AOXIN Q & M DENTAL GROUP LIMITED
(Company Registration Number: 201110784M)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION SINGAPORE ("SIAS")

Aoxin Q & M Dental Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") has received the following questions from SIAS in relation to the Annual Report for the financial year ended 31 December 2021 ("**FY2021**") and wishes to respond as follows.

We also wish to inform that the Company did not receive any questions from the shareholders in relation to the resolutions put forth for voting at the Company's upcoming Annual General Meeting scheduled to be held on 28 April 2022 at 2:30 pm by electronic means.

Q1. The company acquired a 49% stake in Acumen Diagnostics Pte. Ltd., a medical technology company that focuses on the research, manufacture, sale and distribution of polymerase chain reaction ("**PCR**") diagnostic test kits, as well as conducting of laboratory testing, including but not limited to infectious diseases, cancer and COVID-19.

Acumen is also slated to launch a panel of new PCR tests for infectious diseases, sepsis and cancer, as it seeks to broaden its range of medical testing solutions in addition to Covid-19 related viruses. Acumen's capabilities in biomarkers and companion diagnostics are also capable of helping pharmaceutical companies in their drug development for precision medicine.

The investment in Acumen is recognised as an associate and it is considered a material associate.

(i) Has Acumen's performance met the board/management's expectations since its acquisition?

(ii) Given that Acumen is a 49% held associate, what roles does management of the company play in Acumen?

(iii) Is there any synergy between Acumen and the group which has its core focus on dental services and supplies? What are the level of influence and the group's ability to value-add to Acumen?

(iv) What is the progress of the purchase price allocation exercise?

(v) Acumen appointed UOB Kay Hian Private Limited to assist it with the listing evaluation and preparatory work in relation to the proposed listing on the NASDAQ stock exchange. What is the progress made?

Company's response

(i) As stated in the Company's Circular dated 14 October 2021, the rationale for the acquisition of a 49% stake in Acumen Diagnostics Pte. Ltd. ("**Acumen**") was to improve the profitability of Aoxin Q & M Dental Group Limited ("**Aoxin**") through sharing of profits from the Proposed Joint Venture with Q & M Dental Group (Singapore) Limited ("**Q&M**"), and to improve the cashflow position of the Group as and when Acumen declares dividends. For FY2021, Acumen's share of associate earnings was RMB1.273 million to the Group, commencing from the date of acquisition on 1 November 2021. Without the contribution of earnings from Acumen, loss net of tax incurred by the Group in FY2021 would have been higher at RMB8.599 million instead of RMB7.326 million. In addition, Acumen declared a dividend of RMB47.991 million (or equivalent to S$10.000 million) in FY2021, of which RMB23.516 million (or equivalent to S$4.900 million) in cash dividends was received by the Group in January and March 2022, which helped to improve the cashflow position of the Group during this difficult period. Notwithstanding the positive contributions from Acumen so far, the recent relaxation of Covid-19 restrictions where the need for PCR tests for travel to certain countries are no longer mandatory, have led to a slowdown in demand for PCR tests in Singapore. In response, Acumen has been actively launching new PCR tests for infectious diseases, sepsis and cancer, in addition to exploring the possibility of making its PCR tests available in the People's Republic of China ("**China**") through the Group's dental hospitals in Northern China.

(ii) Dr Ong Siew Hwa ("**Dr Ong**"), an Executive Director of Aoxin, is the Chief Executive Officer of Acumen. There is another Director, who also represents Aoxin on Acumen's Board. Both are involved in, but not limited to formulating Acumen's strategy and direction to maximise Acumen's profit.

(iii) Aoxin's strength is in dental business located in Northern China, while Acumen's strength is in medical laboratory and PCR test kits in Singapore. Despite focusing on different services and being in two different locations, the management of both Aoxin and Acumen are able to share their management expertise in developing and managing the companies with a view to realise commercial, operational and cost synergies. Management is studying the feasibility to introduce the PCR test in Northern China by using the existing facilities in Northern China.

(iv) The valuer is in the midst of finalising the purchase price allocation exercise.

(v) Acumen is still in the preparatory and evaluation stage and will make necessary announcement in due course as and when there are material developments.

Q2. For the year in review, the group's revenue increased by RMB27.6 million or 20.8%, from RMB132.6 million in FY2020 to RMB160.2 million in FY2021, due to the recovery in all 3 of its business segments – Primary Healthcare, Distribution of Dental Equipment and Supplies and Laboratory Services. Net loss after tax was RMB (7.3) million, an improvement from the net loss of RMB (12.1) million from a year ago.

In particular, cost of sales (increased by 22.5%), employee benefits expenses (increased by 28.5%) and other expenses (increased by 43.4%) outpaced the 20.8% increase in revenue.

- Employee benefits expense increased by 28.5% to RMB70.1 million in FY2021, mainly due to the waiver of social insurance contributions (approximately RMB6.3 million) granted by the Chinese government in FY2020, which ended in January 2021. The increase in employee benefits expenses was also due to staff salaries increment and recruitment during the year. As a percentage of revenue, overall employee benefits expenses in FY2021 increased to 43.7% from 41.1% in FY2020.

- Other expenses increased by 43.4% to RMB19.8 million in FY2021, mainly due to (a) increase in professional fee of RMB1.9 million mainly due to service fee paid to outsourced professional dentists; (b) acquisition-related expenses of RMB1.3 million; and increase in other tax expenses of RMB1.1 million.

Net loss was RMB (7.3) million in FY2021 and accumulated losses, at the group level, have increased from RMB (16.8) million to RMB (24.8) million. Despite the increase in revenue, the group continues to be loss-making.

(i) What are management's plans to turnaround the business? In particular, what are the operational milestones to be achieved to allow the group to breakeven/be profitable?

(ii) How cost-efficient is the group? With the current size, is the group able to benefit from economies of scale?

(iii) Can management help shareholders understand if the polyclinics and hospitals are able to pass on the cost increases to patients?

<u>Company's response</u>

(i) The Group faced serious and unprecedented challenges in FY2021 and FY2020 as the Covid-19 pandemic persisted, which badly affected dental industry. Total number of closure days from all clinics and hospitals were 466 days and 887 days for FY2021 and FY2020 respectively.

The Group expects the business environment to be challenging but remain cautiously optimistic for FY2022 and will continue to review the performance of each dental hospital/polyclinic, and endeavour to turnaround the loss-making dental hospitals/clinics by seeking to achieve higher revenues per doctor and to reduce costs.

(ii) As China's government is implementing a zero-Covid policy, the Group is required to spend more resources to meet and fulfil the regulation and hence more expenses had been incurred for staff cost, protective equipment, mask, etc. However, the Management is constantly on a lookout for opportunities to achieve economies of scale in its operation, where possible.

(iii) The pricing is market driven for dental industry in China, it may not be viable to pass the costs to the patients.

Q3. As shown in Note 6 (page 79 – Other income and gains and (other losses)), the group received profit guarantees from vendors of acquired subsidiaries of RMB1.75 million. In the previous financial year, the group recognised compensation damages, de-recognition of contingent consideration payable and impairment loss from goodwill relating to closure of business operation in Shenyang Aoxin Jinfeng Dental Clinic Co., Ltd.

(i) Can management (re)state its growth strategy in the core business of dental healthcare?

(ii) Has the board reviewed the group's past acquisitions and further finetune its acquisition strategy going forward?

(iii) Can the company also help shareholders why it has the vision to become the leading dental healthcare group in Northern China? Are there opportunities in other parts of China?

Company’s response

(i) In view of the current challenging business environment in China, the Group’s strategy for its primary healthcare segment is to focus on the organic growth of existing dental polyclinics/ dental hospitals.

(ii) The Board regularly reviews the Group’s past acquisition and performance, and further finetune the acquisition strategy where applicable.

(iii) The Group currently operates 10 dental polyclinics and 6 dental hospitals in Liaoning Province and will continue to focus and concentrate on managing the financial resources to grow organically in this region. At this juncture, the Management has no intention to look for opportunities in other parts of China and the Group is also restricted under the non-compete undertaking provided to its controlling shareholder, Q & M, to invest out of Northern China (for details, please refer to the Company’s offer document dated 18 April 2017).

By Order of the Board
Aoxin Q & M Dental Group Limited

Dr. Shao Yongxin
Executive Director and Group Chief Executive Officer
22 April 2022

For more information, please contact:
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*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

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