RAFFLES MEDICAL GROUP LTD
(*Co Reg No. 198901967K)*

34th ANNUAL GENERAL MEETING
RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

The Board of Directors and Management would like to thank all shareholders and the Securities Investors Association (Singapore) (**SIAS**) for their questions submitted in advance of our Annual General Meeting (**AGM**) to be held, in a wholly physical format, at Rooms 324 to 326, Suntec Singapore International Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Friday, 28 April 2023 at 3.30 p.m. (Singapore Time).

We have consolidated the substantial and relevant questions received into a few key topics below.

A. China Updates

B. Financials and Operations

C. Corporate Governance

Due to overlap in the questions received, we have condensed multiple similar questions under each topic. Our responses to the questions are set out in the following pages.

Please refer to all AGM related documents at the following website:
https://www.rafflesmedicalgroup.com/investor-relations/upcoming-events/annual-general-meeting

Following the conclusion of the AGM, the voting results of the AGM will be uploaded on SGXNet and the Company's website.

By Order of the Board

Kimmy Goh / Jessica Soo
Company Secretaries
21 April 2023

34th Annual General Meeting – Questions & Answers

A. China Updates

1. **In his message to shareholders, the Chairman highlighted that, with the lifting of China's COVID-19 containment policies, local and expatriate patients can now return to seek treatment at the Group's hospitals and medical clinics.**

   After years of investing, the *RafflesChinaHealthcare* network now provides primary and tertiary care across seven cities in China. The tertiary hospitals, *RafflesHospitalChongqing*, *RafflesHospitalShanghai*, and *RafflesHospitalBeijing*, offer a wide range of medical services. In addition, the Group has recently added a new In-Vitro Fertilisation/Assisted Reproductive Therapy centre at Le Cheng, Hainan to complement its three existing hospitals in China.

   Having identified impairment indicators in its China hospitals, the Group reviewed and recognised impairment losses for Raffles Hospital Shanghai and Raffles Hospital Chongqing amounting to $5.26 million and $4.70 million respectively.

   An impairment loss was also recognised for the China clinics cash-generating-unit (CGU) which was fully allocated to goodwill and included 'impairment loss on intangible assets and goodwill'.

1.1. Can Management help shareholders better understand whether all the operating constraints in China have been removed, and the Group is fully operational since early 2023?

<u>RMG's Response:</u>

a) With the relaxation of COVID-19 containment policies in China, local and expatriate patients can now return to seek treatment at our China hospitals and medical clinics. Our operations in China will continue to benefit from the lifting of travel restrictions and the Group looks forward to accelerated growth in China in 2023 and beyond.

1.2. Can Management explain the specific reasons for the impairment of property, plant, and equipment at *RafflesHospitalShanghai* and *RafflesHospitalChongqing*, amounting to $5.26 million and $4.70 million, respectively?

<u>RMG's Response:</u>

a) With reference to Note 4 of the financial statements in page 148 of the annual report, the Group carried out a review of the recoverable amount of ***RafflesHospitalShanghai****'s* and ***RafflesHospitalChongqing****'s* property, plant, and equipment, having regard to weaker operating performance of the hospitals which had been affected by the outbreak of COVID-19 in China.

b) ***RafflesHospitalShanghai*** and ***RafflesHospitalChongqing*** were assessed as separate CGUs. The recoverable amounts of these two CGUs were estimated using the fair value less costs to sell approach, based on independent valuations undertaken by a professional valuer at the reporting date.

c) The review led to the recognition of an impairment loss of $5.26 million and $4.70 million respectively on ***Raffles*****HospitalShanghai***'s* and ***Raffles*****HospitalChongqing***'s* property, plant, and equipment, which have been recognised in profit or loss and presented as 'impairment loss on property, plant and equipment'.

1.3. Given the impairment losses of goodwill associated with the China clinic CGU, which were $5.87 million and $3.78 million in 2022 and 2021 respectively, how does this affect the Group's strategic growth plans for clinics in China?

RMG's Response:

a) At the end of each financial year, the China clinics CGU is assessed based on its operational matrices to determine if impairment of goodwill associated with that CGU is required. Impairment of goodwill affects the carrying value of China clinics CGU on the balance sheet of the Group and has no impact on the operations of these clinics.

b) The Group's China clinics had been impacted by the country's zero-tolerance policy for COVID-19. Although our China clinics continued to operate during the respective lockdowns, our China operations faced staffing constraints as well as interruption to patients' access to our hospitals and clinics during this period.

c) With the relaxation of COVID-19 containment policies in China and barring unforeseen circumstances, the Group is hopeful that our operations in China will improve. The Group takes a long-term view on China and remains committed to advancing our China operations across our clinics and hospitals through continued focus on quality patient care and leveraging the Group's medical expertise and strengths in operational efficiency.

1.4. The Chairman had also stated his intention to expand the Group's regional presence as demographic trends in Asia continue to drive demand for quality healthcare.

Can Management provide clarification on whether the Group plans to slow down its investments in China and shift focus towards scaling up in countries other than Singapore and China? If so, which countries/cities hold the most potential for growth? Will the expansion strategy primarily rely on organic growth or involve acquisitions?

RMG's Response:

a) The Group continually evaluates opportunities for growth in various overseas markets, including those in neighbouring countries such as Indochina and Indonesia, amongst others. Our expansion strategy is not static and growth can be achieved both organically or through acquisitions. For each opportunity, the Group will evaluate the merits of its investment strategy with a view to delivering longer-term value to our stakeholders.

2. What was the average bed occupancy rate for *RafflesHospitalChongqing*, *Raffles**HospitalShanghai* and *Raffles**HospitalBeijing* versus China private hospital market occupancy rate in year 2022 and what should be the expected bed occupancy rate when everything is back to normal?**

<u>RMG's Response:</u>

a) Throughout most of FY2022, occupancy was impacted by sporadic lock-downs. With COVID-19 containment policies relaxed, the Group has seen improvements in patient volumes at our hospitals and, barring unforeseen circumstances, are hopeful that the trend will continue in FY2023.

3. Please could you provide more details about your strategy and timeline to earn a satisfactory return on the large investment in China?

<u>RMG's Response:</u>

a) For most of FY2022, ***Raffles**ChinaHealthcare* was impacted by China's zero-tolerance policy for COVID-19. With COVID-19 containment policies relaxed, local and expatriate patients can now return to seek treatment at our hospitals and medical clinics in China.

b) The Group continues to target expatriate and foreigner communities as well as wealthy locals and are building up our specialisation in in-demand services such as obstetrics and gynaecology (**O&G**), cardiology, orthopaedics, and cancer treatment. The Group is gaining good traction in the field of O&G, delivery services, and paediatrics.

c) To increase our exposure, the Group's China operations continues to engage with the local community through social media (e.g. WeChat) and to enhance our visibility through corporate health screenings. We also supported the respective local communities in government-led COVID-19 initiatives.

d) When fully open in the second half of FY2023, our new In-Vitro Fertilisation/Assisted Reproductive Therapy (**IVF/ART**) Centre at Bo'ao Lecheng in Hainan will complement our three existing China hospitals' O&G offerings through forming a full life-cycle service chain within our O&G practices for our patients across China. It is estimated that some 40 million women in China may require reproductive fertility assistance.

e) Over the long term, the Group aims to achieve a healthy and sustainable Return on Equity, anchored by our core business in Singapore. Barring any unforeseen circumstances, the Group expects some of its hospitals in China to break even in the next couple of years, which will improve ***Raffles**ChinaHealthcare*'s overall performance.

B. Financials and Operations

4. In page 192 of the annual report Y2022, healthcare services recorded 33.44% profit margin before tax in Y2022, but only 17.1% profit margin in Y2021. Can you explain the reason for such a huge jump in profit margin?

<u>RMG's Response:</u>

a) A combination of product and service mix, combined with better operating leverages helped profit margin improvements.

b) Different revenue drivers, in particular lower PCR revenues, in FY2022 resulted in lower manpower cost and lower purchased and contracted services.

5. In page 192, hospital services recorded only 7% profit margin in both year 2022 and year 2021. May I know what is the percentage split in hospital services revenue between Singapore hospital and China hospitals? And what are the on-going plans from Management to improve the profit margin of hospital services?

<u>RMG's Response:</u>

a) With reference to Note 23 of the financial statements in page 194 of the Annual Report, Greater China currently contributes approximately 7% of the Group's revenue.

b) Due to COVID-19 restrictions imposed for most of FY2022, the Group's China hospitals had not had the opportunity to realise their full potential, resulting in a drag in hospital services margins. With the relaxation of COVID-19 containment policies in China, and barring unforeseen circumstances, the Group looks forward to some improvement in profit margins for ***RafflesChinaHealthcare***.

c) Going forward our key priorities will continue to be the delivery of high-quality care and sustainable growth in attractive markets and synergistic business segments, in addition to building on our momentum as the trusted partner for health in Asia.

6. In page 167, there is $145 million of "accrued operating expenses". Could you help to advise what is the accrued operating expenses?

<u>RMG's Response:</u>

a) The accrued operating expenses are accruals for operating expenses incurred but not paid as at the financial year end. They relate mainly to employee benefits and other operating expenses incurred in the ordinary course of business, such as outsourced radiological, laboratory services, utilities, and professional fees.

7. In page 172, there is total $16.15 million trade receivable which are past due more than 31 days. Can you help to advise a) where are the overdue invoices coming from? b) do we expect these overdue invoices amount to grow when more patients come to Raffles clinic / hospital when COVID-19 becomes endemic in year 2023? If yes, what are the countermeasures from Management to keep the amount within control?

<u>RMG's Response:</u>

a) The overdue invoices relate mainly to corporate and insurance clients who are billed for medical services rendered to their staff and clients.

b) Trade receivables which are more than 30 days past due account for only 2% of the Group's revenue in 2022. To provide better context, impairment loss for trade receivables as a percentage of revenue has been less than 0.4% for the past four years. Nevertheless, we are actively monitoring and proactively managing the debt position through our credit controls to bring down the debt balance.

8. Can the Board/Management provide shareholders greater clarity on the following operational and financial matters? Specifically:

8.1. Foreign patient: As mentioned in the chairman's report, the Group saw a return of foreign patients seeking medical treatment in Singapore. Can Management help shareholders better understand the foreign patient load in 2022? Is it at the pre-COVID levels (or higher)?

<u>RMG's Response:</u>

a) Since Singapore reopened its borders in May 2022, foreign patient numbers in our hospitals and clinics have continued to increase, with a positive trend toward pre-COVID levels.

8.2. Transitional care facility: The Group also started a transitional care facility in July 2022 to manage chronically ill patients from public hospitals to alleviate the burden on the public healthcare system. How much excess capacity (in terms of manpower, medical resources and management time) is there in the Group to run the transitional care facility? Does it take up substantial manpower especially when healthcare workers face the risk of burn-out after 3 years of pandemic? Also, is the transitional care facility operated under the Group's community outreach/social programme or as an extension of the primary care network and managed on a for-profit basis?

<u>RMG's Response:</u>

(a) The Transitional Care Facility is operated as an extension of the Group's healthcare services division and is staffed by a fixed and flexible pool of locum doctors, nurses, healthcare assistants and support workers.

(b) After 3 years of pandemic, the Group has learnt to deploy manpower more efficiently by re-evaluating our staffing needs, adopting new and innovative technologies for rostering, and implementing new processes in our approach to workforce planning and manpower management.

(c) The Group is also mindful of the impact the prolonged pandemic and on-going manpower crunch has had on our people and continues to place emphasis on supporting our staff through greater engagement and talent development, to nurture resilience and the next generation of healthcare leaders and professionals.

8.3. Hospital services: Revenue from the Hospital Services division decreased by 8.6% to $316.3 million, due to a decrease in the number of polymerase chain reaction (PCR) diagnostic tests carried out in FY2022 as compared to FY2021. Excluding revenue from PCR tests, what was the change in revenue for the Hospital Services division?

RMG's Response:

(a) Over the course of the year, the Group's involvement in COVID-19 activities such as PCR tests has tapered off and, consistent with our guidance to the market, is likely to continue to do so. As the world transitions to living with COVID-19, our hospital services revenue continues to be supported by more local and foreign patients returning to seek treatment.

C. Corporate Governance

9. The Group has established an independent internal audit (IA) function that operates separately from the activities it audits. The department responsible for IA adheres to the Standards for the Professional Practice of Internal Auditing set forth by The Institute of Internal Auditors and operates within the framework of its IA Charter, which is approved by the audit and risk committee (ARC).

To develop its audit plans, the IA department adopts a risk-based methodology that aligns its activities with key risks across the Group. Through risk assessments, the IA department determines which areas require greater focus and appropriate review intervals for higher-risk activities and significant internal controls, including compliance with the Group's policies, procedures, and regulatory responsibilities. The ARC reviews and approves the IA plans.

9.1. How large is the in-house IA department and what is the experience level of the IA department head?

9.2. What were the scope, key findings, and recommendations by the IA for FY2022?

9.3. Can the ARC confirm that the subsidiaries in China and the Group's other entities in Cambodia, Hong Kong, Japan and Vietnam were included in the internal audit?

9.4. How were the internal audits carried out in the past 2-3 years when travel restrictions were in place?

9.5. What is the level of oversight by the ARC on the actions taken by Management to follow up on the recommendations?

<u>RMG's Response:</u>

(a) The IA team consists of 4 auditors, reporting to the Head of IA, who has more than 9 years of experience in the field of internal audit. Depending on the demands and scope of audit work for the Group, the IA team supplements its internal resources with the appointment of external audit firms as and when required.

(b) The IA function prepares an annual IA plan for the approval of the ARC. In proposing the scope of audit for approval by the ARC, the IA team determines areas that require greater focus based on assessment of risks and quality of controls in place for the business units. For FY2022, IA audited key business processes and operations for the Group, including subsidiaries in China. Due to constraints imposed by travel restrictions, the audit of Indochina activities was outsourced to an external audit firm.

(c) The ARC reviews reports submitted by IA relating to internal audits conducted, to assess the adequacy and the effectiveness of the Group's risk management and internal controls. Regular updates on internal audit findings are also provided to management by the IA team for prompt rectification of gaps identified. Any material lapses and recommendations for improvement are presented to the ARC and the timely implementation of all such measures are closely monitored. IA performs quarterly follow up on rectification progress by the business units and any outstanding issues requiring attention will be highlighted to the ARC.