SINGAPORE PAINCARE HOLDINGS LIMITED

Company Registration No.: 201843233N
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS FROM SHAREHOLDERS OF SINGAPORE PAINCARE HOLDINGS LIMITED ON ANNUAL REPORT 2023

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*Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the annual report issued to shareholders on 12 October 2023 (the "**Annual Report**").*

The Board of Directors ("**Board**") of Singapore Paincare Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to address the questions received by shareholders relating to the Company's Annual Report for the financial year ended 30 June 2023 ("**FY2023**"). Where necessary, certain editorial amendments to the queries have made to ensure clarity, without amending the meaning of the queries. The Company would like to thank shareholders for submitting their questions in advance of the AGM and wishes to provide its responses as follows:

1. Page 118 - Loss in derivative financial assets - $2,034,000

(a) For KCS case, both call option & put option are derecognised resulting in loss of $2,158,000 and $68,000 respectively. What is meant by derecognised? Does it mean realised losses? i.e. these are not paper loss and irreversible? Please advise.

(b) Can the Board elaborate on the reasons or cause factors that lead to the derecognition of call and put options?

(c) The Board decision not to exercise the call and put option is based on the underperformance of KCS? If not, what is the basis?

<u>**Company's Response**</u>

(a) The call & put options of KCS were recorded as derivative financial assets at initial recognition based on third party valuation reports. As the Company did not exercise the options within the exercisable period, this resulted in the amounts to be derecognised from derivative financial assets and recorded as fair value loss in the profit and loss statement. These amounts are realised losses and irreversible.

(b) The derecognition of call and put options was due to the expiration of the KCS options.

(c) Diversification is a key principle of our investment strategy. By spreading our investments across different asset classes, sectors, and regions, the Company aims to reduce the impact of potential losses from any single investment. The Board considered the potential returns from other investments versus the additional capital required to exercise the call option to buy over the balance 60% shares in KCS. The Board also considered not to exercise the put option to sell the existing 40% shares in KCS as it is profitable since acquisition. Thus, the Board concluded that it is in the best interest of the Company to maintain status quo for the shareholding structure for KCS.

2. **Page 118 - 119 - GMMP and DLSC call and puts**
   Are these derivatives still pending, yet to exercise or also pending derecognition like KCS? Are we expecting another possible loss like KCS cases for these 2 - GMMP and DLSC as well?

   <u>Company's Response</u>

   The options for GMMP will only be exercisable with effect from the financial year ending 30 June 2024 to financial year ending 30 June 2027, and the options of DLSC will only be exercisable with effect from the financial year ending 30 June 2026. As at the date of this announcement, the Group does not expect any derecognition losses for GMMP and DLSC.

3. **In view of questions (1) and (2) above, does the Board intend to continue using call and put options going forward for assets acquired on the way?**
   What safeguards are there to prevent huge losses from these derivatives going forward?

   <u>Company's Response</u>

   The Board is constantly evaluating its investment strategies to ensure responsible and prudent management of the Company's assets. Depending on the circumstances, the use of call and put options could be an integral part of contract negotiation. The general approach and measures we take to mitigate risks associated with derivative instruments like the call and put options are through risk management policies, diligent analysis and research diversification, as well as to conscientiously review and monitor the performance of the related assets.

4. **Page 110 - Joint Venture**
   (a) The company holds 51% of SPCC. Who are the 2 other parties holding the remaining 49%?

   (b) Through SPCC, the company held 2,777,778 Series A+ Pref Shares of PuXiang Healthcare Holding Ltd (PUXH) which is not quoted and is incorporated in Cayman Islands. Are we the only holder of these Pref Shares? Who else also holds such Pref Shares? What is our control/ownership of PUXH? 51% via SPCC?

   (c) The unquoted Pref Shares are valued at $4,080,000 and in SGD. How is the valuation derived? Please elaborate.

   (d) PUXH is incorporated outside China, but has subsidiaries in China that operate community hospitals? So with our holding of the Pref Shares in PUXH and our 51% control in SPCC, do we have 51% control over all the subsidiaries of PUXH in China?

   (e) With (d), will the Company then earn revenue from these overseas subsidiaries? i.e. 51% share of the subsidiaries' earnings?

   <u>Company's Response</u>

   (a) As per the Company's announcement on 13 June 2023, the other 2 shareholders of SPCC are Trident Investment Pte. Ltd. and Glory Partners Capital Pte. Ltd.

(b) As per the Company's announcement on 13 June 2023, the subscription is for 2,777,778 Series A+ preferred shares, representing 2.26%, assuming a fully diluted basis, of the total issued share capital of PuXiang Healthcare Holding Limited **("PUXH")**. The Company does not have details on the rest of the subscribers.

(c) As per the Company's announcement on 13 June 2023, the purchase price was arrived at on a willing-buyer, willing-seller basis, after taking into consideration factors such as the net asset value, past revenue and net profit of the PUXH, the price of the shares of the PUXH for its Series A investors and the synergies and potential future collaborations between the PUXH and the Group.

(d) As per the Company's announcement on 13 June 2023, PUXH is a holding company and through its subsidiaries, owns and operates 15 community hospitals in 3 provinces, namely Beijing, Hebei and Tianjin, in China. These hospitals provide specialised services such as chronic disease treatment, Aesthetics, Dentistry, Endoscopy, Gynaecology, Kidney treatment, Oncology, Orthopaedics, Paincare treatment, Pediatrics, Physiotherapy, Tumour treatment, Traditional Chinese Medicine and Urology. Singapore Paincare Capital Pte Ltd was incorporated as an investment holding company to hold the unquoted Series A+ preferred shares of PUXH. The Group does not have 51% control over all the subsidiaries of PUXH in China.

(e) As per the Company's announcement on 13 June 2023, the investment is part of the Group's strategy to expand its business operations outside Singapore and thereby to tap and grow its business opportunities. The Group believes that the overall business strategies of PUXH are complementary to the business of the Group and the said investment stake in the PUXH will allow the Group to leverage on and gain access to resources and clinical assets, especially in the paincare segment, within the healthcare market in China. The Group has entered into the memorandum of understanding to look into opportunities to collaborate and expand its paincare business in China. Looking ahead, we expect our China operations to start contributing to our topline as we gradually roll out our services across PUXH's 15 community hospitals.

5. Page 136 Note 36.2 - Beijing Puxin Hospital Management Limited

(a) What is the objective of setting up this new entity with a committed 34.3% interest in equity?

(b) Is this related to the setup of SPCC (51%) and Pref Share holding (51%) in PUXH?

(c) If yes, how does this new entity fit into the whole setup of SPCC and Pref share holding in PUXH? For eg. the new entity will manage all the community hospitals under PUXH in China?

(d) If yes to (c), the company will have the following income from the community hospitals in China under PUXH as below:

- 51% from the earnings of the community hospitals?

- 34.3% from the management fees of these hospitals?

Company's Response

(a) The purpose of the incorporation of Beijing Puxin Hospital Management Limited **("BPH")** is to carry out the business by offering the following services:
1. Provision and development of pain treatment systems, technical services, technology introduction and other related services.
2. Set up a group for doctors specialising in pain management to provide pain management and other related services.
3. Provide professional skills training related to pain treatment and nursing for doctors.

(b) The incorporation of BPH is related to the memorandum of understanding dated 12 June 2023, as referred to in the Company's announcement dated 13 June 2023 and the joint venture agreement dated 4 July 2023, as referred to in the Company's announcement dated 6 July 2023. For avoidance of doubt, the Group does not hold 51% of the preferred shares in PUXH. Please refer to the response to question 4(b) above for further details of the Group's holdings in PUXH's preferred shares.

(c) The incorporation of BPH is related to the memorandum of understanding dated 12 June 2023, as referred to in the Company's announcement dated 13 June 2023 and the joint venture agreement dated 4 July 2023, as referred to in the Company's announcement dated 6 July 2023. BPH will not manage all the community hospitals under PUXH in China. Information on BPH's activities are set out in the response to question 5(a) above.

(d) Please refer to the Company's responses above. BPH will not manage all the community hospitals under PUXH in China.

6. Page 127
Low value asset expensed off $120K. What are these expenses?
Low value lease expenses $7K. What lease expenses are these?

Company's Response

Low value asset expensed off of $120,000 are assets below the Group's property, plant and equipment capitalisation policy. Low value lease expenses of $7,000 consists of storage rental costs.

7. The IPO prospectus stated that the Group intended to pay out at least 70% of its profits after tax from FY20-22. Can you provide an outlook for future dividends?

Company's Response

The Company remains committed to declare dividends, taking into consideration the financial performance of the Group, cash flow generation, debt covenants and projected capital requirements to support business growth.

8. The share subscription in PUXH is the largest investment made by the Group since its IPO. The high earnings multiple paid marks a significant departure from the less than 10 times earnings paid for previous local acquisitions. Can you share more details about the thought process behind the PUXH investment?

<u>Company's Response</u>

As per the Company's announcement on 13 June 2023, the purchase price was arrived at on a willing-buyer, willing-seller basis, after taking into consideration factors such as the net asset value, past revenue and net profit of PUXH, the price of the shares of PUXH for its Series A investors and more importantly, the synergies and potential future collaborations between PUXH and the Group.

9. Employee expenses have increased alongside the Group's expansion, but revenue has not grown at the same rate. Is there a reason for this? Does this mean that the Group is unable to pass on cost increases?

<u>Company's Response</u>

The increase in employee benefits expenses was mainly due to the increase in number of headcount due to the acquisition and incorporation of the new clinics in FY2023, and the increase in remuneration given to the practitioners and staff for the additional hours worked. For new clinics, building a strong patient base is a gradual process that involves fostering trust, providing exceptional care, and engaging with the community effectively.

While expenses have increased, we are continually working on optimising our operations and enhancing efficiency. Operational improvements are an ongoing focus to balance the cost equation and improve overall profitability.

By Order of the Board

Lee Mun Kam Bernard
Executive Director and Chief Executive Officer

20 October 2023

The contact person for the Sponsor is Mr. Pong Chen Yih, Chief Operating Officer, at 7 Temasek Boulevard, #18-03B Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.