

MEDINEX LIMITED

Incorporated in the Republic of Singapore
Registration No. 200900689W

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON ANNUAL REPORT 2022

Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the annual report issued to shareholders on 5 July 2022 (the "Annual Report").

The Board of Directors (the "**Board**") of Medinex Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") relating to the Company's Annual Report for the financial period between 1 April 2021 to 31 March 2022 and appends the replies as follows:

Question 1 from SIAS:

For the financial year ended 31 March 2022, the group had focused on "expanding the revenue streams from diverse and non-traditional sources" and increased revenue by \$1.21 million (or 11%) to \$11.99 million.

As noted in the chairman & CEO message, the group's strategic initiatives are (page 3):

- Expansion of core business services
- Digitalization of business processes
- Strategic acquisition

To pursue "long term and sustainable growth", the group will continue to explore opportunities for expansion through acquisitions and strategic alliances apart from the organic growth in the existing business.

Profit for the year decreased from \$3.55 million in FY2021 to \$2.90 million in FY2022. In particular, the group recognised impairment loss on goodwill of \$(339,000) and impairment loss on joint ventures of \$(90,894). As at 31 March 2022, the group's goodwill amounted to \$6.5 million, following the impairment loss of goodwill of \$(339,000) attributed to Sen Med Holdings Pte. Ltd. and its subsidiaries ("**SMH**").

When the Sen Med Group was acquired in January 2019, the net profit before tax of the Sen Med Group was \$618,073 for the twelve months ended 31 December 2018 and the net tangible asset and net asset value of SMH as at 31 December 2018 was \$189,409. The purchase consideration was \$1.733 million for a 55% interest in SMH. A goodwill of \$1.27 million was attributed to SMH.

In addition, on 1 April 2022, the group completed the acquisition of Carlin Management Services Pte. Ltd for \$3.0 million when the net tangible asset value and net asset value of the target was just \$97,181 (See question 2).

- (i) As the group executes on its growth-by-acquisition strategy, what guidance has the board given to management to ensure that the company does not overpay for its acquisitions and diligently structures its deals to share the risks and rewards with the vendors in a fair manner?
- (ii) With regard to the impairment loss on goodwill, what had contributed to these impairments and what were the challenges faced by SMH?

It was also mentioned in the chairman & CEO message that the group expects more new clinics to be set up as borders are re-opened (page 3).

- (iii) Can management elaborate further and clarify on the key drivers of the group's businesses? In particular, how dependent, directly or indirectly, is the group on medical tourism?

In Note 6 (page 61; Intangible assets), the revenue growth rates and pre-tax discount rates used to determine the recoverable amount of the CGU based on value-in-use calculations are shown (reproduced below):

	Revenue growth rates			Pre-tax discount rates		
	2022	2021	2020	2022	2021	2020
Nex	-1% to 1%	1% to 12%	-33% to 3%	14%	14%	14%
Acctax	2% to 4%	0% to 8%	-10% to 5%	12%	12%	11%
MPS and Jo-	2%	0% to 2%	-32% to 1%	16%	17%	15%
SMH	3% to 20%	1% to 99%	-66% to 157%	15%	17%	15%
ALL	-23% to 31%	0% to 82%	-20% to 9%	16%	17%	11%
SKI Group	2%	2%	-30% to 2%	15%	17%	11%

(Compiled from company annual reports)

The revenue growth rate of SMH was as high as 157% in 2020, before being adjusted down to as high as 99% in 2021 and then to just 3%-20% in 2022. The SKI Group is projected to have revenue growth rates of 2% while management has projected growth rates of between -23% to 31% for ALL.

- (iv) Will the board be carrying out a review to see if the acquisitions have met management's targets/projections used in the board's approval process and thus create long term shareholder value?
- (v) Separately, can the board/management elaborate further on the strategic value of the group's investment in Nuffield Dental Holdings Private Limited ("NDH")? What was the commercial rationale to acquire additional 851 shares of NDH for a consideration of \$200,000 in February 2022? For reference, the group received 4,826 ordinary shares in NDH in satisfaction of the receivables amounting to \$603,895 in October 2021. Did the company announce this additional investment made in February 2022 on SGXNet?

In Note 34 (page 80; Segment information: Business segment), it can be seen that FY2022 revenue from pharmaceutical services was \$3.41 million (FY2021: \$3.19 million) while the segment profit was \$42,686 (FY2021: loss of \$146,366).

- (vi) Can management also help shareholders better understand the group's competitive advantage in the pharmaceutical services segment? What is management's strategy to improve its profit margin in this segment?

Company's responses: -

- (i) The acquisitions and investments made by the Company are in line with its investment policies and guidelines. Due diligence is to be carried out to ascertain the returns and ensure prudence of the acquisitions and investments. Financials are analyzed and all relevant documentation are presented in the Board's paper for the Board's evaluation and approval. The Board provides insight for all the acquisitions and investments which are discussed with rigor before the Company decide to proceed with the proposed acquisition plan.
- (ii) The impairment loss on goodwill was incurred as the carrying amounts of the cash generating unit is higher than the value in use. The value in use was determined based on its cash flow projections covering a five-year period and projection to a terminal year. As the Covid-19 pandemic has caused a decrease in demand of health screening services and general medical services attributed by border controls which restricted the entry of new foreign workers and waiver of requirement for foreign workers to undertake an annual health screening check, it may take a few years for SMH to recover

its revenue to the pre-Covid 19 level. SMH is also facing challenges to maintain its profitability as the cost of the pharmaceutical products has increased substantially due to the disruption of the supply chain and inflation as well as the shortage of manpower due to border control.

- (iii) The key drivers for the Group's businesses are in the provision of medical and business support services and the Group is not dependent on medical tourism. However, with the borders reopening, there will be returning patients to tap on the local healthcare services. This is likely to encourage more new clinics to be established which provides Medinex the opportunities to extend our clinic set-up, pharmaceutical support, and x-ray services. The business support services such as accounting, tax advisory, marketing, and human resource are expected to increase accordingly with the new clinic set-ups.
- (iv) The Board meets half yearly formally to review the progress of each acquisition to ensure measures are put in place to meet the management's targets/projections. The board also convenes informally on an hoc basis to address pressing issues to ensure timely resolution to safeguard shareholder value.
- (v) The Company believes that NDH has the potential to grow. In February 2019, Nuffield was ranked by the Straits Times as Singapore's second fastest growing company, with compound annual growth rate of 186.8% between 2014 and 2017. It has since grown from a chain of nine (9) dental clinics in year 2019 to currently twelve (12) dental clinics. The revenue for Nuffield has subsequently increased by approximately 70% from 2019 to 2021. The rationale to acquire additional 851 share of NDH for a consideration of \$200,000 in February 2022 is to support the expansion of NDH which will bring long-term shareholder value for the Company. The additional investment made in February 2022 was not announced as it does not require disclosure under Catalist Rule 905(1), and is also a non-discloseable transaction under Chapter 10 of the Catalist Rules.
- (vi) The Group's competitive advantage in the pharmaceutical services segment rests in our extensive network of suppliers providing medications and consumables for clinics from different disciplines. The preexisting clientele base which subscribes to the medical and/or business support services is an added advantage for us to extend the pharmaceutical services to them. As part of the strategies to improve profit margin, the management is proactively working with industry partners both locally and overseas to source for lower cost pharmaceutical products, while maintaining the quality and effectiveness. We are also streamlining our operations team to handle the large volume of sales and delivery in a more cost-effective manner.

Question 2 from SIAS:

On 25 March 2022, the company announced the proposed acquisition of Carlin Management Services Pte. Ltd. ("CMS") for \$3.0 million. The normalised profit after tax of CMS was approximately \$602,671. Both the net tangible asset value and net asset value of CMS as at 31 December 2021 were \$97,181.

The company stated that the acquisition would allow it to (a) expand its client base to small and medium enterprises in Singapore from self-storage services, machinery rental, food and beverages, and healthcare industries, etc and (b) to increase the revenue of the business support services segment.

The acquisition was completed on 1 April 2022.

- (i) Can management provide a progress update to shareholders on the integration of CMS including completion date?
- (ii) Are there synergies between CMS and the group's other businesses?
- (iii) How was the company introduced to CMS?

In the company's announcement on 25 March 2022, the pro forma financial effects of the Proposed Acquisition were shown as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition and Issuance of Consideration Shares
NTA attributable to equity holders of the Company (S\$)	9,559,396	9,656,577
Number of ordinary shares in issue	131,207,540	133,874,207
NTA per share (Singapore cents)	7.29	7.21

(Source: company announcement dated 25 March 2022)

- (iv) Can the audit committee and/or the independent auditors help shareholders better understand if the NTA attributable to holders should be lowered by \$2.4 million being the cash amount paid to the vendor?
- (v) If so, should the NTA after the acquisition and issuance of consideration shares be lower at approximately 5.42 cents instead of 7.21 cents per share?
- (vi) What was the level of oversight and involvement by the sponsor in the group's acquisition?
- (vii) What is the level of due diligence carried out by the directors, especially the independent directors, in the group's acquisitions?

Company's responses: -

- (i) The management has started the integration process for CMS since the acquisition. We have embarked on the journey to align the work processes for the key services by introducing a new IT system. The key management team from CMS has been assimilated to the Group through regular strategic planning sessions. The completion date for integrating all the key services is 31 Dec 2023.
- (ii) CMS's strength in a selective customer segments helps to reach out to sectors that Medinex otherwise has limited influence at the moment e.g., F&B and logistics. CMS's familiarity in the clinic accounting strengthens the Group's competitive advantage of providing clinic specific corporate services to its new clients. Medinex could also tap on CMS' existing clients to introduce our additional services such as Human Resources and Marketing & Branding which CMS doesn't provide currently.
- (iii) CMS was a long term industry partner whom Ms Jessie Low Mui Choo, the Group's Executive Director and Chief Executive Officer, used to work with during the earlier years of Medinex establishment. CMS used to outsource their corporate secretarial services to Medinex.
- (iv) The pro forma financial effects of the proposed acquisition is for illustrative purposes only as stated in the Company's announcement on 25 March 2022. In the illustration, the issuance of consideration shares will be executed after the profit guarantee is fulfilled over a three-year period. The NTA attributable to holders should not be lowered by \$2.4 million as the Company expects to generate yearly profits to recover the cash amount paid to the vendor. In the long term, the NTA attributable to holders will increase as the acquisition of CMS is expected to generate higher yearly profits for the Company.
- (v) Please refer to above reply in Q2(iv). No changes on the NTA per share is required in the illustration.

- (vi) The involvement of the sponsor in the Group's acquisition was to provide guidance and/or reminders on the appropriate SGX Catalist rules. The Sponsor also provided feedback to the Company's management and board of directors on regulatory expectations in order to ensure that the Company meets its continuing obligations.
- (vii) The directors, including the independent directors, reviewed the due diligence reports as well as the board papers submitted by the Group Financial Controller, in connection with the Group's acquisitions. The directors raised queries and comments which were addressed by the management during the ad hoc or formal board meetings.

Question 3 from SIAS:

As shown in Note 34 (Segment information), the group has four primary business segments, which are medical support services, business support services, pharmaceutical services and medical services. Unallocated expenses include corporate headquarter which are not directly attributable to a particular reportable segment above.

34. Segment information (Continued)						
Business segment (Continued)						
	Medical support services	Business support services	Pharmaceutical services	Medical services	Unallocated expenses	Consolidated
	\$	\$	\$	\$	\$	\$
Year ended 31 March 2022						
Revenue						
External revenue	3,793,766	2,845,353	3,405,033	1,949,159	–	11,993,311
Profit/(loss) from operations						
Share of results from joint venture, net of tax	–	–	36,407	–	(38,806)	(2,399)
Impairment loss on goodwill	(339,000)	–	–	–	–	(339,000)
Impairment loss on joint ventures	–	–	–	–	(90,894)	(90,894)
Interest income	–	–	–	–	20,352	20,352
Inventories and consumables & changes in inventories	12,188	–	2,914,445	499,467	–	3,426,100
Finance costs	48,576	563	16,425	18,152	2,547	86,263
Depreciation and amortisation	176,209	28,943	66,141	253,586	125,310	650,189
Employee benefits expense	1,092,682	721,331	280,879	809,242	1,585,434	4,489,568
Income tax expense	176,665	179,818	–	12,407	1,514	370,404
Reportable segment profit/(loss) before income tax	2,569,400	2,345,255	42,686	303,257	(1,994,281)	3,266,317
Net profit/(loss) for the financial year after income tax	2,392,735	2,165,437	42,686	290,850	(1,995,795)	2,895,913

(Source: company annual report; emphasis added)

Unallocated employee benefits expense amounted to \$1.585 million, or 35.3% of the group's total. Unallocated net loss was \$(2.0) million, which was almost as large as the segment profits in medical support services and business support services segments.

- (i) Can the audit committee (AC) help shareholders better understand the reasons for the large unallocated employee benefits expense?
- (ii) How can the AC or the independent auditor help management to better allocate costs to the operating segments? Doing so will help the group's chief operating decision maker to make

decisions about resources to be allocated to the segment and also for the board to assess the segments' performance.

Company's responses: -

- (i) The large unallocated employee benefits expense is the manpower cost from the corporate headquarter which are not directly attributable to a particular reportable business segment.
- (ii) The AC meets with the management every six months to discuss the Group's financial results and their financial issues prior to recommending the relevant financial results announcement to the Board for release to shareholders. The AC has also met with the external and internal auditors prior to the meeting and after the meeting where amendments need to be made pursuant to discussions during the AC meeting. The AC has evaluated the allocation of the manpower cost from the corporate headquarter to the business segment and noted the allocation is fairly presented.

By Order of the Board

Jessie Low Mui Choo
Executive Director and Chief Executive Officer

26 July 2022

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 Catalyst.

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.

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