HC SURGICAL SPECIALISTS LIMITED
(the "**Company**")
(Company Registration No.: 201533429G)
(Incorporated in the Republic of Singapore)

APPENDIX A

SUBSTANTIVE QUESTIONS RAISED AND ANSWERED AT THE COMPANY'S ANNUAL GENERAL MEETING HELD ON 26 SEPTEMBER 2024 (the "AGM")

The following questions were raised by Members and answered by the CEO of the Company at the AGM.

Q1	What was the real performance of the Company for financial year 2024 ("**FY2024**") as we observed there was growth but was unable to ascertain if the growth was real business growth?

A1 The main modus operandi of the business of the Group involves a niche market for performing endoscopies at the Company's own centres. There are a lot of advantages and benefits for having our own centres, as they not only enable the Company to earn facility fees from patients, but they also attract patients from nearby areas to the doctors or to the centres.

On the other hand, the downsides of operating our own centres include high setup and high operating costs, and stringent government regulations, such as licensing requirements from the Ministry of Health. The barriers of entry are high, making it difficult for competitors to do likewise.

To increase the efficiency and lower the operating costs, the Company has implemented a staff rotation system, whereby nurses are required to travel between centres to provide support as and when needed for better utilisation of manpower. Additionally, purchases of medical instruments are done in bulk to achieve economies of scale to further reduce costs.

Setting up an endoscopy centre is a complex process, involving not only renovation, but also recruiting suitable nurses, training new staff, applying for necessary licenses, and medisave application etc. Therefore, it takes time for the centre to reach the break-even point and eventually generate profits.

At present, the Company has 6 colorectal doctors, including Dr. Julian Ong, who will resume his doctoring on 2 December 2024. Dr. Julian Ong's suspension since 2 December 2022 had impacted the Group's revenue and operating income.

The company he managed, Julian Ong Endoscopy & Surgery Pte. Ltd. ("**JOES**"), had contributed revenue of S$2.67 million in FY2018 and S$2.76 million in FY2019, representing 16.6% and 15.1% of the Group's revenue for the respective financial year. The non-contribution from JOES was more than offset by the growth of existing and previously acquired subsidiaries, with the Group's revenue being higher than FY2018 and FY2019. Dr. Julian Ong's suspension will be ending on 1 December 2024, and he will be able to contribute to the Group's revenue thereafter.

Q2.	With things slowly back to normalcy after Covid-19 in medical healthcare industry, and the non-exclusivity of AIA, what is next for the Group?

A2 The non-exclusivity with AIA will not impact the overall performance given that the Group is already in the panel of many other insurance companies. Payments with insurance companies are generally easier compared to payments from private customers.

Q3	a. What are management's investment criteria and consideration when investing in specialist doctors and making decision in other investment? b. What is management's target rate of return for investment? c. What is the Company's performance outlook for the following 2 to 3 years? d. What is management's assessment criteria between declaration of dividend and re-investment of profit?

A3 <u>Investments of the Group</u>

When investing in specialist doctor, the Group does take various factors into consideration such as including a growth plan and profit-sharing components in the doctor's service contract to entice and motivate better performance of the doctor.

From management's perspective, some investment needs time to mature in order to reap the full return for the long-term interest and benefit of the shareholders in the form of dividend to shareholders eventually.

The Company has invested approximately S$4.8 million in Medinex Limited ("**Medinex**"). Medinex is a medical support services provider, specialising in providing professional support services to medical clinics. The Board views the investment in Medinex as a way of managing business risk, as it has been giving a stable stream of dividends, averaging approximately S$505,000 per annum. Furthermore, the risk profile is similar to that of the Group's and the Company is of the view that Medinex is recession proof. Since Medinex's initial public offering in December 2018, the Company has recorded a total dividend income of S$2.5 million.

The Board and management are satisfied with the stable dividend yield of Medinex. The current view of the Board is to keep this investment for its consistent dividend income.

The Company has also acquired an orthopaedic doctor and added two more orthopaedic doctors. By sharing the existing facilities and leveraging on the Company's endoscopy centres, costs for the newly acquired orthopaedic doctors will be minimised, and their brand visibility will improve.

<u>Outlook of the Group</u>

The CEO also shared that staff costs have increased significantly due to higher remuneration packages offered by government hospitals, which necessitated the Company to also raise the salaries for nurses to retain manpower. Additionally, doctors' salaries have also risen in line with the increased revenue from the clinics.

The Company's free cash flow rose to approximately S$10.2 million in the financial year 2021, due to rental rebates, government grants and reliefs received during the Covid-19 period, and increase in revenue. That had resulted in an increased dividend yield of 8.3%. Revenue during the Covid-19 period rose due to the issuance of AIA vouchers and travel restrictions that kept patients in Singapore.

The free cash flow gradually declined to S$6.2 million in FY2024 as the government support for covid was a one-off benefit. The dividend yield returned to 5.0% which was close to the average level of 5.2% over the last 8 years. Operating costs have also risen due to inflation, which led the Company to raise service fees.

On the subject of cash versus debt, the Company has only one temporary bridging loan at a principal amount of S$5 million. The loan was obtained in 2020 at an interest rate of 2% and will be fully repaid by mid-2025. With lower loan commitments, the Company is able to cut down on interest payments.

The CEO also provided Members on the performance of the Company's investments on the following private entities:

a. S$800,000 investment in Nuffield Dental Holdings Pte Ltd which was divested in FY2024 for S$1.3 million.

b. S$200,000 investment in Healthcare Essentials Pte Ltd, which was generating $36,000 and $88,000 dividends for the financial years 2023 and 2024 respectively.

Q4	What is the Company's future dividend policy?
A4	The Company's dividend policy was to declare no less than 70% of operating profit after tax as dividend during the first 3 years. The dividend payout in recent years was reduced as a result of the acquisitions and investments the Company had entered into for long-term business growth.
Q5.	Can management share some information on Anchorvale Endoscopy Centre?
A5	Anchorvale Endoscopy centre was set up with Island Family Clinic but the centre was closed as the Group restrategised its operations. The Company determined that this centre was not conducive to further growth compared to other centres and hence decided to focus on its newly opened Siglap centre instead.