MEDINEX LIMITED
Incorporated in the Republic of Singapore
Registration No. 200900689W

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON ANNUAL REPORT 2020

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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 7 August 2020 (the "**Annual Report**").*

The Board of Directors (the "**Board**") of Medinex Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") relating to the Company's Annual Report for the financial period between 1 January 2019 to 31 March 2020 and appends the replies as follows:

<u>Question 1 from SIAS:</u>

As noted in the letter to shareholders, the group achieved an increase in profit attributable to owners of the company from approximately $0.82 million in the financial year ended 31 December 2018 to approximately $3.64 million in FY2020 (a 15-month period due to the change in financial year).

The group has executed on its "growth through acquisition" strategy and has made the following investments in the past 15 months:
- Sen Med Holdings, a predominantly X-ray and health screening business
- Ark Leadership & Learning Pte. Ltd. ("Ark"), a human resource consultancy firm
- a redeemable convertible loan into Nuffield Dental Holdings Private Limited
- SKI Corporate Services Pte. Ltd. (currently known as Medinex Advisory Pte. Ltd.) and SKI Consultancy Pte. Ltd. which provide business support services such as accounting, tax and corporate secretarial services
- Convertible loan agreement of $750,000 with Singapore Paincare Holdings Limited (which has since been converted into shares)

As at 30 July 2020, the group increased its investment in Singapore Paincare Holdings to $1.92 million, which is nearly 20% of the group's audited net tangible asset as at 31 December 2018.

(i) As shown above, the acquisitions were made in different areas, including minority investments in other listed companies. **Would management provide shareholders with a more holistic view of the group's acquisition strategy (including the capital allocation)? In particular, is it a key strategic thrust for the group to acquire more medical services businesses/clinics?**

(ii) The medical support services business segment grew strongly in FY2020 and remains the biggest contributor of profit for the group. **Would management help shareholders understand the key drivers for the strong performance in the medical support services segment? Please provide a breakdown to show the organic growth (on a 12 month, year-on-year basis) and the increase due to newly acquired businesses. Are there any services or technologies that the group would be looking to add to this segment?**

(iii) **Does management have the experience and the bandwidth to oversee an increasingly diverse and larger network of businesses? What is the level of oversight by the board and by management of its non-controlling investments?**

Company's responses:-

(i) The Group aims to provide the one-stop solution to help entrepreneurs to start-up and grow their business through our support platform. One way to keep our support platform relevant and value-adding to our clients is to ensure the platform continues to grow in its offerings that will impact the clients' business positively. Our acquisition and investment strategy is therefore to focus on partnerships that will enhance our competitive advantage through expanding our current suite of services complementary to client's business. In addition, it is pertinent for acquisition or investment to help mitigate the market and technology risks which may increasingly pose as a threat to the services we are offering.

The capital allocation is in line with the usage of IPO net proceeds as indicated in the offer document.

(ii) The key drivers for the strong performance in the medical support services in FY2020 were mainly due to additional services provided to existing clients and the increase in new clients. The organic growth from this segment was 16.3% for FY2020. The new acquisitions contributed to the growth in the business support services and medical services amounting to approximately 26.3%.

As highlighted in the Annual Report, the Group has set up the digital supply-chain portal - Clinickaki.sg – to provide seamless online services for potential and existing clients. This portal intends to serve as a one-stop service and distribution point for medical services and related supplies. It hosts a pool of medical practitioners, specialists and nursing professionals which provides the locum services for the medical clinics. The portal will also act as a meeting point for potential buyers and sellers of medical practices. In addition, we are setting up a separate digital media business unit to support our clients in marketing their services and accelerating the online presence.

(iii) The larger network of businesses will be spearheaded by Ms. Jessie Low Mui Choo, the Executive Director and Chief Executive Officer of the Company, together with the Group's key management personnel, whose collective responsibilities include, but not exhaustive, of formulating growth strategy, appropriating the necessary business resources and overseeing the entire operations of the larger network of businesses.

Prior to venturing into any acquisitions or investments, the Company will conduct the relevant financial analysis. Further to that, all relevant documentation will be documented in the Board's paper for the Board's perusal and approval. There is also regular reporting by the management on a monthly basis to monitor the performance of these acquisitions and investments. The Board will be updated on a quarterly basis.

Question 2 from SIAS:

The "Impairment assessment of goodwill" is a key audit matter (KAM) highlighted by the independent auditor (page 46). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 March 2020, the group's goodwill amounted to approximately $6,845,000, which included the goodwill of approximately $3,206,000 arising from new acquisitions during the financial period from 1 January 2019 to 31 March 2020. Goodwill accounted for more than 35% and approximately 47% of the group's total assets and total equity respectively.

(i) **What guidance has the board given to management as the group carries out its acquisitions? Specifically, how does the group maintain prudence and acquire companies/businesses at fair prices without overpaying for aggressive assumptions in its valuation models?**

(ii) On page 81, the group has shown the revenue growth rate assumptions that were used in the value-in-use calculations.

Key assumptions used for value-in-use calculations:

	Revenue growth rate	
	31 March 2020	31 December 2018
Nex	**−33% to 3%**	5% to 7%
Acctax	**−10% to 5%**	-5% to 9%
PPS and Jo-L	**−32% to 1%**	3% to 6%
SMH	**−66% to 157%**	–
ALL	**−20% to 9%**	–
SKI Group	**−30% to 2%**	–

Given the defensive/non-discretionary nature of most of the group's businesses, can management help shareholders understand the reasons for the significant (projected) negative growth rate? Can management elaborate further on its pro-active plans to maintain/increase revenue?

(iii) **Would the group be including the Purchase Price Allocation reports for its acquisitions in the annual reports?**

(iv) In particular, for the acquisition of Ark Leadership & Learning ("Ark"), prior to the company's acquisition, the revenue for Ark was $280,605 in FY2018 and the gross profit was $266,709. Net profit before and after tax were $205,569 and $191,340 respectively. However, the vendor had paid out a dividend of $270,000 and the company acquired Ark for $1.008 million when the total equity with just $4,129. On page 81, it is shown that the goodwill allocated to Ark is $871,648. **Can the board help shareholders understand if the vendor (Ms Low Mui Keow, Valerie) continues to be employed directly by Ark and that her remuneration will be recognised as staff cost affecting the net profit of Ark?**

Under the terms of the sale and purchase agreement, the vendor of ALL had provided a profit guarantee that the aggregate profit after tax of for a three-year period commencing from 1 April 2019 and shall not be less than $576,000.

In addition, as Ms Low Mui Keow, Valerie is the immediate family of a director, the CEO and substantial shareholder, would the company be disclosing her remuneration in bands no wider than $100,000 in its annual report (if the remuneration exceeds $100,000 during the year)? This is the requirement of Provision 8.2 in the Code of Corporate Governance 2018.

Company's responses:-

(i) The acquisitions and investments made by the Company are in line with its investment policies and guidelines. These policies and guidelines are supported with market research and analysis to ensure prudence in the investments. In addition, the Company engages independent third party valuers to conduct purchase price allocation exercises for its acquisitions to ascertain fair value. The Board provides insights for all the acquisitions and investments which are discussed with rigor before the Company proceeds with the plan.

(ii) The Company wishes to highlight that the negative growth rate is due to the comparison of the 15 months revenue for the financial period January 2019 to March 2020 to the 12 months forecast for the financial period from 1 April 2020 to 31 March 2021. However, even if the comparison was normalized to 12 months period, the growth rate remains negative due to the Covid-19 situation as the Company takes a more conservative approach towards their revenue growth projection.

To maintain/increase revenue, the Company launches the H.O.P.E strategies. Please refer to the Annual Report for more details which was published on the SGXNET and the corporate website on 7 August 2020 under the section on “Letter to Shareholders”.

(iii) Due to confidentiality, the Company will not be sharing the purchase price allocation reports.

(iv) In relation to Ms. Valerie Low’s employment, the Company wishes to clarify that Ms. Valerie Low is employed directly under the Company as the business development director. In addition, she also holds the position of the managing director of Ark Leadership & Learning Pte. Ltd. (“**Ark LL**”). Accordingly, her remuneration is paid by the Company which will be charged out subsequently to Ark LL and affecting the profit of Ark LL. This is consistent with the Company’s practice.

The Company would like to highlight that upon the completion of acquisition of Ark LL on 6 May 2019, the remuneration of Ms. Valerie Low did not exceed S$100,000 for the period from 6 May 2019 to 31 March 2020. Notwithstanding the aforementioned, the Company had made the necessary disclosure on Ms. Valerie Low’s remuneration on page 30 of the Annual Report.

Question 3 from SIAS:

On 5 August 2020, the company announced that there were material variances between the audited financial statements for the financial period ended 31 March 2020 and the unaudited financial statements for the financial period ended 31 March 2020 which was first released by the company on 23 July 2020.

Following the finalization of the audit, certain adjustments and reclassifications proposed by the external auditors to the unaudited statement of financial position and consolidated statement of cash flows for FY2020 were adopted.

Reasons for the adjustments/reclassifications included:
- recognition of the share of results at company level instead of group level for an investment that was classified as financial asset at fair value through profit or loss
- increase in interest income mainly due to reclassification of other income to interest income
- reclassification of purchase consideration
- offsetting amount owing to director of subsidiary against the dividends paid to non-controlling interests
- reclassification of income tax paid from other payables

In the previous financial year, on 5 April 2019, the company had also announced that there were variances between the audited and unaudited financial statements for the financial year ended 31 December 2018.

Reasons for the adjustments/reclassifications included:
- decrease in other income mainly due to reclassification of ad-hoc service income from other income to revenue
- decrease in changes in inventories mainly due to reclassification of inventories written off from other expenses
- loss allowance on receivables being reclassified from other expenses
- increase in finance lease payables mainly due to the reclassification of financial lease payables from non-current to current for the portion of liabilities due within the next 12 months

The adjustments/reclassifications were as large as $4.15 million.

Since the listing, the company has had to announce material variances between the audited financial statements of the group and the unaudited results for both of its full year financial statements.

The group provides business support services including accounting and corporate services to companies as an ancillary service. It has also been accredited as an Accredited Training Organisation (ATO) for the attainment of the Chartered Accountant (Singapore) designation.

(i) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

(ii) **Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

(iii) **Is the company (and its officers) familiar with Singapore Financial Reporting Standards (International)?** The reasons for the material discrepancies included the reclassification of financial lease payables from noncurrent to current for the portion of liabilities due within the next 12 months.

(iv) **Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**

(v) **Specifically, what was the level of involvement by the AC chairman and each of the AC members in the preparation of the financial statements? Has the AC been effective in the discharge of its responsibilities?**

(vi) **Can the AC update shareholders on the improvements made/to be made to the group's financial reporting systems and processes?**

(vii) **What guidance has the sponsor given to the company in the area of financial and reporting matters and the effectiveness and adequacy of the internal control and procedures?**

Company's responses:-

(i) The finance team is staffed by qualified professionals with the relevant experience and has adequate resources to prepare the financial statements in accordance with the relevant Acts and financial reporting standards. Ms. Low Siam Kiang, the Financial Controller ("**FC**"), is highly qualified with more than 20 years in accounting and finance. The Company has also engaged a reputable external auditor Messrs BDO LLP to audit its financial statements. The finance team works closely with the external auditor on the applications of new standards. The reclassification of $4.15 million from investing activities was due to the fixed deposits being considered as short term and liquid instrument, which was classified as part of cash and cash equivalents in annual report.

(ii) The audit committee ("**AC**") has evaluated and noted the experience and qualifications of the finance team and is of the opinion that the internal financial reporting / finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements

(iii) The Company confirms that its officers are familiar and comply with the Singapore Financial Reporting Standards (International).

(iv) The AC comprises of members with relevant qualification and financial management expertise. Please refer to pages 4 and 5 of the Annual Report for more details on the experience of the AC members.

(v) AC Chairman and the members meets with the management every six months to discuss on the Group's financial results and other financial issues prior to recommending the relevant financial results announcement to the Board for release to shareholders. The AC also has direct access to the key management personnel if they have any queries or comments prior to the meeting and after the meeting where amendments need to be made pursuant to discussions during the AC meeting. The AC has also met with the external and internal auditors without the presence of management and provided guidance where necessary on maintaining the integrity of the Group's financial statements. Accordingly, the AC is of the view that it has effectively discharged its responsibilities

(vi) The Group FC makes quarterly reporting to the AC on the financial performance of the Company as well as provide any updates on its internal processes. The finance team will also ensure that there is adequate time given to the AC to review and analyze the financial statements. There are also continuous efforts by the Group to strengthen its internal processes through internal audit, stringent monitoring of operations and reporting.

(vii) The Sponsor provides guidance and/or reminders on the appropriate SGX Catalist rules in relation to the financial and reporting matters on an ongoing basis. The Sponsor also provides feedback to the Company's management and board of directors on market and regulatory expectations in order to enhance the Company's decision making and to ensure that the Company meets its continuing obligations. The Sponsor works with other professionals, such as the Group's external and internal auditors, to offer recommendations to strengthen the Group's internal controls and procedures on a timely basis.

By Order of the Board

Jessie Low Mui Choo
Executive Director and Chief Executive Officer

24 August 2020

Medinex Limited (the "**Company**") was listed on Catalist of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 7 December 2018. The initial public offering of the Company was sponsored by Novus Corporate Finance Pte. Ltd. (the "**Sponsor**").

This announcement has been prepared by the Company and reviewed by the Sponsor, in compliance with Rule 226(2)(b) of the SGX-ST Listing Manual Section B: Rules of Catalist.

The contact person for the Sponsor is Mr. Pong Chen Yih, Chief Operating Officer, at 9 Raffles Place, #17-05 Republic Plaza Tower 1, Singapore 048619, telephone (65) 6950 2188.