HEALTHWAY MEDICAL CORPORATION LIMITED

(Company Registration Number: 200708625C)
(Incorporated in the Republic of Singapore)

PROPOSED ISSUANCE OF NOTES – UPDATE TO SHAREHOLDERS

(A) EXCHANGE'S DIRECTIONS ON THE PROPOSED ISSUANCE OF NOTES; AND

(B) RESPONSES TO EXCHANGE'S QUERIES

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*Unless otherwise defined, all capitalised terms used herein shall bear the same meanings ascribed to them in the announcements dated 17 January 2017, 19 January 2017, 6 February 2017, 13 February 2017 and 24 February 2017 ("**Notes Announcements**").*

The Board of Directors ("**Board**") of Healthway Medical Corporation Limited (the "**Company**" or "**HMC**" and together with its subsidiaries, the "**Group**") refers to the Notes Announcements regarding the Proposed Issuance of Notes for an aggregate principal amount of S$70 million.

(A) EXCHANGE'S DIRECTIONS REGARDING THE PROPOSED ISSUANCE OF NOTES

The Company has been informed on 8 March 2017 via its sponsor, PrimePartners Corporate Finance Pte. Ltd. ("**Sponsor**") that the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), having considered the responses from the Company to its queries of 10 February 2017, 27 February 2017, 1 March 2017, 2 March 2017 and 8 March 2017 ("**SGX Queries**") – details of which are set out in Section B below, is of the view that the issuance of the Initial Notes (comprising CN A and NCN) would result in a transfer of controlling interest pursuant to Rule 803 of the Catalist Rules. **Accordingly, the issuance of the Initial Notes should be subject to shareholders' approval. ("SGX Directions")**

In arriving at this view, the SGX-ST took into consideration the following material terms of the Subscription Agreement entered into between HMC and GW Active Limited ("**Subscriber**" or "**Gateway**"):

1. The terms of the Proposed Issuance of Notes provide that the Company shall reconstitute a 5-member board, of which:

    a. 2 Non-Executive Directors ("**NEDs**") will be nominated by the Subscriber;

    b. 2 Independent Directors ("**IDs**") whose suitability shall be reviewed by the Subscriber prior to their appointments;

2. The Subscriber has the right to nominate the Chief Financial Officer ("**CFO**") of HMC, subject to the receipt of the approvals from the Board, the Nominating Committee and the Sponsor ("**Relevant Approvals**").

3. The Company has the right to nominate, appoint, change or remove the Chief Executive Officer ("CEO") of HMC (which nomination must be cleared by the Nominating Committee, the Board and the Sponsor), subject to the Subscriber's consent.

4. Looking at the proposed 5-member board size that will comprise of 2 NEDs and 2 IDs (whom the Subscriber will have influence over their respective appointments), it is likely that the Board will be made up largely of NEDs.

    a. The responsibilities of managing the business would naturally fall on the key management (that is, the CEO and CFO), whom the Subscriber has influence over their respective appointments, for reasons stated above.

5. The HMC Group may not enter into any material transactions, undertakings or corporate actions, without the Subscriber's prior consent.

For the avoidance of doubt, the Proposed Issuance of Notes to the Subscriber should be viewed in totality and the Company would be required to obtain Shareholders' approval under Catalist Rule 803 for the issuance of CN A, NCN and CN B.

In light of the SGX Directions, the Subscriber had on 9 March 2017 extended a 14-day grace period to the Company pursuant to Clause 9.1 of the Subscription Agreement, for the Company to satisfy all the First Closing Conditions that are required to be fulfilled as at the First Closing. For further details, please refer to the separate announcement made today in relation thereto.

(B) COMPANY'S RESPONSES TO QUERIES RECEIVED FROM THE SGX-ST

The SGX Queries in relation to the Proposed Issuance of Notes and the Company's responses to the SGX Queries are as follows

(1) Would the material terms of the Subscription Agreement and Notes apply even if Gateway does not exchange the Initial Notes into the Convertible CN B ("CN B") or does not convert the CN B into shares in the Company?

The material terms of the Subscription Agreement relating to, *inter alia*, the Subscriber's rights to nominate directors and the CFO, together with the protective rights under the terms of the Notes will apply once the Subscriber has completed its subscription for the Initial Notes. These continue to apply even if the Subscriber does not exchange the Initial Notes into CN B or does not convert the Notes into shares of the Company.

(2) What is the rationale in granting the Subscriber the right to nominate 2 non-executive directors and the CFO? Would this right apply even if the Subscriber does not convert the CN B into shares in the Company?

2.1 The Company is currently faced with liquidity issues, significant losses and potential going concern issues. The Company's ability to meet its obligations is reliant on raising sufficient liquidity on a timely basis which is provided for under the Subscription Agreement.

2.2 The principal amount subscribed for under the Notes would make the Subscriber the largest lender to the Group. Once the proceeds have been utilized to pay down the existing debts of the Group, the Subscriber would also be the sole lender to the Group. The Notes represent a significant investment from the Subscriber and once the Notes are exchanged into CN B and the CN B are converted into CN B Conversion Shares, it would represent a significant portion of the share capital of the Company.

2.3 The Company believes that the Subscriber's participation in the Company is beneficial as it will introduce candidates with extensive experience and varied professional backgrounds to serve on the Board. The Subscriber's proposed two NEDs to be nominated to the Board will not form the majority of the Board. These candidates will still need to be vetted by the Nominating Committee, Sponsor and their appointments will need to comply with the requirements of the Catalist Rules and the Constitution of the Company (please refer to paragraph 4 below for further details).

2.4 The Company also believes that, given the need for greater financial discipline and oversight pursuant to the significant injection of cash into the Company by the Subscriber, it is not unreasonable to grant the Subscriber a right to nominate the CFO. The appointment of the CFO of the Company will be assessed for suitability by the Nominating Committee, Sponsor and the Board, and will have to comply with the requirements of the Catalist Rules (including that of independence and having possessed relevant experience and qualifications).

2.5 Yes, this right will apply even if the Subscriber does not convert the CN B into shares in the Company.

(3) What are the powers that the Subscriber has with regards to appointment, removal or change of CEO and CFO? Assuming a scenario where the Board proposes a change in CEO or CFO and the Subscriber opposes to it. Who will be able to make the final decision on such change in key management then? How does the powers that the Subscriber has in respect to the CEO and CFO not be deemed as having control?

3.1 *Appointment of CEO:* The Company has the right to nominate the CEO (which nomination, is subject to the Relevant Approvals). The Subscriber also must consent to the appointment (such consent not to be unreasonably withheld). In the event that the Subscriber has valid reasons for objecting to the appointment of the CEO, the Company will be entitled to nominate further candidates (assuming the Relevant Approvals are obtained for the new candidates) until the Subscriber has no reasonable grounds for withholding its consent to the appointment of the CEO.

3.2 *Appointment of CFO*: The Subscriber has the right to nominate the CFO, and the Company must appoint the CFO subject to the receipt of the Relevant Approvals. If the Relevant Approvals are not obtained for the first nominee, the Subscriber may continue to propose candidates for the position of CFO until the Relevant Approvals have been received.

3.3 In both situations, mutual consent between the parties are required in order to appoint and remove the CEO and CFO respectively, unless it can be shown that the Subscriber is acting unreasonably in withholding its consent to the appointment or removal of the CEO, in which case the Company will have the final say in appointing the CEO.

3.4 As such, the "powers" that the Subscriber has in respect to the CEO and CFO is not deemed as having control over the management of the Company.

(4) What are the Board's bases to support its views that the Material Terms of the Subscription Agreement (as stated in paragraph 3.6 of the announcement of 17 January 2017) do not amount to a transfer of controlling interest to the Subscriber or the Subscriber acquiring control of the Board, Key Management and operations of the Company?

4.1 The rights of the Subscriber in relation to the Board, key management and the operations of the Company as set out in paragraph 3.6 of the Company's announcement dated 17 January 2017 include, *inter alia*:

a. The Subscriber has the right to nominate 2 NEDs to the Board and the CFO of the Company, subject to the receipt of the Relevant_Approvals. The Subscriber cannot unilaterally appoint the NEDs or the CFO;

b. At the upcoming annual general meeting, the Company will reconstitute the Board to comprise 5 members, which shall include 2 NEDs nominated by the Subscriber (subject to the Relevant Approvals being obtained), and (subject to the Relevant Approvals being obtained) 2 IDs whose suitability shall be reviewed by the Subscriber in advance of their appointment. To clarify, the Subscriber's right in relation to the IDs are limited to reviewing the suitability of the IDs prior to their appointment and the Subscriber has no right to nominate the IDs;

c. Without the Subscriber's prior written consent, the Company may not appoint, change or remove the CEO(if any); and

d. Without the Subscriber's prior written consent, the Company may not undertake any material transactions, undertakings or corporate actions. The Company can always repay the debt if it no longer wishes to be subject to these restrictions.

In light of the above provisions, the Subscriber cannot unilaterally appoint the 2 NEDs or the CFO.

4.2 The Company sought clarification from the Subscriber regarding its intention in applying its rights with respect to the Board and Management of the Company. The Subscriber informed that:

a. The Subscriber intends to only nominate and appoint one NED to the Board at the time of issuance of the Initial Notes (subject to the Relevant Approvals, including the approval of the Sponsor being obtained) and it does not intend to propose any other nominees for the appointment as a NED until the earlier of (a) the date of the extraordinary general meeting to approve the issuance of CN B; (b) the next annual general meeting of the Company to be convened in 2017 ("**AGM 2017**"); or (c) 30 April 2017, being the latest date by which the Company must hold its AGM 2017. The NED appointed at the time of issuance of the Initial Notes will also be subject to re-election at the AGM 2017 to be approved by Shareholders;

b. The current set of 4 IDs and 1 NED of the Company ("**Current Directors**") will remain as Board members up to the AGM 2017. Any change (removal or addition) in relation to independent directors of the Company will only be recommended by the Company, which comprises 5 Current Directors, and any new appointments will be subject to Shareholders' approval, at the AGM 2017;

c. Any material change to the composition and size of the Board is expected to only occur at the AGM 2017; and

d. The Subscriber has nominated a candidate for consideration as CFO of the Company. The new CFO nominated by the Subscriber is currently being assessed for suitability by the Nominating Committee as a matter of good corporate governance, which comprises entirely Current Directors, the Board which comprises 5 Current Board Directors (out of a maximum total of 6 Directors, assuming the new NED is appointed prior to the appointment of the CFO) and the Sponsor. The new CFO will supplement the current management. The Company's current Financial Controller will report to the new CFO and the new CFO will report to the current President of the Company (or its equivalent) and the Board.

4.3 Any new CEO proposed to be appointed to the Company before the AGM 2017 will have to be assessed for suitability by the Nominating Committee which comprises entirely of Current Directors. The Nominating Committee, after concluding that the candidate is suitable for the role of CEO, will recommend the candidate for consideration and approval of the Board, which comprises 5 Current Board Directors (out of a total of 6 Directors, including the new NED). The Board will only seek the Subscriber's consent to the proposed appointment of the new CEO (which may not be unreasonably withheld) if it is of the view that such candidate is suitable for appointment and the approval of the Sponsor for the same has also been received. The Company is not contemplating any change to its President/CEO role at this point in time and up to the AGM 2017.

4.4 In addition, the Board is of the view that the Subscriber's imposition of the obligation on the Company that the Group shall not enter into any material transactions, undertakings or corporate actions without the Subscriber's prior consent (such consent not to be unreasonably withheld), to safeguard its investment in the Company is not unusual and is customary for similar investors to impose such covenant in light of the following circumstances, especially in relation in 5.4(b) below:

a. The Subscriber is an institutional investor (being a fund) which is managed by a MAS-licensed fund manager, and is obliged to account to its own investors for any investment decisions made;

b. The Company is currently faced with liquidity issues, significant losses and potential going concern issues, and has had difficulties in refinancing its upcoming debt maturities and obtaining new bank loans over the course of 2016, as mentioned in its response to query 12 below; and

c. The issue of the Initial Notes will result in the Subscriber becoming the single largest lender of the Group through the extension of an aggregate principal amount of S$70 million in consideration for the Initial Notes.

4.5 In light of paragraphs 4.1 to 4.3 above, in particular the approvals required for the appointment of the Subscriber's nominees as set out in paragraph 4.1, the Board is of the view that there will be no transfer of controlling interest to the Subscriber at the time of issuance of the Initial Notes.

(5) What is the rationale in including, as a term to the Subscription Agreement and Notes, that the Company would reconstitute its board to comprise 5 members (which shall include the 2 NEDs nominated by the Subscriber and 2 IDs whose suitability shall be reviewed by the Subscriber prior to their appointment) at the upcoming AGM.

The Board has reviewed the current composition of the Board together with the Subscriber and agrees that a 5-member Board is in keeping with the current requirements of the Company. The Company appreciates that the Subscriber's input on the independent directors will be useful in ensuring that the Company has a representative board that would be beneficial to the overall corporate governance structure of the Company. For the avoidance of doubt, the Board does NOT require the Subscriber's approval to appoint the independent directors and the appointment of the independent directors will be subject to shareholders' approval at the upcoming AGM 2017.

(a) Shouldn't the board size and composition be determined based on the needs of the Company rather than being "restricted" by terms of the Notes?

The Board had considered the size and composition of the Board in its considerations and had agreed with the Subscriber that this was an appropriate board size and composition suited for the present needs of the Company. To be clear, the Subscription Agreement does not mandate that the board size and composition have to remain as such for the duration of the Notes. It merely specifies that the board size and composition will be changed at the upcoming AGM2017 in the manner the Board now deems appropriate and does not restrict the Board from reconsidering the board size and composition from time to time thereafter. The Subscription Agreement also specifies that any reconstitution of the Board must be in accordance with applicable laws and regulations.

(b) Why does the Subscriber need to review the suitability of IDs prior to their appointment?

The Company believes the Subscriber's input will be useful in helping the Board identify independent directors that have professional experience and credibility to ensure that the Board has an enhanced level of corporate governance with candidates of different professional backgrounds in order to provide diversity to the Board.

(6) One of the terms of the Notes requires the Company to exercise the option to acquire Healthway Medical Enterprises Pte Ltd ("HME") by 31 Mar 2017.

(a) What is the rationale for this requirement?

The Subscriber is prepared to proceed with this transaction on the basis and understanding that HME forms a significant part of the plans of the Company moving forward and accordingly, it is a key part of the transaction that the Company must acquire HME. It is the Board's view that the acquisition of HME is in the interest of the Company.

(b) What is the status of HMC's plans with regards to the option to acquire HME?

The Company intends to exercise the Option and formalize the terms of the acquisition by 31 Mar 2017 which will be subject to, amongst others, shareholders' approval at an extraordinary general meeting to be convened, if required.

(7)(a) What is the reason in requiring HMC to obtain prior consent of the Subscriber to enter into material transactions, undertakings or corporate actions?

The Notes provide customary protections which restrict the Company from, *inter alia*, changing its business, undertaking disposals, taking on debt or acquiring new businesses in excess of stated amounts, without the consent of the Subscriber or the Noteholders (as the case may be). These are negative covenants which would be consistent with the requirements of any significant lender seeking to preserve value and protect the legitimate interests of the Subscriber or the Noteholders (as the case may be) in the Company.

(b) Has the Board considered the potential disruption to operations or its ability to execute its plans and strategies in the event the Subscriber does not consent to transactions which the Board intends to embark on?

The Board has considered this but believes that the Noteholders' have a legitimate interest in requesting for these negative covenants – ultimately the Noteholders would want to preserve the value of the Company. At the same time, given that the Notes are convertible, the Noteholders would want to enhance enterprise value and therefore their interest would be in line with that of the Shareholders.

Notwithstanding that certain reserved matters require the consent of the Subscriber or the Noteholders (as the case may be), the Company has the option of early redemption if it wants to regain control over the reserved matters.

(c) Although the Subscriber is able to nominate 2 NEDs to the Board, it seems to have the ability to make decisions on material transactions, undertakings and corporate actions to be entered into by the Company. Would this not, in substance, constitute ability to control the Board decision making process?

The rights under the Notes are negative or restrictive covenants that prevent the Company from undertaking acts that may have a significant or destructive impact on the value of the Company without the consent of the Subscriber or the Noteholders (as the case may be). These are covenants which would not be unusual or unreasonable for a significant lender to have to ensure value protection. Such covenants do not amount to an ability to control the Board decision making process.

Notwithstanding that certain reserved matters require the consent of the Subscriber, the Company has the option of early redemption if it wants to regain control over the reserved matters.

(8) What is the reason in requiring HMC to obtain prior consent of the Subscriber to appoint, change or remove the CEO?

Any change of the CEO could have a significant impact on the operations of and direction of the Company, and in turn, the overall value of the Company. It is not unusual for significant lenders to require a covenant that the key management remains intact during the tenure of the Notes or for the Subscriber or the Noteholders (as the case may be) to

ensure that any new CEO is suitably qualified and committed to run the Group's business well.

(9) In view of the above terms of the Subscription Agreement and Notes, what are the bases for the Board's view that there is no change in controlling interest or that the Subscriber is not acquiring control of the Board?

9.1 There is no change in controlling interest upon the issuance of the Initial Notes given that the CN A tranche would only result in the Subscriber holding, upon conversion of the principal amount of CN A of S$10,000,000, an initial 10.7 per cent of the enlarged issued shares (which is below the threshold of a "controlling interest" (15%) as defined in the Catalist Rules) with the NCN being a non-convertible tranche. Assuming that the CN A is held to the Maturity Date and all of the CN A together with interest accrued thereon is converted at the Conversion Price of S$0.03384, the total number of CN A Conversion Shares to be issued will represent 14.1% of the enlarged issued shares (which is also below the threshold of a "controlling interest" (15%) as defined in the Catalist Rules). As such, based on shareholdings as at the date of the Subscription Agreement, the controlling shareholder of the Company, Mr Fan Kow Hin who held 16.98 per cent of the issued shares of the Company, would have remained as the single largest shareholder of the Company, holding 14.6 per cent. of the enlarged issued shares upon full conversion of CN A, assuming it is held to the Maturity Date. However, we wish to highlight that Lippo Capital Limited has an aggregate interest of 18.44% as at 22 February 2017.

9.2 Where the exchange of the Initial Notes for CN B would result in any one person, upon conversion of all of the CN B, holding approximately 47.4 per cent. of the issued shares, such exchange will only take place after the following conditions have been satisfied or waived: i) the Securities Industry Council ("**SIC**") having granted such person a waiver from having to make a general offer upon the conversion of CN B; ii) the approvals of the Shareholders for the issuance of CN B and the CN B Conversion Shares, which will constitute a transfer of controlling interest in the Company under Rule 803 of the Catalist Rules; and iii) the approval of the Shareholders of a resolution waiving their right to receive a general offer from such person upon the conversion of CN B.

9.3 The rights to nominate 2 NEDs to the Board cannot amount to a control of the Board given that:

a. this is merely a right to nominate directors for appointment and such appointment remains subject to the receipt of the Relevant Approvals. The appointment of any such directors would also have to be renewed at AGM 2017 in accordance with the Constitution of the Company;

b. the 2 directors are non-executive and would not, in any event, constitute a majority of the reconstituted 5-member board; and

c. the right to review the suitability of the independent directors is not a right to appoint said directors.

9.4 The veto rights under the Notes are protective rights for the Subscriber or the Noteholders (as the case may be) to ensure that the value of the borrower is retained in order to monitor the Company's ability to repay the sums due under the Notes.

(10) What are the Board's views and bases for entering into the Subscription Agreement with Gateway having considered the terms and conditions of the agreement, including but not limited to the Mandatory Redemption provision; the security pledge of shares of all companies in the Group; the interest rates; upfront fee, Material Terms. What is the Board's justification that the Subscription Agreement is in the interest of the Company and not prejudicial to shareholders?

The Board wishes to submit as follows:

10.1 The Company entered into the Subscription Agreement on 16 January 2017, with the intent to resolve its acute liquidity issues. The Offer by the Offeror for the shares of the Company as well as the convertible notes issued by the Company was announced on 7 February 2017 – which was three weeks after the announcement of the Subscription Agreement. The Board was **not aware** of the Offer prior to finalising the deal with Gateway, which finalisation took place almost 1 month prior to the announcement of the Offer. The Offeror had not previously informed or notified the Board of its intention to make the Offer prior to the date of Subscription Agreement. The Offeror has made the Offer with full knowledge of the existence of the Subscription Agreement (including the Redemption Premium). In fact, the Offeror had even extended the Offer to all shares issued as a result of the conversion of the Notes by closing date of the Offer and also made a comparable offer to all convertible notes as the Company had announced the material terms of the Subscription Agreement on 17 January 2017. Accordingly, the Offeror does not seem to have been prejudiced or taken by surprise by the terms of the CN A and NCN given the timeline of events. The timeline of events is set out as follows for ease of reference:



10.2 The Company has been faced with tight liquidity issues since June 2016 and is on the brink of defaulting on debt obligations if it does not receive the proceeds from the Initial Notes on 9 March 2017. As disclosed in the statement of cash flows in its unaudited 2Q2016 results, the Company had cash and cash equivalents of S$1,633,000 as at 30 June 2016, against trade and other payables of S$28,307,000. For unaudited 3Q2016, the Company had S$2,017,000 in cash and cash equivalents against trade and other payables of S$28,683,000 as at 30 September 2016 and for unaudited 4Q2016, the Company had S$527,000 in cash and cash equivalents against trade and other payables of S$27,726,000 as at 31 December 2016. In addition, the Company has historically not been able to collect its trade receivables quickly even after engaging debt collection agencies to assist with the collection, with an average aging of receivables of approximately 106 days. S$10.7 million out of S$13.7 million of total debt outstanding as at 31 December 2016 is due by the end of March 2017. The Company has faced difficulty in securing financing to repay facilities that were or are falling due as a result of its weak financial position. It was also unable to secure commitments from existing lenders to refinance these facilities and/or new lenders to repay its existing loans. The recent S$3.0 million of loans which the Company has managed to secure so far in 2017 (as mentioned in paragraph 12.3 below), are short-term (with a tenure of 5 to 6 weeks at effective interest rates (after upfront and service fees) of 26% to 46% per annum). In comparison, the proposed issuance of Initial Notes (being CN A and NCN) secure funding for the Company for a minimum of 2 years at a lower interest rate to the short-term loans. In addition, once the Initial Notes are exchanged into CN B, the CN B are without coupon for a period of 5 years (from date of issue of Initial Notes) but redeemable at the end of 5 years for a 6% internal rate of return to the Subscriber.

10.3 Other than the weak financial condition of the Company that has caused it to be unable to obtain financing from new banks and financial institutions and additional financing from existing financiers, the Company was also plagued by negative publicity due to the SGX-ST's "trade with caution" announcement issued to the public on 9 September 2015 regarding International Healthway Corporation Limited's ("**IHC**") shares, as the controlling shareholders of the Company were the same controlling shareholders of IHC at the relevant time.

10.4 In light of the predicament of the Company as foresaid, the funding offered by the Subscriber was a timely solution for urgency for short term funding and requirement for long term funding to the Group. The Subscription Agreement provides funding to meet the Company's liquidity needs, repay its bank loans to reduce financial risk, and expand growth capital to improve enterprise value.

10.5 Currently, the Company's short term liquidity needs have increased as (i) the Company is unable to refinance its existing loans; (ii) some of the Group's current lenders have become more cautious and requested for repayment of the existing loans when due, (iii) the Group's creditors have shortened their credit terms given to the Group, (iv) receivables continue to be difficult to collect, and (v) the Company has been unable to fully pay staff and doctor salaries for February 2017 totalling S$5.4 million. As such, the Company estimates that of the aggregate principal amount of S$70 million to be funded by Gateway, the Group will be setting aside S$34 million to meet its short liquidity requirements. The Company intends to utilise the remaining S$36 million for, *inter alia*:

a. Organic expansion of GP clinics, in locations such as Jurong Tuas, Boon Lay, Tiong Bahru, Kallang Bahru, Alijunied, Bishan, Admiralty, Bukit Panjang, Yio Chu Kang, Bukit Gombak and East Coast. The estimated total cost of setting up these clinics in 2017 is S$2 million; and

b. Acquisition of specialists' clinics, for specialties such as oncology, dermatology and paediatrics. The locations identified for the oncology and dermatology clinics are hospital-based, where most of the Company's specialists are presently housed, providing more synergy between our specialists. The budget for these hospital based acquisitions is approximately S$16 million. The Company has also been reviewing

potential acquisitions for the paediatrics clinics in the heartlands such as Jurong, Tampines, Bukit Panjang and Holland Village, for an estimated total of S$18 million.

10.6 The upfront fee of S$1.4 million (being 2% of the aggregate principal amount of the Initial Notes) is not unusual for lending transactions where a large facility amount is committed by a single lender. The Company has had to pay fees ranging from 3% to 4% for its short term loans as set out in the table in paragraph 12.2.

10.7 At the time of negotiation and execution of the Subscription Agreement, the Company was still able to obtain the costly short-term loans, which was nevertheless not a sustainable solution. As the purpose for the timely issuance of the Initial Notes was for the Company to obtain sufficient funding for its immediate needs and future growth, thereby resolving the Company's need to rely on the expensive short term loans and providing it with funding to undertake further growth and expansion plans beneficial to the Company and its shareholders, the redemption premium of 25%, which is payable in addition to the accrued interest on the Initial Notes on maturity, reflects the risk which the Subscriber is assuming in lending S$70 million to the Company in light of the Company's liquidity issues. However, with the unexpected Offer and the delays to the Proposed Issuance of Notes, the Company has been unable to obtain further funding.

10.8 For the avoidance of doubt, the Company **will not have to pay the 25% redemption premium** in the event that all the Initial Notes are exchanged for CN B which are zero-coupon and convertible in whole or in part at the Subscriber's discretion. This serves to align the interest of the Company and the Subscriber (as an investor in the equity of the Company) to expand and develop the Group's business subsequent to the receipt of the proceeds of the Notes.

10.9 Gateway's original intention was to subscribe for S$70 million in convertible notes (which would require shareholder approval) and, at the time of signing the Subscription Agreement, Gateway's funding proposal was the only viable funding option available to the Company. In a typical case, an investor would only provide funding to a company after all the approvals has been obtained. In the present case, the Proposed Issuance of Notes was structured with fund disbursement at CN A and NCN as an interim measure due to the Company's urgent needs for fund disbursement. Given that the Subscriber was prepared to assume the risk of providing funding on an earlier basis without the equity component as originally intended, at the Company's request and to meet the urgent funding needs of the Company, it was not unreasonable to provide for a higher redemption rate for the period leading up to when approval would be obtained for CN B.

10.10 The Group currently does not have any property or other bankable assets to offer banks and financial institutions as security. The Group's unaudited net loss before tax for FY2016 was S$40,340,000. The total unaudited consolidated assets of the Company as at 31 December 2016 was S$197,772,000, of which S$118,833,000 was intangible assets. As such, the Subscriber's request for a pledge of all the shares to secure the amounts outstanding under the Notes in the Company's subsidiaries as security is not unreasonable in light of its total funding amount of S$70 million.

10.11 Although various potential capital providers had approached the Company in August 2016, they had either intended to acquire existing shares in the Company (which will not address the Company's immediate funding needs), or decided not to proceed with any capital injection after discussions. In contrast, the Subscriber was willing to proceed with a deal by extending S$70 million to the Company.

(11) HMC has previously disclosed that Gateway was approached by the Company as part of the latter's continual engagement with potential capital providers. How did the Company come to know about Gateway? Who in the Company introduced / approached Gateway?

Gateway was introduced by a third party individual with whom the Company has maintained contact from October 2016 in its effort to engage potential capital providers. No

fee or commission was payable to him in relation to the Proposed Issuance of Notes by the Company. To the best of the Company's knowledge, he has no relationship with any of the Company's existing Directors or substantial shareholders.

(11) Who is the financial advisor advising the Company on this transaction (Proposed issuance of Notes to Gateway)?

The Company did not appoint any financial advisor as the Company does not have the financial means to do so in light of its weak cash resources. The Company's Board (led by its Non-Executive Independent Chairman, Edwin Khoo, who has extensive banking experience) and management have been actively involved in this transaction.

(12) Has the Company / Board considered alternative financing before approaching Gateway? Please provide details on the various fundraising alternatives or parties considered and / or approached.

12.1 The Company had explored the following financing solutions prior to deciding to entering into the Subscription Agreement with the Subscriber:

a. Request for further loans from its existing bank lenders since August 2016;
b. Approach other bank lenders for new loan facilities; and
c. Negotiate with its existing private lenders, and was only able to raise small amounts of funding at high interest rates.

12.2 Examples of some of the short-term loans obtained by the Company since 2016 are set out as follows:

	Facility 1	**Facility 2**	**Facility 3**	**Facility 4**
Quantum	SGD 400,000	SGD 1,200,000	SGD 1,000,000	SGD 500,000
Drawdown Date	31-Oct-16	14-Dec-16	26-Jan-17	2-Feb-17
Tenor	2 months	3 months	6 weeks	5 weeks
Interest Rate (for tenor)	8.00%	9.00%	4.00%	1.67%
Upfront Fee paid to Lender	4.00%	3.00%	3.00%	4.00%
Service Fee paid to Agent	3.00%	3.00%	3.00%	3.00%
Effective Interest Rate per annum (after Upfront Fee and Service Fee)	65.69%	47.16%	46.48%	25.80%

12.3 Since the recent round of an aggregate of S$3.0 million of short term loans raised in end January and early February 2017 (comprising Facility 3 and Facility 4 above, and an additional S$1.5 million), in light of the upcoming debt maturities and liquidity position of the Group, the Company has not been able to obtain any additional loans from banks and high interest rate private lenders, especially so as the Group currently does not have real properties or other suitable assets which could be offered to them as security.

12.4 Hence, finding a suitable funding solution that addresses short term as well as medium to long term financing needs of the Company was crucial for the Group in order to repay its existing maturing debt obligations, settle its stretched trade payables and accrued

expenses/payroll and grow the business. The Subscriber's offer provides a fully funded and holistic solution was attractive as it met such needs of the Group.

(13) We note that the Subscription Agreement encompasses both the Initial Notes (comprising NCN and CN A) and CN B, and that the terms and conditions of the agreement (including but not limited to the Mandatory Redemption provision; the security pledge of shares of all companies in the Group; the interest rates; upfront fee, Material Terms) would apply to both the Initial Notes and CN B. Accordingly, why is the Company only subjecting the issuance of CN B (and not the issuance of all Notes, namely NCN, CN A and CN B, under the agreement) to shareholders' approval?

In respect of the Initial Notes, the Board is of the view that the issuance of the Initial Notes does not require shareholders' approval for the following reasons:

13.1 There is no transfer of controlling interest under Rule 803 as:

a. The Subscriber will not in fact exercise control over the Company at the time of issuance of the Initial Notes for the reasons set out in the Company's response in paragraph 4 above; and

b. The Subscriber will only hold a maximum of 14.1% of the enlarged share capital of the Company after the issuance of the shares pursuant to the conversion of CN A as set out in paragraph 3.1(v) of the Company's announcement dated 17 January 2017 (after accounting for all interest accrued on the CN A on the assumption that it is held to maturity), which is below the threshold of 15% of a controlling shareholder. Based on the shareholdings of the Company as at the date of the Subscription Agreement, the controlling shareholder of the Company, Mr Fan Kow Hin who held 16.98% of the issued shares of the Company, would have remained as the single largest shareholder of the Company, holding 14.6% of the enlarged issued shares upon full conversion of CN A, assuming it is held to maturity.

13.2 Pursuant to the general mandate granted by shareholders of the Company on 29 April 2016, the Company may issue up to 1,020,818,091 shares other than on a pro-rata basis to existing shareholders. Assuming that the CN A is held to maturity and all the principal and interest accrued thereon are converted, the total number of conversion shares to be issued thereto is 403,916,850 shares, which is within the general mandate.

13.3 The Subscriber is not within the category of persons set out under Rule 812(1) of the Catalist Rules.

However, specific shareholders' approval for the issuance of CN B will be required as, *inter alia*:

13.4 a maximum of 2,218,502,511 conversion shares may be issued to the Subscriber pursuant to the conversion of CN B, which will exceed the limits of the general mandate granted. As such, shareholders' approval is required pursuant to Rule 805 of the Catalist Rules; and

13.5 the Subscriber will hold up to 47.42% of the total enlarged issued shares of 4,678,736,694 shares in the Company after conversion of the CN B, resulting in the Subscriber becoming the new controlling shareholder of the Company (as defined in the Catalist Rules) and as such, shareholders' approval is required under Rule 803 of the Catalist Rules.

(14) Is the Board of the opinion that the Subscription Agreement and the Notes are in the best interests of the Company and its shareholders? Please provide the Board's assessment and justifications to support such opinion.

The Board is of the opinion that the Subscription Agreement and the Notes are in the best interests of the Company and its shareholders for the following reasons:

(a) The Company requires financing to satisfy its immediate liquidity needs. For 2017, the Company has several bank facilities that are due for repayment and has had difficulties in securing commitments from existing lenders to refinance these facilities and/or new lenders to take-out existing lenders. Additionally, the Company needs additional lines to meet its current working capital requirements and had over the last 3 months, borrowed from short term funding sources at rates significantly higher than its current long term facilities (i.e. the ones that are due to mature in 2017).

(b) The Company has been in discussions with the Subscriber for approximately 4 months before the execution of the Subscription Agreement and during that time, alternative sources of funding were also considered. The terms of the Subscription Agreement were considered the most appropriate given the ability of the Subscriber to commit to the Company – the assured source of funding for both the short and medium term; as well as the Subscriber's commitment to growing the Group.

(c) The Board believes that the Subscriber's terms are fair and not unusual, given the size of the financing relative to the Group's pre-money valuation.

(d) The Board is also of the view that the Subscriber's participation in the Company will improve the corporate governance structure in the Company.

(e) The Board also believes that the convertibility of the Notes ensure that the Subscriber or the Noteholders (as the case may be) have a shared interest with Shareholders to enhance value to Shareholders.

(15) The Board has opined that the issuance of the Initial Notes is in the best interest of the Company as the Company is currently faced with liquidity issues, significant losses and potential going concern issues. Please elaborate and provide bases to support such opinion with reference to the financial performance of the Company. We noted the following from our review of the Company's past 3 years' financial results:

- **The Group has recorded profits for the past 2 years (FY2014, FY2015). The unaudited loss for FY2016 is largely attributable to provisions for impairment of loans receivables (the Group would have been profitable excluding such non-recurring items).**
- **The Group registered consistent growth in its revenue in FY2014, FY2015 and FY2016.**
- **As at 31 Dec 2016, the Group has cash and equivalent of S$2.4 million.**
- **The Group has been generating positive cash flows from its operations every year.**

15.1 Disregarding (i) allowances for doubtful, loan and other receivables, (ii) impairment of goodwill, (iii) other operating income from HME and (iv) gain on disposal of available-for-sale financial assets, net profit/(loss) attributable to shareholders would have been S$(5.4) million in FY2014, S$(0.7) million in FY2015 and S$0.1 million in FY2016.

15.2 Though the Company had revenue growth and positive operating cash flows during these financial periods, there has been a net decrease or insignificant increase in cash flow from FY2014 to FY2016 due to cash requirements from investing and financing activities. An extract of the Company's statement of cash flows is set out below:

In SGD '000s	**FY2014 (Audited)**	**FY2015 (Audited)**	**FY2016 (Unaudited)**

Net cash generated from operating activities	3,638	10,815	3,960
Net cash used in investing activities	(2,045)	(10,589)	(1,973)
Net cash used in financing activities	(2,109)	(217)	(2,506)
Net increase in cash and cash equivalents	**(516)**	**9**	**(519)**

15.3 Though the Company had S$2.4 million in cash and cash equivalents as at 31 December 2016, S$1.9 million was pledged as collateral for banking facilities; the unencumbered cash and cash equivalents as at 31 December 2016 was only S$527,000, which would be insufficient to for the Group's working capital requirements and repayment of debt obligations. The total debt outstanding was S$13.7 million as at 31 December 2016, of which S$10.7 million is due by the end of March 2017.

In SGD 000s	**FY2014 (Audited)**	**FY2015 (Audited)**	**FY2016 (Unaudited)**
Cash and cash equivalents			
Cash at bank and on hand	1,027	1,035	517
Short-term bank deposits	2,130	1,849	1,919
	3,157	**2,884**	**2,436**
Less: Bank deposits pledged as collateral for banking facilities	(2,120)	(1,838)	(1,909)
Cash and cash equivalents per consolidated statement of cash flows	**1,037**	**1,046**	**527**

(16) The Company disclosed that it intends to utilize the proceeds raised from issuance of the Initial Notes in the following manner: 20% to repay bank borrowings; 20% for working capital and 60% to pursue organic and inorganic growth. Given that the Offer is still underway, and thus there is no certainty on the outcome of the Offer and accordingly the future business direction of the Group, why is the Company still raising a significant sum at this juncture?

16.1 The Company in fact considered these factors and requested the Subscriber for a reduction in the principal amount to be raised from the proposed issuance of the Notes as follows:

a. a reduction in the aggregate subscription amount for the Initial Notes from S$70,000,000 to S$34,000,000 which comprises (i) S$10,000,000 in principal amount of CN A (as previously contemplated) and (ii) S$24,000,000 in principal amount of NCN; and

b. the balance S$36,000,000 in principal amount of NCN, will not be issued at this time but the Company shall have an option, exercisable for a period of up to 6 months from the date of the issuance of CN A, to require the Subscriber to subscribe for such principal amount of NCN in the event that the Company requires such funds for the acquisition of new assets or companies and such acquisition has been approved by the Subscriber in writing.

16.2 The proposed reduction in principal amount by the Company was made after considering the following:

a. although the Company needs part of the subscription monies urgently in order to manage its immediate cashflow needs, the Board was concerned the impact of the Change of Control Redemption on the Company's finances. If the Company issued S$70 million principal amount of Initial Notes as originally contemplated, in the event that the Offer turns unconditional, the Company would need to repay the Subscriber approximately S$113 million within 30 business days; and

b. since the Company was in an offer period, it would not be able to implement any acquisitions of assets of material amount except in accordance with the Singapore Code on Take-overs and Mergers (the "Code") and as such, there is a less immediate need for the portion of the subscription monies which were to be earmarked for potential acquisitions.

16.3 However the Subscriber after discussions with its investment committee was unable to agree to the Company's request for the reduction wholesale and was only able to agree to such reduction with certain conditions attached (the "**Counter Proposal**"), namely :

a. instead of subscribing for S$34,000,000 which comprises (i) S$10,000,000 in principal amount of CN A and (ii) S$24,000,000 in principal amount of NCN as proposed by the Company, the Subscriber will subject to detailed mechanics to be discussed, either (i) immediately after subscription for the CN A and NCN as aforesaid immediately proceed to Second Closing to convert the CN A and NCN to S$34,000,000 in principal amount of CN B; or (ii) directly subscribe and pay for S$34,000,000 in principal amount of CN B instead;

b. there will be 2 placees of S$17,000,000 each for the aggregate S$34,000,000 in principal amount of CN B;

c. closing conditions for the Subscriber to subscribe and pay for the Initial Notes and for Subscriber to surrender the Initial Notes in exchange for CN B as set out in Clauses 5 and 6 of the Subscription Agreement which may be waived by the Subscriber (and which include (i) shareholders approval for mandate to allot and issue shares to be allotted and issued pursuant to any conversion of the CN B; and (ii) Council having granted a Whitewash Waiver) will be waived by the Subscriber; and

d. subject to the Company confirming that Clause 6.1.8 of the Subscription Agreement providing the exchange and the issue of CN B and the surrender of the Initial Notes is not prohibited by, amongst other things, any statute, order, rule, or regulation promulgated by any legislative, executive, or regulatory body or authority of Singapore which is applicable to the Company.

After consultation with SIC, the view taken was that the Counter Proposal would require shareholders' approval (unless the Company is able to obtain the Offeror's consent for the proposed amendments) pursuant to Rule 5 of the Code.

16.6 Since the Counter Proposal would require shareholders' approval (and significant time was required to convene an EGM) and the Company was of the view that obtaining offeror's consent was not feasible, the Company decided that it needed to proceed on the basis of the original binding Subscription Agreement in order to secure the funding it needed for its urgent cash flow requirements and business operations. The Company also made a request to the Subscriber for early partial disbursement of funds, further details of which may be found in paragraph 19 below.

(17) If the Offer turns unconditional, it will trigger the Mandatory Redemption provision under the Subscription Agreement. Why did the Board not consider putting the issuance of the Initial Notes on hold now, given the ongoing Offer?

17.1 As mentioned above, the Company entered into the Subscription Agreement on 16 January 2017 with a view of addressing its acute liquidity issues. The Company announced the Proposed Issuance of Notes on the SGXNET on 17 January 2017 and had disclosed in the announcement all material terms of the Notes, including the change of control redemption provision and the 25% redemption premium applicable to the CN A and NCN. The Company was **not** aware of the Offeror's intention to make the Offer at all times up until such Offer was announced by the Offeror on 7 February 2017, **which was three**

weeks after the date of the Subscription Agreement. The Offeror has made the offer with full knowledge of the existence of the Subscription Agreement (including the Redemption Premium). In fact, the Offeror had even extended the Offer to all shares issued as a result of the conversion of the Notes by closing date of the Offer and also made a comparable offer to all convertible notes.

17.2 The Subscription Agreement, once signed, is binding on the Company and cannot be unwound or put "on hold" unilaterally by the Company, as failure to carry out its obligations and undertakings under the Subscription Agreement would expose the Company to liability for breach of contract.

17.3 As disclosed in paragraph 10.2 above, regardless of whether the Offer becomes unconditional, the Company is facing an immediate and urgent liquidity crunch and needs to secure funding for its day to day operations, as the Company needs to secure immediate funding to finance its day to day operations, including to meet its payroll requirements, rentals and other operational requirements. The outcome of the Offer does not change this as there is no assurance that the Company will receive additional funds from any party even if the Offer turns unconditional.

17.4 The Company believes that the issuance of the CN A and NCN (notwithstanding the Offer) is in the best interest of the Company (as well as the shareholders) as it addresses the immediate liquidity requirement of the Company. If the Company puts the transaction on hold, the Company will face potential problems remaining as a going concern and the Shareholders will then be in a worse position. Shareholders will not be prejudiced as they have the option to accept the Offer and will be guaranteed an exit even if the change of control provisions are triggered by reason of the Offer becoming unconditional.

(18) By proceeding with the issuance of the Initial Notes now, the Board is putting the Company at risk of having to repay a significantly larger amount that what would be raised from the issuance of the Notes due to the Mandatory Redemption provision. What is the Board's views on how this is in the interest of the Company and shareholders?

18.1 The Proposed Issuance of Notes is the best available offer to the Company to raise funds in light of its financial condition, for the reasons set out in the Company's response to Query 10 above.

18.2 The funding secured from the Proposed Issuance of Notes will allow the Company to meet its immediate payroll requirements and trade payables to its creditors, and to resolve its liquidity crunch and potential problems remaining as a going concern if the Initial Notes are not issued on the First Closing Date of 9 March 2017. In this connection, the Company has not paid previous years' directors' fees to its past directors, and there are long outstanding professional fees owing to the professional parties engaged by the Company, who have continued to provide services to the Company on account of goodwill.

(19) Has the Board considered its cash flow requirements vis-à-vis the cash flow generated from operations, and assess its short-term funding needs during this interim period until there is clarity on the outcome of the Offer? Has the Board considered other sources of short-term funding in this interim period, instead of proceeding with the issuance of the Initial Notes (the full quantum of which may not be necessary during this interim period)?

As disclosed in paragraphs 12.1 and 10.2 above, the Company has made various attempts to obtain financing which were unsuccessful. Due to the parties' inability to agree on the structure mentioned in paragraph 16 above, the Company also explored the possibility of an early partial disbursement of CN A worth S$7.9 million, from which the Company will

receive net proceeds of S$6.5 million after deduction of the upfront fee. This is on the premise that the additional interest accruable due to the early disbursement is waived. The Company had requested for partial disbursement of CN A having regard to, amongst others, the fact that the CN A is convertible into conversion shares, which would allow the Company the option to avoid having to repay the interest in cash to conserve its financial resources and to avoid the redemption of the CN A at the Maturity Redemption Price, in the event that Shareholders' approval for the CN B is not obtained. As mentioned above, the Board cannot unilaterally revise the amount of the Notes to be issued as the Company has a binding agreement to issue the full quantum of S$70 million once the conditions precedent are fulfilled.

(20) Are there any penalties if HMC were to terminate the Subscription Agreement?

HMC has no contractual right to unilaterally terminate the Subscription Agreement, which is a legally binding agreement enforceable by the Subscriber according the terms therein. If HMC was to unilaterally terminate the Subscription Agreement in breach thereof, the Subscriber is entitled to seek all remedies available to it at law, including suing HMC for damages arising from such breach of contract. In any event, HMC is obligated to reimburse all reasonable costs incurred by the Subscriber in connection with the Proposed Issuance of Notes pursuant to the terms of the Subscription Agreement.

(21) We note that HMC has S$10.7 million of debt obligations due by end of March 2017, as well as S$5.4 million unpaid staff and doctor salaries. Has HMC reached out to these creditors and staff/doctors on possibility of restructuring the debts or extension of repayment terms, particularly in light of the ongoing Offer? Regarding the Mandatory Redemption provision under the subscription agreement with GW Active, this obligation will only fall due 30 business days after the occurrence of default, being 30 business days after the Offer turns unconditional.

Yes. The Company's management has reached out to (i) most of its major creditors regarding an extension of repayment terms; and (ii) doctors and senior management on the delay of February 2017 salary payment amounting to approximately S$3.9 million. It is to note that no formal agreements have been entered into in relation to the aforesaid extension/delay.

The Company has paid the salaries of its clinic and corporate office staff for the month of February 2017 amounting to approximately S$1.3 million.

However, the Company has not been able to secure any firm commitment on its other debt obligations due by the end of March 2017.

Trading Caution

In the meantime, the Board wishes to advise Shareholders and investors to exercise caution when dealing in the Shares and to refrain from taking any action in relation to their Shares which may be prejudicial to their interests. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors, accountants, tax advisers or other professional advisers immediately.

Responsibility Statement

The Directors of the Company (including those who have delegated detailed supervision of this announcement) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this announcement are fair and accurate, and that there are no material facts not

contained in this announcement, the omission of which would make any statement in this announcement misleading, and they jointly and severally accept responsibility accordingly.

Where any information has been extracted or reproduced from published or otherwise publicly available sources, the sole responsibility of the Directors of the Company has been to ensure through reasonable enquiries that such information is accurately extracted from such sources or, as the case may be, accurately reflected or reproduced in this announcement.

BY ORDER OF THE BOARD

Veronica Chan Wee Ping
President
11 March 2017

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*This announcement has been prepared by Healthway Medical Corporation Limited (the "**Company**") and its contents have been reviewed by PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"), for compliance with the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not 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 accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.*

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