

PROPOSED ACQUISITION OF OBSTETRICS AND GYNAECOLOGY CLINICS

1. INTRODUCTION

1.1 The Board of Directors (the “**Board**”) of Singapore Medical Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Company has, on 11 October 2016, entered into a framework agreement (the “**Framework Agreement**”) with each of Dr Chan Weng Buen, Dr Henry Cheng Hung, Dr Tho Chin Keong, Dr Lee Weng Soon James and Dr Fong Yang (collectively, the “**Vendors**”) in relation to the proposed acquisition by the Company, or, a wholly-owned subsidiary of the Company (“**Acquiring Entity**”) of the entire issued and paid up share capital (the “**Sale Shares**”) in the following entities (the “**Proposed Acquisition**”):

- (a) Astra Women’s Specialists (WB) Pte. Ltd.;
- (b) The Women’s Specialist Centre (HC) Pte. Ltd.;
- (c) Fong’s Clinic For Women & Fertility Pte. Ltd.;
- (d) Astra Centre for Women & Fertility Pte. Ltd.;
- (e) The London Clinic & Surgery For Women Pte. Ltd.;
- (f) James Lee Healthcare Pte. Ltd.; and
- (g) Alpha Healthcare International Pte. Ltd.

(each a “**Target Company**” and collectively, the “**Target Companies**”)

The Framework Agreement sets out the key agreed terms in connection with the Proposed Acquisition and is binding upon the parties in accordance with its terms which will be incorporated into the share purchase agreements (“**Share Purchase Agreements**”) without any material deviation therefrom, together with such other terms and conditions as may be agreed between the parties.

Completion of the Proposed Acquisition (“**Completion**”) is expected to take place on 31 January 2017 (or on such other date as the parties may agree in writing) (the “**Completion Date**”). Upon Completion of the Proposed Acquisition, the Target Companies will become wholly-owned subsidiaries of the Company.

2. INFORMATION ON THE VENDORS AND TARGET COMPANIES

2.1 Background of the Vendors and Target Companies

Each of the Vendors are obstetricians and gynaecologists, and are recognised and accredited by the Ministry of Health, Singapore. These Vendors have been responsible for the management, operations and business of the Target Companies since their establishment. Through various entities including the Target Companies, the Vendors have been operating in the medical practice of obstetrics and gynaecology ("**O&G**"). The Target Companies operate a total of 6 O&G clinics in Singapore under the clinic name of Astra Women Specialists. The flagship clinic is at Mount Elizabeth Novena Specialist Centre with other clinics located around the suburbs of Singapore.

As the Vendors currently operate their O&G practices under numerous entities in addition to the Target Companies (together the "**Target Business**"), the Vendors are to undertake an internal restructuring exercise prior to Completion to consolidate their respective obstetrics and gynaecology practices under the Target Companies (the "**Restructuring Exercise**").

Further particulars of the Target Companies are set out in Appendix A of this Announcement.

2.2 Value of the Target Companies

The book value and net tangible asset value of the Target Companies will, following the completion of the Restructuring Exercise, be at least S\$0.70 million. No independent valuation was conducted on the Target Companies.

2.3 Net Profits of the Target Business

Based on the latest completed financial year of the Target Business, the aggregate net profits after taxation of the Target Business was approximately S\$5,993,000. After adjusting for the appropriate doctors' remuneration, fair rental and reasonable administrative costs, the proforma net profits after taxation of the Target Business will be approximately S\$4,615,000.

3. PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENT

3.1 Consideration

- (a) The Consideration for the Proposed Acquisition is an aggregate sum of S\$60 million, which was arrived at on a willing buyer and willing seller basis after arm's length negotiations between the Company and the Vendors, after taking into account, *inter alia*, the prevailing market conditions and the business prospects of the Target Companies and the capabilities and synergies between the Company and the Vendors.
- (b) The Consideration shall be satisfied by the Company as follows:
 - (i) The payment of S\$33 million (Thirty Three Million Singapore Dollars) in accordance with paragraph 3.1(c) below ("**Cash Consideration**"); and

- (ii) the balance by the issue and allotment of approximately 81,110,310 new shares (equivalent to S\$27,000,000 worth of new shares in the Company) at the Issue Price below (fractional shares being disregarded) to the Vendors credited as fully paid-up and ranking *pari passu* in all respects with all the other then existing Company's Shares (the "**Consideration Shares**").
- (c) The Cash Consideration shall be paid as follows:
 - (i) Upon signing of the Framework Agreement, the Company shall pay a sum of S\$100,000 (the "**Deposit**") to the Vendors;
 - (ii) on the Completion Date, the Company shall pay a sum of S\$10.9 million to the Vendors;
 - (iii) on the first anniversary of the Completion Date, the Company shall pay a sum of S\$11 million to the Vendors (the "**Second Tranche Cash Consideration**"); and
 - (iv) on the second anniversary of the Completion Date, the Company shall pay a sum of S\$11 million to the Vendors (the "**Third Tranche Cash Consideration**").

The Cash Consideration is intended to be funded by a combination of the Company's internal resources and fund raising in the capital markets. The Company will update shareholders on any material developments and will make such announcements as and when appropriate.

The Consideration Shares shall be issued at S\$0.33288 per Consideration Share (the "**Issue Price**") (representing a discount of 5% to the volume weighted average price of S\$0.3504 per Share for all trades done on SGX-ST for the full market date before the date of the Framework Agreement).

The Company will be making an application to the SGX-ST via its sponsor as soon as reasonably practicable after the signing of the Share Purchase Agreements for the listing of, and quotation for, the Consideration Shares on Catalist and will make the relevant announcements upon receipt of the listing and quotation notice from the SGX-ST.

3.2 **Security**

As security for the payment of the Second Tranche Cash Consideration and Third Tranche Cash Consideration, the Company shall create, in favour of the Vendors, a fixed charge over all its rights, title and interest in and to, such number of the Sale Shares representing 40% of the share capital of the Target Companies (the "**Charged Shares**"), with effect from Completion ("**Share Charge**").

The Vendors shall release the security in tranches to the Company, such number of shares equivalent to 50% and 100% of the Charged Shares upon payment of the Second Tranche Cash Consideration and Third Tranche Cash Consideration respectively.

3.3 Moratorium

The Consideration Shares shall be subject to a 6 months moratorium period commencing on Completion Date ("**Moratorium Period**").

Following the expiry of the Moratorium Period, the Vendors may offer, pledge, sell, contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, such number of the Consideration Shares:

- (a) not exceeding 50% of the total number of Consideration Shares during the 6-month period commencing on the first day after the expiry of the Moratorium Period ("**Post Moratorium Period**");
- (b) equal to all the Consideration Shares after the expiry of the Post Moratorium Period.

3.4 Profit Guarantee

The Vendors have agreed to enter into a Deed of Profit Guarantee ("**Deed of Profit Guarantee**"), to unconditionally and irrevocably guarantee that the NPAT (as defined herein) for the five-year-period following Completion (the **Profit Guarantee**) shall be as illustrated below.

Therefore, assuming Completion takes place on 31 January 2017, the amounts of the Profit Guarantee amounts for the relevant Profit Target Periods are as follows:

Profit Target Periods		Profit Guarantee
(a)	31 January 2017 to 31 December 2017	S\$4,230,417
(b)	1 January 2018 to 31 December 2018	S\$4,615,000
((a) and (b) shall together constitute " Profit Target Term 1 ")		((a) and (b) shall together constitute " Term 1 Profit Guarantee ")
(c)	1 January 2019 to 31 December 2019	S\$4,615,000
(d)	1 January 2020 to 31 December 2020	S\$4,615,000
(e)	1 January 2021 to 31 December 2021	S\$4,615,000
(f)	1 January 2022 to 30 January 2022	S\$384,583
((c) to (f) shall together constitute " Profit Target Term 2 ")		((c) to (f) shall together constitute " Term 2 Profit Guarantee ")

Profit Target Term 1 and Profit Target Term 2 may be adjusted accordingly depending on the actual Completion Date.

In the event that the Profit Guarantee relating to Profit Target Term 1 of S\$8,845,417 or Profit Target Term 2 of S\$14,229,583 (as the case may be) is not satisfied, the Vendors shall, within 90 days of demand by the Company, pay to the Company in cash (i) the difference between the Term 1 Profit Guarantee of S\$8,845,417 and the aggregate NPAT for Profit Target Term 1; or (ii) the difference between the Term 2 Profit Guarantee of S\$14,229,583 and the aggregate NPAT for Profit Target Term 2 (as the case may be) ("**Shortfall**").

For purposes of the Profit Guarantee, “NPAT” and “NPBT” shall mean the audited consolidated net profits of the Acquiring Entity after and before taxation respectively, as determined in accordance with accounting principles, standards and practices generally accepted in Singapore, prepared on the same basis and accounting principles as that of the accounts of the Company, and for the avoidance of doubt, includes the net profits derived from any O&G specialists who use or occupy the assets and/or business premises of the Target Companies, including any locum medical practitioners which are employed by the Company to work under the Target Companies.

3.5 Consultancy Agreement

Each of the Vendors shall, through one or more nominated corporate entities, enter into a consultancy agreement with the Acquiring Entity or such other entity within the Group as may be directed by the Company, to operate and manage the business as carried on by the Target Companies for an initial term of 6 years from Completion Date which may be renewed if parties agree (“Consultancy Agreement”). Each of the Vendors will also be entitled to performance payments during the Profit Target Periods in the event the actual NPBT exceeds the Profit Guarantee for that relevant Profit Target Period. NPBT is defined in paragraph 3.4 above.

3.6 Post-Completion Undertakings

In the event that on or after the second anniversary of the Completion Date, the aggregate net profits after taxation derived from the Target Companies after Completion contribute at least 25% of the audited net profits after taxation of the Group, the Company shall propose to its nominating committee a representative of the Vendors (which must be any one of the Vendors) to sit on the board of the Company as a director. Subject to the recommendation by the nominating committee of the Company, such representative of the Vendors may be appointed to the board of the Company and enter into a service contract with the Company, if the appointment is an executive position.

3.7 Conditions precedent

The obligation of the parties under the Framework Agreement to complete the Proposed Acquisition are conditional upon, *inter alia*, the following salient conditions being satisfied, fulfilled or waived, as the case may be, before Completion:

Conditions to be satisfied by the Vendors

- (a) the completion of the Restructuring Exercise by the Vendors, and the Vendors having provided evidence in form satisfactory to the Company that the Restructuring Exercise has been completed;
- (b) the results of a due diligence exercise over the Target Companies being satisfactory to the Company in its sole and absolute discretion provided always that if there are any unsatisfactory results from the due diligence exercise, the Company shall submit written notice containing the details of the unsatisfactory results to the Vendors and grant the relevant Vendor a period of at least thirty (30) days prior to Completion to remedy such unsatisfactory results;

- (c) all approvals, waivers or consents as may be required to enable the Company or the Acquiring Entity (as the case may be) to be registered as the holder of any and all of the Sale Shares, and to give effect to the transactions contemplated under the Framework Agreement being obtained and where any waiver, consent or approval is subject to conditions, such conditions being satisfactory to the Company in its sole and absolute discretion and if required to be fulfilled by a particular date, being so fulfilled, and such approvals, waivers or consents remaining valid and in full force and effect;
- (d) the Target Companies not having received notice of any claim, action, injunction, order, directive or notice restraining or prohibiting the entering into or the consummation of the transactions contemplated by the Framework Agreement and/or the Share Purchase Agreements or seeking damages or other recourse in respect thereof, or notice that any of the foregoing is pending or threatened;
- (e) there being no event having occurred which has or could reasonably be expected to have a material adverse effect on the business, operations, assets, financial condition or prospects of the Target Companies;
- (f) the Vendors having delivered to the Company the duly executed Consultancy Agreements and Deed of Profit Guarantee;

Conditions to be satisfied by the Company

- (g) the Company obtaining such approval(s) in connection with the Framework Agreement and the Share Purchase Agreements from the board of directors and/or shareholders of the Company in a general meeting, as may be necessary for the transactions contemplated herein, and such approval not having been withdrawn or revoked as at the Completion Date;
- (h) approval in-principle being obtained from the SGX-ST for the admission to, listing of, dealing and quotation for, the Consideration Shares on the Official List of the SGX-ST Catalist Board and not having been revoked or amended and, where such approval is subject to, to the extent that any conditions for the admission, listing of, dealing and quotation for the Consideration Shares on the Official List of the SGX-ST Catalist are required to be fulfilled on or before Completion Date, they are so fulfilled;
- (i) the Company not having received notice of any claim, action, injunction, order, directive or notice restraining or prohibiting the entering into or the consummation of the transactions contemplated by this Framework Agreement and/or the Share Purchase Agreements or seeking damages or other recourse in respect thereof, or notice that any of the foregoing is pending or threatened;
- (j) the Company and/or Acquiring Entity having delivered to the Vendors the duly executed Share Charge.

Other Conditions

- (k) the allotment, issue and subscription of the Consideration Shares not being prohibited by any statute, order, rule, regulation, directive or request promulgated or issued after the date of the Framework Agreement by any legislative, executive or regulatory body or authority of Singapore or elsewhere, which is applicable to the Target Companies and/or the Company;

If any of the conditions set out above has not been satisfied, (or where capable of waiver, waived by the Company or the Vendors as the case maybe) on or before the Completion Date, the Framework Agreement or the Share Purchase Agreements shall automatically terminate with immediate effect.

4. RATIONALE FOR PROPOSED ACQUISITION

The Board believes that the Proposed Acquisition is in the best interests of the Company as:

- (a) the Vendors are a group of reputable senior obstetricians and gynaecologists, and upon the entry into of the Consultancy Agreements, with the 6 year tenure of service, they are committed to work with the Group, to (i) achieve further growth, and (ii) identify and mentor young and talented specialists in the Group's O&G practice;
- (b) the Target Companies will provide the Group with a diversified and recurrent stream of revenue, and strengthen the future financial performance of the Group; and
- (c) the Vendors will complement the Group's existing O&G specialists, in that the Proposed Acquisition will (i) allow the Group to expand its offerings into areas such as general O&G, Fetal-Maternal medicine, Urogynaecology and In-Vitro Fertilization, and (ii) provide the Group with scale to accelerate the expansion and growth of its O&G services, a unique market segment in women's health and wellness.

5. THE BOARD'S VIEW ON THE PROFIT GUARANTEE

5.1 The Opinion of the Board

The Board is of the view that the Profit Guarantee from the Vendors is in the interests of the Company and its shareholders, taking into account the following factors:

- (a) the Target Companies comprise a multidisciplinary centre offering a comprehensive range of specialist obstetrics and gynaecological and fertility services to meet the needs of patients both locally and regionally;
- (b) the flagship clinic of the Target Companies is located in a prime location (Mount Elizabeth Novena Specialist Centre) with branches conveniently located in the suburbs;

- (c) the Vendors have a wealth of experience and are reputable as senior obstetricians and gynaecologists who sub-specialize in Fetal-Maternal medicine, Reproductive & Infertility Medicine (including In-Vitro Fertilization), Pelvic Floor Medicine and Urogynaecology. They are also panel doctors for various insurance companies and accredited with admissions rights to the leading hospitals such as Mount Elizabeth Novena Hospital, Mount Elizabeth Orchard Hospital, Gleneagles Hospital, Mount Alvernia Hospital and Thomson Medical Centre; and
- (d) the Vendors have a proven track record; under their leadership, the Target Business has developed a large and established patient base, and delivered consistently excellent results and growth in the last 3 financial years.

5.2 Commercial Bases and Principal Assumptions upon which the Quantum of the Profit Guarantee is based

The quantum of the Profit Targets were derived after reviewing the track record and the unaudited financial statements of the Target Business for the last completed financial year.

5.3 Manner and amount of Compensation to be paid by the Vendors

In the event that any of the Profit Guarantees is not met, the Vendors shall, within 90 days of demand by the Company, make good the Shortfall by paying to the Company cash.

5.4 Safeguards put in place to ensure the Company's right of recourse

The Company is currently contemplating several forms of safeguards to ensure the Company's right of recourse, which include but are not limited to; (i) setting aside a secured sum from the Vendors portion of the Cash Consideration into a bank account nominated, managed and controlled by the Company after completion; or (ii) the Vendors issuing a personal guarantee in favour of the Company which can be called upon if the Vendors fail to make payment of the Shortfall within the stipulated time period.

Subject to the Company and Vendors' mutual agreement, the final decision will be made upon entry into of the Share Purchase Agreements.

6. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

6.1 General

The proforma financial effects of the Proposed Acquisition on the net tangible assets ("NTA") per share and the earnings per share ("EPS") of the Group are set out below. The proforma financial effects have been prepared based on the audited consolidated financial results of the Group for the financial year ended 31 December 2015. The proforma financial effects are purely for illustration purposes only and are therefore not necessarily indicative of the actual financial position of the Group after Completion.

6.2 NTA

For illustrative purposes only, the proforma financial effects of the Proposed Acquisition on the Group's NTA per share, assuming that the Proposed Acquisition had been completed on 31 December 2015, being the end of the most recently completed financial year, are set out below:

	Before Proposed Acquisition	After Proposed Acquisition
NTA (S\$'000)	10,311	11,011 ⁽¹⁾
Number of Shares ('000)	276,029	400,139 ⁽²⁾
NTA per Share (cents)	3.74	2.75

Notes:

- (1) The NTA has been determined after deducting the estimated transaction expenses.
- (2) Pursuant to the allotment and issuance of 81,110,310 Shares in the capital of the Company as consideration for the Proposed Acquisition, and assuming the Company undertakes fund raising in the capital markets by the allotment and issuance of 43,000,000 Shares in the capital of the Company at an issue price of S\$0.3504 per Share to fund part of the Cash Consideration.

6.3 EPS

For illustrative purposes only, the proforma financial effects of the Proposed Acquisition on the consolidated earnings of the Group, assuming that the Proposed Acquisition had been completed on 1 January 2015, being the beginning of the most recently completed financial year, are set out below:

	Before Proposed Acquisition	After Proposed Acquisition
Profits attributable to the owners of the Company (\$'000)	(148)	4,317 ⁽¹⁾
Number of Shares ('000)	275,135	399,245 ⁽²⁾
EPS (cents)	(0.05)	1.08

Notes:

- (1) The profits attributable to the owners of the Company has been determined after (i) adjusting for doctors' remuneration, rental and administrative expenses, and (ii) deducting the estimated transaction expenses.
- (2) Pursuant to the allotment and issuance of 81,110,310 Shares in the capital of the Company as consideration for the Proposed Acquisition, and assuming the Company undertakes fund raising in the capital markets by the allotment and issuance of 43,000,000 Shares in the capital of the Company at an issue price of S\$0.3504 per Share to fund part of the Cash Consideration.

7. RELATIVE FIGURES COMPUTED ON THE BASES SET OUT IN RULE 1006 OF THE CATALIST RULES

7.1 The relative figures computed on the bases set out in Rule 1006 of the SGX-ST Listing Manual Section B: Rules of Catalist (“**Catalist Rules**”) are as follows:

Rule 1006	Bases	Relative Figures
(a)	Net asset value of the assets to be disposed of, compared with the Group’s net asset value	Not applicable
(b)	Net profits attributable to the assets to be acquired, compared with the Group’s net profits ⁽¹⁾	15,558.1%
(c)	Aggregate value of the consideration given, compared with the Company’s market capitalisation based on the total number of issued shares excluding treasury shares ⁽²⁾	55.1%
(d)	Number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue ⁽³⁾	26.1%

Notes:

- (1) Net Profits is defined as profit before income tax, minority interests and extraordinary items. Based on the aggregated net profits of the Target Business of the latest completed financial year and the net profits of the Group for the financial year ended 31 December 2015 being S\$6,690,000 and S\$43,000 respectively.
- (2) Based on the Consideration and market capitalisation of the Company of S\$108,886,023, which is determined by multiplying the issued share capital of the Company of 310,747,782 Shares in issue with the weighted average price of S\$0.3504 transacted on the Catalist of SGX-ST on 6 October 2016 (being the last market day for which the Shares were traded prior to the day the Framework Agreement was entered into).
- (3) The number of equity securities to be issued by the Company as consideration for the Proposed Acquisition is 81,110,310 new Shares.

7.2 As the relative figure under Rule 1006(b) of the Catalist Rules exceeds 100%, the Proposed Acquisition constitutes a “very substantial acquisition” as defined in Chapter 10 of the Catalist Rules. Pursuant to Rule 1015(8) of the Catalist Rules, the requirement for the approval of Shareholders in a general meeting does not apply in the case of an acquisition of profitable assets if the only limit breached is Rule 1006(b). Accordingly, the Proposed Acquisition does not constitute a transaction that requires the approval of shareholders.

8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the directors or controlling shareholders of the Company has any interest, direct or indirect (other than through their shareholdings in the Company), in the Proposed Acquisition.

9. SERVICE CONTRACTS

Save as disclosed in paragraph 3.6, no person is proposed to be appointed as a director of the Company in connection with the Proposed Acquisition. Accordingly, save as disclosed in paragraph 3.6, no service contract is proposed to be entered into between the Company and any such person.

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Framework Agreement is available for inspection during normal business hours at the Company's registered office at 290 Orchard Road, #13-01, The Paragon, Singapore 238859 for a period of three (3) months commencing from the date of this Announcement.

By Order of the Board

Beng Teck Liang
Executive Director and Chief Executive Officer

11 October 2016

*This Announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, CIMB Bank Berhad, Singapore Branch (the "**Sponsor**"), for compliance with the Catalist Rules. The Sponsor has not independently verified the contents of this Announcement.*

This Announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume 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 Eric Wong, Director, Investment Banking, Singapore. The contact particulars are 50 Raffles Place #09-01, Singapore Land Tower, Singapore 048623, Telephone: +65 6337 5115.

APPENDIX A

Details of the Target Companies upon completion of the Restructuring Exercise are set out below:

Name	Date and place of Incorporation	Particulars of issued and paid-up share capital	Vendor(s)	Shareholding Interests	Principal activities
Astra Women's Specialists (WB) Pte. Ltd.	15 July 2014 / Singapore	S\$10 comprising 10 ordinary shares	Dr Chan Weng Buen	100%	Obstetrics and gynaecology
The Women's Specialist Centre (HC) Pte. Ltd.	8 March 1997/ Singapore	S\$1,000 comprising 1,000 ordinary shares	Dr Henry Cheng Hung	100%	Obstetrics and gynaecology
Fong's Clinic For Women & Fertility Pte. Ltd.	5 January 2010/ Singapore	S\$100 comprising 100 ordinary shares	Dr Fong Yang	100%	Obstetrics and gynaecology
Astra Centre for Women & Fertility Pte. Ltd.	21 October 2013 / Singapore	S\$100 comprising 100 ordinary shares	Dr Fong Yang	100%	Obstetrics and gynaecology
The London Clinic & Surgery For Women Pte. Ltd.	25 February 2000/ Singapore	S\$2 comprising 2 ordinary shares	Dr Tho Chin Keong	100%	Obstetrics and gynaecology
James Lee Healthcare Pte. Ltd.	17 March 2010 / Singapore	S\$1,000 comprising 1,000 ordinary shares	Dr Lee Weng Soon James	100%	Obstetrics and gynaecology
Alpha Healthcare International Pte. Ltd.	6 September 2013 / Singapore	S\$10 comprising 10 ordinary shares	Dr Chan Weng Buen	20%	Obstetrics and gynaecology
			Dr Lee Weng Soon James	20%	
			Dr Tho Chin Keong	20%	
			Dr Fong Yang	20%	
			Dr Henry Cheng Hung	20%	