chairman), Professor Annie Koh and Dr Cheah Way Mun.

The NC and the Board, after subjecting the independence of Professor Tan Chin Tiong and Dr Cheah Way Mun to a particularly rigorous review, consider both Professor Tan and Dr Cheah to be independent.

Notwithstanding that the board considers both long-tenured directors as independent directors, Guideline 2.4 of the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore requires the board to "also take into account the need for progressive refreshing of the Board".

a) After the appointment of Professor Annie Koh on 1 March 2016, does the company have further plans for the progressive refreshing of the board, as required by Guideline 2.4 of the Code?

The Board will continue to review its composition annually by the NC to ensure that there is an appropriate mix of expertise and experience to enable the Management to benefit from a diverse perspective of issues.

When searching for new directors, the NC has stated that it will source for potential candidates, usually "through recommendations from Directors and Management of the Company. However, external search from recruiting firms may also be sought if necessary".

b) Under what circumstances would the NC conduct an external search using recruitment firms?

When appointing a new Director, the NC sources for potential candidates through a variety of channels that include recommendations from Directors and Management of the Company. Should the NC still be unable to find a candidate suitable for the role, an external recruitment firm may be considered in order to tap on an extended outreach, expertise in hiring and knowledge of the market.

By Order of the Board

Dr Gan See Khem
Executive Chairman and Managing Director
10 November 2017