

SINGAPORE PAINCARE HOLDINGS LIMITED

Company Registration No.: 201843233N
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

Unless otherwise defined, all capitalised terms herein shall have the same meanings as ascribed to them in the Company's Annual Report 2024 released on 10 October 2024.

Q1. Revenue for the financial year increased from \$22.1 million to \$26.9 million, led by an increase in revenue from GP clinics, specialist clinics and the newly acquired and newly incorporated clinics. Recent additions to the network are two general practitioner ("GP") clinics – Boon Lay Clinic and Surgery ("BLC") and DR+ Medical and Paincare Alexandra ("Alexandra Clinic").

As at 30 June 2024, the group's network has a total of 11 GP clinics, 5 specialist clinics and 3 other facilities providing physiotherapy and traditional Chinese medicine.

(i) **Could management elaborate on the integration process of the newly acquired clinics?**

The Company will first evaluate the existing operations and systems of the acquired clinics, and identify the areas that need adjustments so as to align with the standard operating procedures of the existing clinics which act as model clinics. In the alignment process, clinical and administrative practices, technology systems are standardised. During this period, clear communication with various stakeholders including patients is conducted to ensure that (a) patient care remains uninterrupted, and (b) a sense of inclusion and support during the transition is fostered. To aid the integration process, model clinics will provide the framework to emulate and springboard forward. The Group's management support will provide internal support on matters such as (a) the staffing of manpower, (b) managing drug inventory, (c) the group purchasing of medications, as well as (d) financial support and administrative or logistic support, to ensure operations run with ease, efficiency and cost effectiveness.

Another key aspect of integration is the Dr+ branding of the new clinics. The marketing team will curate for them the basic structure of Singapore Paincare group while giving them certain room for individuality. They will receive all readily available marketing collaterals and communications. The goal is for the new clinics to match the same brand identity as the rest of the Dr+ clinics in terms of overall look and feel.

The new doctors will be integrated into our regular monthly meetings as well as our adhoc informal chat groups. The new doctors will also be trained in our proprietary Paincare Methodology and injection. These new doctors will spend 60 hours learning our Painostic Technique and roadmap of pain treatment. Subsequently, they will be audited bi-annually on their performance and competence of practice. This ensures that a high standard of paincare is adhered to in all existing and new clinics, through the doctor's clinical treatment.

HR support is in place to assist with the hiring and retention of staff as well as training of staff members. Staff training is essential as we aim to deliver consistent high quality patient care through our front line staff members.

In particular, BLC was acquired at a cash consideration of approximately \$1.0 million, of which \$990,000 has been recognised as goodwill.

(ii) **Has the board evaluated the risks associated with the group's acquisition strategy, especially given the high proportion of goodwill in these transactions? How does the board evaluate the acquisition's long-term value creation, and what criteria does the board use to mitigate impairment risks in underperforming clinics?**

The Board is well aware of the high proportion of goodwill that may be attached to any acquisition transaction. In the healthcare industry, acquisitions of clinic businesses are conducted at the typical range of PE ratios of between 5x – 12x. While we are conservative in our acquisition and always aim to conduct acquisitions at the lower end of the valuation, goodwill may still be created. The Board always conducts due diligence and risk assessments, giving consideration to the risk and valuation of the intended acquiree.

Market conditions, competitive landscape and financial health of the target company are constantly being analysed. To assess long-term value creation, the Board often uses performance metrics such as ROI, EBITDA, and other financial metrics. The Board may also establish a timeline for expected synergies and growth to measure success post-acquisition. To mitigate impairment risk, the Board conducts regular performance reviews and financial assessments, setting clear operational benchmarks and key performance indicators (“KPI”). Clinics not meeting KPI will be investigated for reasons for underperformance and remedies will be sought. Impairment assessments are also performed annually to measure potential impairment risk.

The group has also disposed of its 51% interest in GM Medical Paincare Pte. Ltd. and recognised a loss of \$(150,000). On 16 September 2024, the company entered into a sale and purchase agreement with a third party to dispose entire equity interest in AE Medical Fernvale Pte Ltd (“AEF”) for a cash consideration of \$829,000.

(iii) What were the strategic reasons for these disposals? Was the disposal of AEF announced on SGXNet?

If despite the best efforts of the management, the clinics fail to be profitable and further analysis concludes that the clinics will most likely incur more losses in the future, the Company will consider the sale of underperforming clinics.

The disposal of GM Medical Paincare Pte. Ltd. (“**GMMP**”) and AEF are regarded as non-discloseable transactions based on the relative figures under Rule 1006 of the SGX-ST Listing Manual Section B: Rules of Catalist (“**Catalist Rules**”) and hence no announcement was made at the time of the respective disposals.

The disposal of GMMP was set out in the announcement pursuant to Catalist Rule 706A on 29 August 2024. The disposal of AEF has been set out in the Company’s annual report, and will be disclosed in the announcement pursuant to Catalist Rule 706A alongside the full year results announcement for FY2025.

(iv) Is the acquisition-driven growth strategy showing inconsistent results, and how is the board reassessing its approach to ensure more consistent success?

The acquisition-driven growth strategy may sometimes yield inconsistent results due to challenges from integration, market changes, or overvaluation of targets. To ensure a more consistent approach, the Company always engages with various stakeholders to (a) gather insights and foster alignment on goals, (b) continuously analyse market trends, and (c) establish clear performance metrics so as to evaluate the success of acquisitions over time, allowing for more data-driven decision-making.

(v) How does the board evaluate the merits of setting up new clinics versus pursuing inorganic growth through acquisitions? What criteria are used to decide between these two strategies?

In assessing the merits of setting up new clinics versus pursuing inorganic growth through acquisitions, the Board typically considers several key criteria such as market demand at each location, cost analysis and revenue generation, time to acquire a sustainable pool of patient base and operational challenges. While we exercise prudence on inorganic acquisition, we remain opportunistic if the right clinic comes along.

Q2. The group invested in PuXiang Healthcare Holding Limited by subscribing to 2,777,778 new Series A+ preferred shares for a purchase price of RMB40 million (approximately \$7.6 million) through Singapore Paincare Capital Pte Ltd, a 51% owned subsidiary.

(i) Can the board/management shed light on the roles and expected contributions of the other shareholders, i.e. Trident Investment Pte Ltd (44%) (“Trident”) and Glory Partners Capital Pte Ltd (5%) (“GPC”)?

Trident is in the blockchain IT space/industry. They are creating the metaverse for various industries, namely retail, e-commerce and logistics. Trident is in the midst of exploring including healthcare in their metaverse. Once available, this will be offered both in Singapore and in China for the Company. Glory Partners Capital Pte Ltd is a silent partner, and is related to Glory Partners Consultancy Pte. Ltd. by common shareholder and management team.

In addition, Glory Partners Consultancy Pte. Ltd. (“GP”) has been engaged as the investment consultant.

(ii) **Could the board provide insights into the key management personnel of GP, their credentials, and their performance obligations in this consulting role?**

The management team of GP has extensive networks and exposure in the healthcare sector in China over the past 10 years. The curriculum vitae of the management team is available for perusal if needed.

GP has been engaged to provide timely updates of the internal barometer of the progress of PuXiang Healthcare Holding Limited (“PuXiang”).

(iii) **What was the level of due diligence carried out by the board prior to the investment?**

While financial returns were considered, our primary goal in investing in PuXiang was to establish a strategic partnership. The Board has conducted the following due diligence to minimize risks:

1. Legal and Regulatory Compliance

The Board had looked into the legitimacy of PuXiang’s Healthcare Group’s legal and regulatory standing in China, verified that they held all necessary licenses and certifications to operate in the healthcare sector in China and ensured that PuXiang is in compliance with local healthcare laws.

PuXiang does not have any litigation in the past nor upcoming regulatory actions nor compliance violations.

The Board had relied on WongPartnership LLP for legal advice in the lead up to the investment into PuXiang.

2. Financial Due Diligence

The Board had utilised the due diligence report (both legal and finance), shared by another investor.

Grant Thornton conducted the financial due diligence. The Board had looked at PuXiang’s financial health through the report. The Board also reviewed PuXiang’s audited financial statements, balance sheets, profit-and-loss statements, and cash flow reports and looked at their trends in revenue growth, profitability, and debt levels.

3. Operational and Business Model Review

The Board had reviewed PuXiang’s business strategy, evaluated their short-term and long-term business strategies. They had intended to expand locally as well as outside China and thus sought for an overseas partner. This aligned with the Company’s vision for collaboration and expansion.

PuXiang’s market position and competition were assessed. Their competitive advantage of being a Tier 1-2 hospital and healthcare facilities, enabled them to be cost competitive. Further, their strategy of expanding into the private market, yet utilizing Government’s subvention enabled them to be profitable.

They have strong operations and supply chain with their own hospital management software (including medical IT technology). The procurement processes, logistics, medical equipment, and patient care standards were also reviewed.

4. Cultural and Management Review

The Board learned about PuXiang’s leadership team from the CEO’s report. PuXiang was under the stewardship of Mr. Xu Hua Siang. Through multiple encounters with him, the CEO assessed the background and track record of PuXiang’s leadership team, ensuring that there was strong, experienced leadership in place. Similarly, PuXiang’s corporate culture was evaluated and the Board had determined that PuXiang’s culture, values, and governance structures are aligned with the Company’s values.

5. Risk Management

The Board had looked into the political and economic risks, assessed the broader political and economic landscape, including potential risks related to foreign investment regulations, trade policies, and economic volatility in China. The Board felt that the general trend would still be positive despite short term instability as China comes out of the Covid-19 pandemic.

The group recognised a fair value gain of \$1.35 million, with the group's share of results from the fair value gain being \$690,000.

(iv) **Who was the independent valuation firm that performed the valuation?**

RSM SG Corporate Advisory Pte Ltd was the independent valuation firm that performed the valuation.

(v) **Could management provide an update on PuXiang's progress toward an initial public offering (IPO)? Which exchange is being considered, and what are the anticipated timelines for this listing??**

Hong Kong stock exchange is being considered. The Company expects the IPO to occur before 31 December 2025.

(vi) **With regard to the associate, Beijing Puxin Hospital Management Limited ("BPHM"), can the board elaborate on the group's expected contributions beyond capital? Specifically, will there be any involvement in medical expertise, headcount, or manpower contributions from the group?**

We are providing the technical know-how in the development of paincare treatment at BPHM. We will be using local doctors and local staff to spearhead this initiative, bearing our IP Painostic Methodology and our high standards of treatment modalities. The initial training of the Chinese doctors will be done online with 30 hours of training, followed by 30 hours of practical training with hands-on practice to be conducted in both Singapore and in China. Our chief education trainer will provide the training, supported by the team manning our Paincare Academy.

(vii) **How does Shanghai Gong Pu Sheng Jia Medical Management Center align with the group's broader long-term strategy?**

Outside the PuXiang hospital milieu, we have collaborated with parties in Shanghai Gong Pu Sheng Jia Medical Management Center ("**SHGP**") to start our standalone outpatient medical center. PuXiang has preliminarily indicated its intention to acquire it once it grows to a certain size as the business is synergistic with PuXiang.

Separately, the Company wishes to ultimately establish multiple medical centers within China, with one (1) center in each province. SHGP serves as our first stepping stone for proof of concept.

Q3. On 17 January 2024, the company announced that it received a letter of demand from Medbridge Marketing Pte Ltd in relation to the tenancy agreement for the premises at #07- 33 Mount Elizabeth Novena Specialist Centre.

Details of the letter of demand could be read from the company's announcement: https://links.sgx.com/FileOpen/SPCH-Receipt_of_LOD.ashx?App=Announcement&FileID=783158.

It was noted that Medbridge is 100% owned by Dr Lee Mun Kam Bernard, then-executive director and chief executive officer of the company. As at the date of this announcement, Dr Lee had a direct interest of 28.48% in the company. Further updates were provided by the company:

Further updates were provided by the company:

- 27 January 2024: https://links.sgx.com/FileOpen/SPCH-UPDATE_ON_RECEIPT_OF_LETTER_OF_DEMAND.ashx?App=Announcement&FileID=784063
- 14 February 2024: https://links.sgx.com/FileOpen/SPCH-LOD_Update.ashx?App=Announcement&FileID=786752

The parties entered into a tenancy agreement on 14 February 2024 for a period of eighteen (18) months from 1 August 2023 to 31 January 2025 at monthly rental of S\$21,200 per month, with an option to renew for a further term of one year from the date of expiry of the Tenancy Agreement.

- (i) **What was the amount of legal and professional fees incurred by the group as a result of the letter of demand from Medbridge?**

The amount of legal and professional fees incurred by the Group, which includes legal and valuation fees, is \$7,817.40.

- (ii) **What would be the monthly rental rate if the option to renew for a further term of one year was exercised?**

If the option is exercised, monthly rental rate will be charged at prevailing market rate. Presently, the monthly rental rate is \$21,200.

- (iii) **Has the board, especially the independent directors, directed management to carry out a cost-benefit analysis of alternative locations for the clinic to support its operations more effectively? What are the potential savings or operational benefits of relocating the clinic?**

The Board had conducted a cost-benefit analysis between staying at the current premises or relocating the clinic, before deciding to stay at Mount Elizabeth Novena Medical Center.

The potential costs involved in relocating the clinic includes:

1. Three (3) months of lost revenue due to relocation;
2. Renovation cost of new premises; and
3. Restoration cost of old premises;

The potential savings involved in relocating the clinic includes:

1. Lower rental at alternative premises

After analysis, the potential costs involved in moving to alternative premises far outweighed the potential savings from relocation to alternative premises.

Hence, the decision was made to stay at Mount Elizabeth Novena Medical Center.

On 18 September 2024, the company announced that Dr Lee Mun Kam, Bernard was re-designated as the executive chairman with effect from 18 September 2024. Dr Lee will remain as chief executive officer of the company.

In addition, the company has also announced several changes to the board and senior management team.

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10 Oct 2024 07:47 AM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Cessation:RETIREMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR	Announcement of Cessation
21 Aug 2024 06:23 PM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Appointment:Appointment of Financial Controller of the Company	Announcement of Appointment
20 Jun 2024 11:55 PM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Cessation:CESSATION OF FINANCIAL CONTROLLER	Announcement of Cessation
19 Apr 2024 05:23 PM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Appointment:Appointment of Financial Controller of the Company	Announcement of Appointment
11 Apr 2024 06:09 PM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Appointment:Appointment of Independent Non-Executive Director	Announcement of Appointment
29 Jan 2024 07:44 AM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Cessation:CESSATION OF INDEPENDENT NON-EXECUTIVE DIRECTOR	Announcement of Cessation
18 Jan 2024 09:28 PM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Cessation:CESSATION OF FINANCIAL CONTROLLER	Announcement of Cessation
30 Jun 2023 05:42 PM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Appointment:Appointment of Financial Controller of the Company	Announcement of Appointment
03 Apr 2023 07:37 PM	SINGAPORE PAINCARE HOLDINGS LIMITED	SINGAPORE PAINCARE HOLDINGS LIMITED	Change - Announcement of Cessation:CESSATION OF CHIEF FINANCIAL OFFICER	Announcement of Cessation

(Source: <https://www.sgx.com/securities/company-announcements?value=SINGAPORE%20PAINCARE%20HOLDINGS%20LIMITED&type=company&pagesize=20&ANNC=ANNC03%2CANNC04>)

- (iv) **Can the nominating committee (NC) elaborate on the criteria used to re-designate Dr Lee Mun Kam Bernard as executive chairman? What factors led to the decision to consolidate both the chairman and CEO roles under one individual?**

The decision to re-designate Dr Lee Mun Kam Bernard (“**Dr Bernard Lee**”) as executive chairman stems from the Company’s initiative into AI-powered digital transformation, which the Company has identified as one of the essential future engines of growth.

The re-designation and consolidation of the chairman and CEO roles under Dr Bernard Lee will (a) refresh the Board and facilitate the essential moves, which are strategic and yet could be very taxingly operational in nature, and (b) bring in talents of the required skill sets in Technology and AI. As the executive chairman, Dr Bernard Lee will be in a position to convene/update the Board in a very timely manner necessarily and make timely essential executions on the ground.

Principle 3 of the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore states the following:

There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

Provision 3.1 further states that the chairman and the CEO are to be separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making.

Strong Governance Structures: While Dr Bernard Lee serves as both CEO and Chairman, the Company has put in place rigorous checks and balances. The Board is composed of a significant number of independent directors who are empowered to hold both Dr Bernard Lee and the management accountable. This ensures there is no compromise in the Board’s ability to function independently and make sound decisions.

Lead Independent Director: To address the potential concern of power concentration, we have appointed a Lead Independent Director who plays a critical role in ensuring that the Board remains objective and independent. This individual facilitates discussions among independent directors and serves as a counterbalance, especially in situations where there may be conflicts of interest or concerns over governance. The re-designation of Ms Lai from Non-Executive Chairman to that of Lead Independent Director helps to address the above issue highlighted. While Ms Lai will be retiring at the upcoming AGM, the Company is in the process of searching for and appointing new independent director(s). The Company intends to appoint a new Lead Independent Director.

Separation of Responsibilities: Despite holding both roles, there is a clear distinction in the execution of the responsibilities as CEO and that of Chairman. As CEO, Dr Bernard Lee is focused on day-to-day management, strategic execution, and delivering shareholder value. As Chairman, he leads the Board in providing oversight and direction, but ensures that decision-making is consultative, involving all directors. This division in practice mirrors the principles behind the Code.

Enhanced Decision-Making Efficiency: Combining the roles of CEO and Chairman allows for more efficient and aligned decision-making process, particularly in times of rapid change e.g. the Company's deep dive into AI automation of the Group. Having deep operational knowledge as CEO allows Dr Bernard Lee to guide the Board more effectively, ensuring that decisions are informed with a clear understanding of the Company's challenges and opportunities. As Chairman, he ensures that the Board's discussions and decisions are aligned with the operational realities, fostering a stronger and more coherent vision for long-term success. In the current competitive landscape, this alignment helps the Company to be more agile and responsive to external pressures.

Accountability and Transparency: The Company adheres to high standards of transparency and accountability, with regular disclosures, robust risk management, and internal audit processes. These measures ensure that power is not abused and that shareholders and stakeholders have visibility into the Company's operations and decision-making processes.

Contrary to concerns, combining the roles of CEO and chairman does not dilute accountability. On the contrary, it heightens it. As both roles are held by the same individual, Dr Bernard Lee is fully accountable for the Company's performance. There's no room for passing the buck between management and the Board; the responsibility rests with him.

In conclusion, the Company believes that the measures that have been put in place provide sufficient oversight and balance of power, making this arrangement suitable for the current stage of the Company. The Company will continue to review governance practices periodically to ensure they meet evolving standards and serve the best interests of all stakeholders.

(v) **In light of the 2018 Code of Corporate Governance, can the NC clarify how the current board composition ensures clear accountability between the board and management, and that no one individual holds unfettered decision-making power?**

Companies are expected to comply with the Provisions, and variations from Provisions are acceptable to the extent that companies explicitly state and explain how their practices are consistent with the aim and philosophy of the Principle in question. The explanations of variations should be comprehensive and meaningful.

1. Appointment of a Lead Independent Director

Please refer to the response provided to question 3(iv).

2. Role Clarity and Segregation of Responsibilities

Although Dr Bernard Lee holds both positions, the Company is aware that it is crucial to clearly define and separate his responsibilities in each role. The Chairman's role should focus on leading the Board, ensuring sound corporate governance practices, and overseeing the company's long-term strategy, while the CEO's role should involve the day-to-day management of the business. A clear job description for each role is developed to avoid overlap and ensure accountability.

3. Strengthen Board Independence

The nominating committee ("NC") regularly reviews the composition of the Board to ensure a majority of independent directors, as required by the Code. Independent directors are crucial for providing unbiased oversight and ensuring decisions are made in the best interests of all stakeholders. Their presence acts as a counterbalance to prevent excessive concentration of power in one individual, especially when the CEO and Chairman roles are combined.

The Company is in the process of searching for and appointing new independent director(s) to ensure that key Board committees, such as the Audit, Risk, and Remuneration Committees, are led and largely comprised of independent directors to maintain objectivity in key corporate decisions.

4. Board Evaluation and Review of Independence

The NC ensures that there is a formal process for evaluating Board performance, including the independence and effectiveness of the Chairman, CEO, and the Board as a whole. This evaluation will be done periodically and externally, where appropriate.

The NC will specifically review potential conflicts of interest that may arise from Dr Bernard Lee's dual role and make recommendations to the Board to mitigate them.

5. Board Succession Planning

The NC will maintain a robust succession plan for the CEO, Chairman, and Board members, ensuring that leadership transitions do not lead to instability or concentrated power. A clear succession plan demonstrates that the Board remains accountable for long-term leadership.

6. Regular Communication and Disclosure

The NC will ensure transparent communication between the Board and management, and with shareholders. This includes regular disclosures on Board composition, decision-making processes, and the steps taken to mitigate risks of over-centralized authority. Transparency enhances the credibility of the Board and management.

By implementing these practices, the Board maintains clear accountability between the Board and management, thus ensuring proper checks and balances, and mitigating the risk of concentrated power in a single individual. These measures will help the Company comply with Principle 3 of the 2018 Code of Corporate Governance and demonstrate commitment to good governance practices.

(vi) **What were the challenges, if any, in the board adhering to Provision 3.1?**

Please refer to the response provided to question 3(iv).

(vii) **Given the deviation from Provision 3.1, what specific assurances can the board provide to shareholders that the arrangement does not impair board independence, accountability, and governance?**

When Dr. Bernard Lee was appointed as Chairman, Ms Lai was appointed as lead independent director to provide a balance on the Board. As she will be retiring at the upcoming AGM, the Company is in the process of searching for and appointing new independent director(s) and intends to appoint a new lead independent director.

Please refer to the above answer to Question 3(v) for further details.

BY ORDER OF THE BOARD

Singapore Paincare Holdings Limited

Dr. Lee Mun Kam Bernard
Executive Chairman and Chief Executive Officer

24 October 2024

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, #04-02, Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.