GLOSSARY OF ABBREVIATIONS AND DEFINITIONS

The following terms and abbreviations are used in this Report:

Abbreviation	Definition
Companies / Entities	
ACRA	Accounting and Corporate Regulatory Authority
Bo Ao	Hangzhou Bo Ao Dental Centre Co Ltd (杭州博奥口腔门诊部有限公司)
China Healthway	China Healthway Pte Ltd
Company	Healthway Medical Corporation Limited
Crane Medical	Crane Medical Pte Ltd
Da Rui Tong	Shanghai Da Rui Tong Hospital Investment Management Co Ltd (上海大瑞同医院投资管理有限公司)
Evodia	Evodia Investments Limited
Exchange	Singapore Exchange Securities Trading Limited
Group	Healthway Medical Corporation Limited and its subsidiaries
HMC Kang Hong	Kang Hong (Shanghai) Finance Lease Co Ltd
Heng Jie Computer	Shanghai Heng Jie Computer Co Ltd (上海恒洁电脑有限公司)
HME	Healthway Medical Enterprises Pte Ltd
HMG	Healthway Medical Group Pte Ltd
Hong Yi	Shanghai Hong Yi Investment Consulting Co Ltd (上海弘懿投资咨询有限公司)
IFC	International Finance Corporation
IHC	International Healthway Corporation Limited
Jun Kang	Hangzhou Jun Kang Consulting Investment Co Ltd (杭州隽康投资咨询有限公司)
Kang An	Shanghai Kang An Hospital Management Co Ltd (上海康安医院投资管理有限公司)
Kang Liang	Shanghai Kang Liang Dental Centre Co Ltd (上海康靓口腔门诊部有限公司)
Kang Shi	Kang Shi Hospital Management (Shanghai) Co Ltd (康适医院管理(上海)有限公司)
Kang Wei	Kang Wei Investment Consultancy (Shanghai) Co Ltd (康威投资咨询(上海)有限公司)
Kang Wei Medical Centre	Shanghai Kang Wei Medical Centre Co Ltd (上海康威门诊部有限公司)

Abbreviation	Definition
KPMG	KPMG LLP, former auditors of the Company (16-Jan-2008 to 3-Aug-2012)
MinterEllison	MinterEllison Shanghai Office
Nobel Hospital	Shanghai Nobel ENT Hospital Co Ltd (上海诺美尔眼耳鼻喉科医院有限公司)
OOL	One Organisation Limited
PrimePartners	PrimePartners Corporate Finance Pte Ltd
Pudong Medical Centre	Shanghai Pudong Wei Rui Medical Centre Co Ltd (上海浦东威瑞门诊有限公司)
PwC	PricewaterhouseCoopers LLP, auditors of the Company (Date of Appointment: 3-Aug-2012)
Shanghai Wei Yi	Shanghai Wei Yi Consulting Pte Ltd (上海魏屹商务咨询有限公司)
Wei Yi	Wei Yi Shi Ye Co Ltd (上海威义实业有限公司)
Wei Yi Entities	Medical centres owned by Wei Yi as well as Wei Yi
Wei Yi Kang Hong	Kang Hong (Shanghai) Medical Equipment Lease Co Ltd (上海康闳医疗设备租赁有限公司)
Xin Yi	Shanghai Xin Yi Dental Centre Co Ltd (上海心怡口腔门诊部有限公司)
Zhi Nuo	Shanghai Zhi Nuo Dental Centre Co Ltd (上海智诺口腔门诊部有限公司)
Zhuo Wei	Hangzhou Zhou Wei Health Management Co Ltd (杭州卓唯健康管理有限公司)

Individuals

Dr. Adrian Francis Leong	Dr. Adrian Francis Leong Peng Kheong, former Managing Director and Independent Director of the Company (1-Feb-2011 to 30-Sep-2011)
Dr. Jay Lu	Dr. Lu Jiade Jay, former Independent Director of the Company (14-Jul-2009 to 22-Mar-2012)
Dr. Jong Hee Sen	Dr. Jong Hee Sen, former President, Executive / Non-Executive and Non-Independent Director of the Company (16-May-2007 to 8-Jul-2013)
Dr. Wong Weng Hong	Dr. Wong Weng Hong, former Managing Director of the Company (16-May-2007 to 18-Aug-2010)

Abbreviation	Definition
Mr. Arthur Raymond (Deceased)	Mr. Arthur Raymond Ouellette, former Independent Director of the Company (3-Apr-2008 to 19-Jul-2011)
Mr. Eric Wong	Mr. Wong Ong Ming Eric, former Non-Executive Non-Independent Chairman of the Company (5-May-2015 to 20-Jul-2017)
Mr. Fan Kow Hin	Mr. Fan Kow Hin, former Executive Chairman of the Company (16-May-2007 to 5-May-2015)
Mr. Fan Ping Li	Mr. Fan Ping Li, the son of Mr. Fan Kow Hin
Mr. Ho Sun Yee	Mr. Ho Sun Yee, former Independent Director of the Company (13-Jul-2016 to 19-Jul-2017)
Mr. Ivan Png	Mr. Png Paak Liang Ivan, former Independent Director of the Company (3-Apr-2008 to 30-Sep-2011)
Mr. Lam Pin Woon	Mr. Lam Pin Woon, former President & Executive Director of the Company (1-Jan-2011 to 30-Nov-2012)
Mr. Moses Lin	Mr. Lin Weiwen Moses, Independent Director of the Company (Date of Appointment: 1-Aug-2016)
Mr. Pee Tong Lim	Mr. Pee Tong Lim, former Independent Director of the Company (28-May-2012 to 10-Aug-2016)
Mr. Siew Teng Kean	Mr. Siew Teng Kean, former Independent Director of the Company (3-Apr-2008 to 8-Jul-2013)
Mr. Sonny Yuen	Mr. Sonny Yuen Chee Choong, Independent Director of the Company (Date of Appointment: 10-Mar-2014)
Mr. Syed Abu Bakar	Mr. Syed Abu Bakar Bin S Mohsin Almohdzar, former Independent Director of the Company (28-May-2012 to 10-Aug-2016)
Mr. Tan Kuang Hui	Mr. Tan Kuang Hui, former Independent Director of the Company (1-Sep-2011 to 5-Mar-2012)
Mr. Yang Zheng	Mr. Yang Zheng (杨政), the sole shareholder of Wei Yi
Mr. Yeo Kay Beng	Mr. Yeo Kay Beng, former sole shareholder of HME (15-Nov-2010 to 20-Apr-2017)

Abbreviation	Definition
Mr. Yeow Ming Ying	Mr. Yeow Ming Ying, former Executive and Non-Executive Director of the Company (10-Mar-2014 to 10-Aug-2016)
Ms. Angeleca Lim	Ms. Lim Beng Choo Angeleca, former Financial Controller of the Company (Mar-2008 to Oct-2013)
Ms. Jamie Fan	Ms. Fan Wei Zhi Jamie, the daughter of Mr. Fan Kow Hin
Ms. Khoo Yee Hoe	Ms. Khoo Yee Hoe, former Non-Executive Independent Chairman of the Company (22-Aug-2016 to 19-Jul-2017)
Ms. Kuek Chiew Hia	Ms. Kuek Chiew Hia, former Independent Director of the Company (3-Aug-2008 to 10-Aug-2016)
Ms. Veronica Chan	Ms. Veronica Chan Wee Ping, former President of the Company (Sep-2016 to Jul-2017)

Others

Audit Committee Meeting	Audit Committee Meeting of the Company
Board	Board of Directors of the Company
China	The People's Republic of China
Directors' Meeting	Directors' Meeting of the Company
EGM	Extraordinary General Meeting of the Company
EXCO Meeting	Executive Committee Meeting of the Company
Nominating Committee Meeting	Nominating Committee Meeting of the Company
RMB	Renminbi
S$	Singapore Dollar
US$	United States Dollar

Wei Yi Entities Clinics

Hangzhou Bo Ao Dental Centre	Hangzhou Bo Ao Dental Centre (杭州博奥口腔门诊部)
Hangzhou Fan Man Ting Dental Centre	Hangzhou Fan Man Ting Dental Centre (杭州卓唯健康管理有限公司芳满庭口腔诊所)
Heng Jie Dental	Shanghai Heng Jie Dental Centre (上海恒洁口腔门诊部)
Shanghai Da Tong Dental Centre	Shanghai Da Tong Dental Centre (上海大同口腔门诊部)

Abbreviation	Definition
Shanghai Kang Liang Dental Centre	Shanghai Kang Liang Dental Centre (上海康靓口腔门诊部)
Shanghai Kang Wei Medical Centre	Shanghai Kang Wei Medical Centre (上海康威门诊部)
Shanghai Nobel Ent Hospital	Shanghai Nobel Ent Hospital (上海诺美尔眼耳鼻喉科医院)
Shanghai Wei Rui Medical Centre	Shanghai Wei Rui Medical Centre (上海威瑞门诊部)
Shanghai Xin Yi Dental Centre	Shanghai Xin Yi Dental Centre (上海心怡口腔门诊部)
Shanghai Zhi Nuo Dental Centre	Shanghai Zhi Nuo Dental Centre (上海智诺口腔门诊部)

6.0 EXECUTIVE SUMMARY

A. BACKGROUND AND OUR APPOINTMENT

6.1 The Company is listed on the Catalist Board of the Exchange with effect from 4 July 2008. The sponsor of the Company is PrimePartners.

6.2 The principal activities of the Company are those of an investment company and to carry on the business of healthcare management. The operations of the Group are predominantly based in Singapore and China.

6.3 Concerns were raised by shareholders and the Exchange over the Group's extension of loans (the "**Loans**") to HME and Wei Yi Entities. Based on the unaudited financial statements and dividends announcement of the Group for the financial year ended 31 December 2016 dated 24 February 2017, the Group has made provisions for the Loans, which contributed significantly to the losses suffered by the Group for the aforesaid financial year.

6.4 On 27 February 2017, the Company announced that the Exchange "*has requested the Audit Committee of [the Company] to appoint an independent reviewer to look into the extensions of loans by [the Group] to [HME] and [Wei Yi], with the objective of establishing whether there are any breaches of the SGX-ST Listing Manual Section B: Rules of Catalist*".

6.5 On 11 April 2017, BDO LLP was appointed as the Independent Reviewer to look into the extensions of Loans by the Group to HME and Wei Yi Entities.

(This space has been intentionally left blank.)

B. SCOPE OF WORK

6.6 We set out below, our scope of work in relation to this matter:

a. To review all contracts in relation to the Loans between the Group, HME and Wei Yi Entities;

b. To review the payment vouchers, remittance advices, copies of cheques, deposit / credit advices, bank statements, cash book and ledgers and bank reconciliation statements in relation to the Loans;

c. To review the financial statements, general ledgers and / or other accounting records of the Group in relation to the Loans;

d. To conduct independent searches of HME and Wei Yi Entities to establish whether there is any relationship between the then prevailing Company's substantial shareholders / directors / management, HME and / or Wei Yi Entities;

e. To conduct background checks on HME and Wei Yi Entities (as applicable), with a view to ascertaining the size, financial position, etc. market share of HME and Wei Yi Entities;

f. To review correspondences and / or minutes of meetings (as applicable) on the circumstances leading to the extension of the Loans to HME and Wei Yi Entities;

g. To review the minutes of Directors' Meetings, Audit Committee Meetings, etc. on the considerations, discussions, decisions and / or approval (as applicable) pertaining to the extension of the Loans to HME and Wei Yi Entities;

h. To review correspondences, board deliberations, legal advice and / or other professional advice (as applicable) between the Group and independent lawyers / auditors / other professionals in relation to the Loans including, but not limited to, legal / professional advice received prior to the extension of the Loans, the recoverability of the Loans, the impairment of the Loans, and relevant disclosures relating to the Loans, etc.; and

i. To conduct interviews with the Company's directors / management (including former directors, as applicable) to understand the safeguards that the Group and / or the Company have considered, implemented, etc. to safeguard the risks faced by the Group and / or the Company in respect of the Loans.

C. LOANS EXTENDED TO HEALTHWAY MEDICAL ENTERPRISES PTE LTD

I. Background

6.7 HME was incorporated on 12 February 2000 and its principal activities are the provision of medical services and dealing in pharmaceutical & medical products. HME was a wholly-owned subsidiary of HMG until 15 November 2010 and was part of the Group as HMG is a wholly-owned subsidiary of the Company.

6.8 Pursuant to the term sheet dated 15 November 2010 entered into between HMG and Mr. Yeo Kay Beng, it was agreed that HMG would sell its entire shareholdings in HME, which owned 12 medical clinics in Singapore as at 15 November 2010, to Mr. Yeo Kay Beng for a consideration of S$2 million.

6.9 Other than the term sheet dated 15 November 2010, HMG, HME and Mr. Yeo Kay Beng also entered into the following agreements in 2010:

a. The option agreement dated 15 November 2010[1];

b. The addendums dated 1 December 2010 and 15 December 2010 to the term sheet dated 15 November 2010[2];

c. The management service contract dated 15 November 2010[3]; and

d. A loan facility agreement dated 15 November 2010, in which HMG granted HME a term loan facility of up to S$18 million.

(This space has been intentionally left blank.)

[1] The option agreement appears to have been backdated as the Company's Directors' Resolutions in Writing dated 21 December 2010 mentioned that the draft addendum(s), the draft management service contract and the draft option agreement were approved by the Board and approval was given for the Company to "*take necessary steps to facilitate [HMG] and [HME] to execute*" *the aforesaid agreements.*

[2] The addendums appear to have been backdated as the Company's Directors' Resolutions in Writing dated 21 December 2010 mentioned that the draft addendum(s), the draft management service contract and the draft option agreement were approved by the Board and approval was given for the Company to "*take necessary steps to facilitate [HMG] and [HME] to execute*" *the aforesaid agreements.*

[3] The management service contract appears to have been backdated as the Company's Directors' Resolutions in Writing dated 21 December 2010 mentioned that the draft addendum(s), the draft management service contract and the draft option agreement were approved by the Board and approval was given for the Company to "*take necessary steps to facilitate [HMG] and [HME] to execute*" *the aforesaid agreements.*

6.10 Based on the Register of Members of HME as well as the certified true copy of the Register of Members of HME dated 21 April 2017 extracted from ACRA, we note that the transfer of HME's shares from HMG to Mr. Yeo Kay Beng was completed on 15 November 2010.

6.11 On 21 December 2010, the Company announced, amongst others, that:

a. *"[HMG] has disposed of its entire shareholding interest in its wholly-owned subsidiary, [HME], which currently owns several medical clinics in Singapore, to an independent third party, [Mr. Yeo Kay Beng] for a total sale consideration of S$2.0 million (the "Disposal");*

b. *The sale consideration was arrived at after arm's length negotiations on a willing-buyer, willing-seller basis, taking into consideration the financial position of [HME]. The unaudited net asset value of [HME] as at 30 September 2010 was approximately S$1.15 million;*

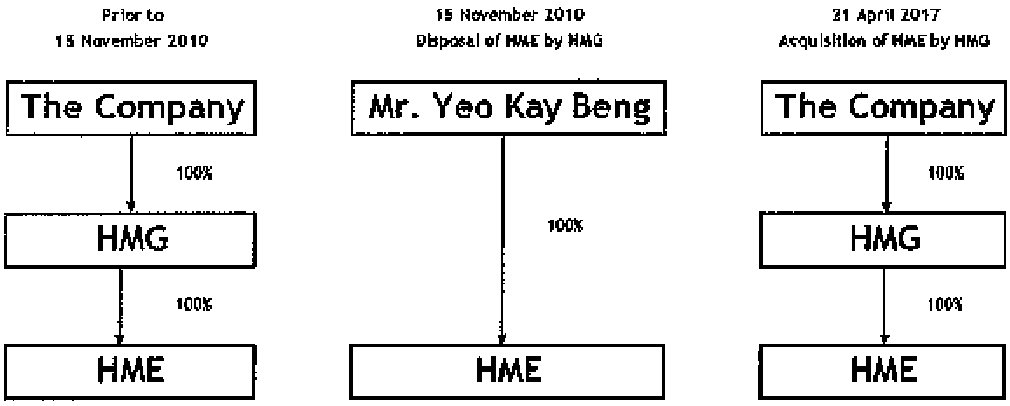
c. *[The Group] will be granted an option to acquire the entire shareholding interest in HME from [Mr. Yeo Kay Beng] within two (2) years from the completion of the Disposal, which is extendable to three (3) years upon mutual agreement, at certain predetermined prices depending on the time of exercise of the option. In addition, [Mr. Yeo Kay Beng] has also granted an option to [the Group] to acquire [HME's] medical clinics, each at a certain pre-determined or agreed upon price, within three (3) years from the date of the grant of the option; and*

d. *[The Group] will also enter into a separate management service contract with [HME] to manage the operations of the medical clinics owned by [HME] for a period of three (3) years, which is renewable upon mutual agreement. [The Group] will receive monthly management fees from [HME] for the provision of such management services"*.

6.12 At the EGM of the Company held on 21 April 2017, the proposed acquisition of HME was approved by the shareholders of the Company. The purchase consideration for the shares of HME, which included all rights and interest to the 24 medical clinics owned by HME, was S$3,540,000. The purchase of the shares of HME by HMG was completed on the same day, i.e. 21 April 2017.

6.13 On the same day, the Company announced, amongst others, that "*the proposed acquisition of [HME]*" was "*duly passed by way of poll*".

6.14 In view of the foregoing, the organisation chart of HME between 2010 and 2017 was as follows:



II. <u>Disposal of Healthway Medical Enterprises Pte Ltd in 2010</u>

6.15 As per the board paper dated 12 November 2010 titled "Disposal of Healthway Medical Enterprises Pte Ltd" which was circulated to the Board for approval, the rationale to dispose HME was as follows:

a. *"[HME] is in a development stage and has many centres which are not performing well. The divestment will improved the performance of [the Group]. [The Company] is expected to provide management for [HME] for a period of gestation before it becomes profitable and self-sustaining;*

b. *[The Company] will earn management fees as the model to reduce impact to the balance sheet;*

c. *This is expected to improve the bottom-line performance of [the Company] in 2011. The Clinic Assets have total start up losses of around S$2m per quarter;*

d. *This will enable current managers of the operating subsidiaries of [the Company] to focus on and to improve the performance of their respective areas; and*

e. *We do not expect to make any provision for the write-offs with the disposal".*

6.16 As per the Company's Directors' Resolutions in Writing dated 21 December 2010, the disposal of HME was approved by the Board (i.e. the Board *"approved, confirmed and ratified"* the executed term sheet dated 15 November 2010 entered into between HMG and Mr. Yeo Kay Beng). We note that the draft addendum(s) to the term sheet dated 15 November 2010, the draft management service contract and the draft option agreement were approved by the Board and approval was given for the Company to *"take necessary steps to facilitate [HMG] and [HME] to execute" the aforesaid agreements.*

III. Agreements Entered Into Between Healthway Medical Group Pte Ltd, Healthway Medical Enterprises Pte Ltd And Mr. Yeo Kay Beng

6.17 In addition to the addendums dated 1 December 2010 and 15 December 2010 to the term sheet dated 15 November 2010 mentioned in paragraph 6.9(b) of this Report, we have also sighted an undated addendum to the term sheet dated 15 November 2010.

6.18 Two further loan facility agreements were entered into between HMG and HME on or around 15 November 2011 and 15 March 2013 respectively. Numerous supplementary addendums were subsequently entered into between HMG, HME and Mr. Yeo Kay Beng in relation to the term sheet dated 15 November 2010 and its addendum(s), the option agreement dated 15 November 2010 and its addendum(s) as well as the loan facility agreements dated 15 November 2010, 15 November 2011 and 15 March 2013.

6.19 In addition to the aforesaid agreements, HMG and HME had also entered into staff secondment agreements and book-keeping fee agreement(s).

6.20 In summary, the following agreements were entered into between HMG, HME and Mr. Yeo Kay Beng:

a. Term sheet dated 15 November 2010 and its addendums (**"HME Term Sheet"**);

b. Option agreement dated 15 November 2010 and the undated addendum to the option agreement dated 15 November 2010 (**"HME Option Agreements"**);

c. Supplementary addendums to the HME Term Sheet and the HME Option Agreements (**"HME Supplementary Addendums"**);

(collectively referred to as the **"HME Sale and Purchase Agreements"**)

d. Management service contract dated 15 November 2010;

e. Loan facility agreements and its addendums ("**HME Loan Facility Agreements**");

f. Staff secondment agreements; and

g. Book-keeping fee agreement(s).

HME Sale And Purchase Agreements

6.21 We set out below, the salient terms of the HME Sale and Purchase Agreements between HMG, HME and Mr. Yeo Kay Beng:

a. The sale consideration was S$2 million (from HMG to Mr. Yeo Kay Beng in 2010);

b. Mr. Yeo Kay Beng and HME shall grant HMG or any subsidiary of the Company a call option to acquire the entire issued and paid capital of HME or each of the 32 clinics sold as well as any new clinic(s) set up by HME;

c. HMG shall provide funding to HME for expansion of new clinic(s) and working capital;

d. HMG shall provide management service to HME and HME shall pay HMG a management service fee of S$100,000 per month or 5% of the monthly revenue of HME (whichever is higher);

e. Under the HME Option Agreements, Mr. Yeo Kay Beng and HME had jointly and severally provided numerous warranties and undertakings to HMG;

f. HMG could exercise the call option once HME was in a net profit position for a period of three consecutive months;

g. The call option price was S$3,540,000 (NB: This was the purchase consideration paid by HMG to Mr. Yeo Kay Beng to purchase the shares of HME from Mr. Yeo Kay Beng in 2017); and

h. The expiry of the call option was extended to 30 June 2017.

Management Service Contract Dated 15 November 2010

6.22 We set out below, the salient terms of the management service contract dated 15 November 2010 between HMG and HME (NB: The management service contract dated 15 November 2010 was executed by Mr. Yeo Kay Beng on behalf of HME):

a. HMG to provide management services to HME which include, but not limited to:

i. General management;

ii. Financial and accounting;

iii. Marketing and sales;

b. HMG shall be paid a management fee of S$100,000 per month or 5% of the monthly revenue of HME (whichever is higher); and

c. The term of the management service contract shall be for a period of three years, with an option to renew for a further three years.

6.23 We have not sighted the written agreement between HMG and HME (if any) on the extension of the management service contract for *"a further term of three (3) years"* after the expiry of the Initial Term (as defined in the management service contract dated 15 November 2010). Nevertheless, HMG continued to charge HME management fees of S$100,000 per month for the period November 2013 to September 2015[4].

HME Loan Facility Agreements

6.24 We set out below, the salient terms of the HME Loan Facility Agreements between HMG and HME:

a. If required by HMG, HME shall provide HMG with the drawing notice(s) to specify the details of the intended drawings;

b. The interest charged on the loans extended by HMG to HME was based on DBS Bank's prime rate;

[4] See Note 12 of the Group's audited financial statements for the financial year ended 31 December 2015.

c. The final repayment date was 30 June 2017; and

d. The total loan facility granted by HMG to HME was S$57 million.

6.25 We also set out below, the details of the loan of S$57 million granted by HMG to HME:

Date Of Agreement	Loan Facility	Additional Loan As Per Addendum [5]	Signed On Behalf Of HMG	Signed On Behalf Of HME
	S$'000	S$'000		
15-Nov-2010	18,000		Mr. Fan Kow Hin	Mr. Eric Wong [6]
15-Nov-2011	5,000		Mr. Lam Pin Woon	Mr. Eric Wong
15-Mar-2013	10,000		Mr. Fan Kow Hin	Mr. Eric Wong
30-Jun-2014		12,000	Mr. Fan Kow Hin	Mr. Eric Wong
30-Sep-2014		7,000	Mr. Fan Kow Hin	Mr. Eric Wong
31-Dec-2014		3,000	Mr. Fan Kow Hin	Mr. Eric Wong
31-Mar-2015		2,000	Mr. Fan Kow Hin	Mr. Eric Wong
Total	57,000			

6.26 We have not sighted any drawing notice from HME to HMG on the purpose of the drawings pursuant to the loan facility agreements dated 15 November 2010, 15 November 2011 and 15 March 2013.

IV. Amount(s) Owing From Healthway Medical Enterprises Pte Ltd

6.27 Based on our findings, we note as follows:

a. The amount owing from HME to the Group was not classified solely as loan receivable[7] but also as trade and other receivables in the Group's audited financial statements;

b. The Group had the rights to set-off the amount owing from the Group to HME against the amount owing from HME to the Group;

[5] The additional loans were *"deemed fully drawdown by [HME] on xxx through the conversion of an amount owing by [HME] to [HMG]"*, where "xxx" denotes the date of the HME Loan Facility Agreements.

[6] Based on the Register of Directors of HME and the people profile search of Mr. Eric Wong dated 2 June 2017 extracted from ACRA, we note that Mr. Eric Wong was appointed the director of HME on 1 December 2010.

[7] The amount classified as loan receivable in the Group's audited financial statements was based on the HME Loan Facility Agreements.

c. After the disposal of HME by HMG in November 2010, the day-to-day transactions between HME and the Group were still recorded as "intercompany transaction" in their accounting systems. At year end, the transactions between HME and the Group were then reclassified and reflected as loan receivable or trade and other receivables in the Group's audited financial statements; and

d. The amount owing from HME was to various entities under the Group and not to HMG solely. The amount owing from HME to the Group also consisted of the loans extended by HMG to HME.

6.28 We set out below, the details of the net amount owing from HME to the Group as at 31 December 2010 to 2016:

Year	Net Amount Owing From HME To The Group[8]	Increase
	S$'000	S$'000
2010	8,109	-
2011	17,466	9,357
2012	30,706	13,240
2013	42,920	12,214
2014	59,703	16,783
2015	67,291	7,588
2016	67,783[9]	492

6.29 The net amount of approximately S$68 million owing from HME to the Group as at 31 December 2016 consisted of the following:

a. Fees charged by the Group to HME; and

b. Net working capital incurred by the Group on behalf of HME.

[8] The net amount is derived from the amount recorded in the Group's HME accounts receivable ledgers less the amount recorded in the Group's HME accounts payable ledgers. As per Note 26(g) of the Group's audited financial statements for the financial year ended 31 December 2016, we note that there is a right of set-off between the Group and HME.

[9] Difference of S$25,000 between the Group's Interco Matrix schedule as at 31 December 2016 and the Group's audited financial statements for the financial year ended 31 December 2016 was due to adjustments not reflected in the Group's Interco Matrix schedule as at 31 December 2016.

6.30 The fees charged by the Group to HME comprised mainly the following:

a. Management fees;

b. Interest charged;

c. Recovery of staff costs;

d. Book-keeping fees; and

e. Rental of medical equipment.

6.31 The net working capital incurred by the Group on behalf of HME comprised, amongst others:

a. Rental expenses;

b. Staff costs (i.e. salaries, CPF, FWL);

c. Utilities;

d. Upkeep of premises;

e. Rental of medical equipment;

f. Purchase of medicine;

g. Insurance;

h. Purchase of assets;

i. Advertisements; and

j. Telecommunication.

(This space has been intentionally left blank.)

6.32 Details of the net amount of approximately S$68 million owing from HME to the Group are as follows:

Year	Net Amount Owing From HME To The Group	Management Fees	Interest Charged	Recovery Of Staff Costs	Book-Keeping Fees	Rental Of Medical Equipment	Net Working Capital
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
	<A>	<B>	<C>	<D>	<E>	<F>	<A - (B + C + D + E + F)>
2016	67,758[10]	5,850	5,580	20,923	896	2,565	31,944

6.33 Based on our review of the samples selected, we note that the net amounts of approximately S$68 million owing from HME to the Group as at 31 December 2016 arose from fees charged by the Group to HME as well as net working capital incurred by the Group on behalf of HME. That is, nothing has come to our attention to suggest that the loans extended by the Group to HME were not for the aforesaid purposes (i.e. fees charged by the Group to HME and net working capital incurred by the Group on behalf of HME).

6.34 We also set out below, the details of the allowance for impairment of S$18 million made for the net amount owing from HME to the Group for the financial years ended 31 December 2010 to 2016:

Year	Net Amount Before Impairment	Allowance For Impairment	Net Amount After Impairment
	S$'000	S$'000	S$'000
	<A>	<B>	<A - B>
2010	8,109	-	8,109
2011	17,466	-	17,466
2012	30,706	-	30,706
2013	42,920	-	42,920
2014	59,703	-	59,703
2015	67,291	3,000	64,291

[10] Amount as per the Group's audited financial statements for the financial year ended 31 December 2016.

Year	Net Amount Before Impairment	Allowance For Impairment	Net Amount After Impairment
	S$'000	S$'000	S$'000
	<A>	<B>	<A - B>
2016	67,758	18,000	49,758

6.35 For the purpose of this Report, we have not carried out an impairment assessment on the recoverability of the net amount owing from HME for the financial years ended 31 December 2010 to 2016.

V. Healthway Medical Enterprises Pte Ltd

Directors of Healthway Medical Enterprises Pte Ltd

6.36 Between November 2010 and January 2016, the former directors of HME were related to or associated with the Group. We set out below, details of the former directors of the Company, HMG and / or HME:

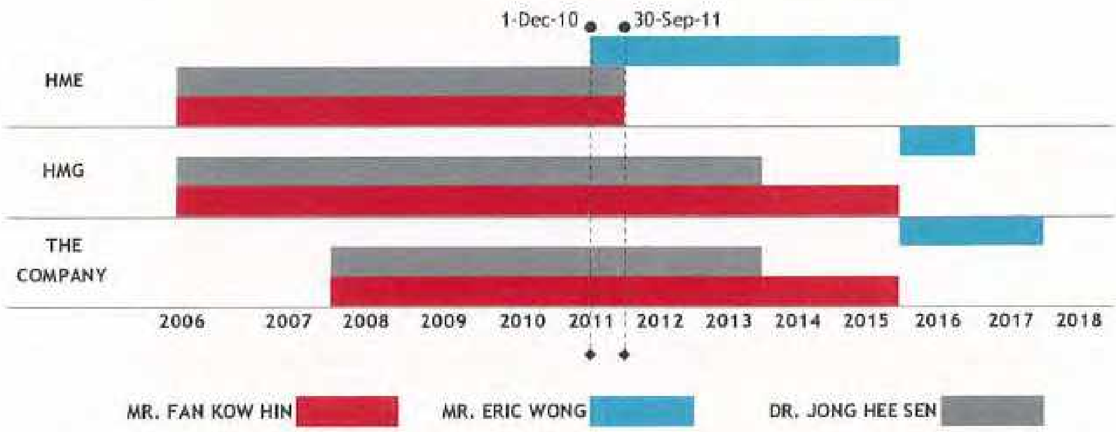
Director	The Company		HMG		HME	
	Date Of Appoint-ment	Date Of Cessation	Date Of Appoint-ment	Date Of Cessation	Date Of Appoint-ment	Date Of Cessation
Mr. Fan Kow Hin	16-May-2007	5-May-2015	16-Feb-2006	6-May-2015	16-Feb-2006	30-Sep-2011
Dr. Jong Hee Sen	16-May-2007	8-Jul-2013	16-Feb-2006	15-Apr-2013	16-Feb-2006	30-Sep-2011
Mr. Eric Wong	5-May-2015	20-Jul-2017[11]	6-May-2015	1-Sep-2016	1-Dec-2010	5-May-2015
Ms. Angeleca Lim	-	-	15-Apr-2013	28-Oct-2013	5-May-2015	6-Jan-2016

6.37 We have been instructed that Mr. Eric Wong was a former employee of the Group but left the Group prior to the listing of the Company in July 2008. We understand from Mr. Fan Kow Hin that Mr. Eric Wong was approached by Mr. Fan Kow Hin to act as a director of HME after HMG had sold its shares in HME to Mr. Yeo Kay Beng as Mr. Eric Wong has extensive experience in the healthcare industry. We also understand from Mr. Fan Kow Hin that Mr. Yeo Kay Beng was agreeable to the appointment of Mr. Eric Wong as a director of HME.

[11] As per the Company's announcement dated 19 July 2017.

6.38 Ms. Angeleca Lim was the Financial Controller of the Company between March 2008 and October 2013 and she was appointed the director of HME between 5 May 2015 and 6 January 2016.

6.39 From the above table, it can be noted that Mr. Fan Kow Hin, Dr. Jong Hee Sen and Mr. Eric Wong were directors of HME between 1 December 2010 and 30 September 2011 and Mr. Fan Kow Hin and Dr. Jong Hee Sen remained as directors of HME for more than 10 months after HMG had completed the sale of its shares held in HME to Mr. Yeo Kay Beng.



6.40 From our interview with Mr. Fan Kow Hin, he informed that the reason(s) why Dr. Jong Hee Sen and he had remained as directors of HME might have been to ensure a "smooth transition" of the business of HME to Mr. Yeo Kay Beng or there might have been an administrative delay in filing their resignation papers with ACRA.

6.41 As per the table set out in paragraph 6.25 of this Report, we note that most of the HME Loan Facility Agreements were executed by Mr. Fan Kow Hin (in his capacity as a director of HMG) on behalf of HMG and Mr. Eric Wong (in his capacity as a director of HME) on behalf of HME. We note that Mr. Eric Wong had, in his capacity as a director of HME, executed the loan facility agreement dated 15 November 2010 entered into between HMG and HME although Mr. Eric Wong was appointed as a director of HME on 1 December 2010 only, which was after 15 November 2010.

(This space has been intentionally left blank.)

6.42 When queried as to why Mr. Eric Wong, who had been appointed as a director of HME on 1 December 2010, had executed the loan facility agreement entered into between HMG and HME which was dated 15 November 2010, Mr. Fan Kow Hin informed that Mr. Eric Wong's appointment as a director of HME might have been confirmed prior to his actual appointment on 1 December 2010. Mr. Eric Wong had therefore, executed the loan facility agreement entered into between HMG and HME, which was dated 15 November 2010. Mr. Eric Wong has confirmed that the loan facility agreement between HMG and HME dated 15 November 2010 was signed by him. However, he could not recall why it was dated on 15 November 2010, which was prior to his appointment as a director of HME on 1 December 2010.

6.43 In term of setting the strategic goals for HME, we understand from Mr. Fan Kow Hin and Mr. Eric Wong that the Group's management would do so although Mr. Eric Wong had the authority and power as a director of HME to reject the strategic goals set by the Group's management.

6.44 The aforesaid does not appear to be supported by Mr. Fan Kow Hin's reply email dated 10 January 2011 to Ms. Angeleca Lim's email dated 8 January 2011, whereby Mr. Fan Kow Hin informed Ms. Angeleca Lim that "*the new [HME] Board will determine the affairs of [HME]. We do not have control of the Board*" as the Group's management was the party setting the strategic goals of HME and making decisions on behalf of HME.

6.45 We set out below, the email correspondences between Mr. Fan Kow Hin and Ms. Angeleca Lim between 8 January 2011 and 10 January 2011 in relation to KPMG's queries on the disposal of HME by HMG to Mr. Yeo Kay Beng:

From Ms. Angeleca Lim to Mr. Fan Kow Hin:

"Hi Mr Fan,

From the discussions that I had with Aaron of [KPMG], following are some of the queries that were being raised, in order to ascertain if the sale is a "genuine sale". Appreciate your comments.

a. *What commercial sense is there for you to sell something which you are going to buy back at a premium of $440k? Rationale of selling if we are expecting 22% growth (based on the 440k extra that we are paying in 2 years' time to buy back).*

b. *What's the substance of the whole transaction? Is it a real sale or just to take the entity off the books for 2 years.*

c. *How did we work out the pricing? Sales price and call option price.*

d. *We have 1 seat on the Board. Do we still have governance? How do we justify that we do not have governance? (a seat on the Board can set the mandate, etc, etc).*

e. *We have call options.*

f. *How do we satisfy that we have fully transferred the risk & rewards? Have we fully transferred the control?*

g. *Announcement indicated buy back of shares, whereas term sheet indicates buy back of assets? Which should it be? There is impact on the valuation of call options.*

Rgds,
Angie"

From Mr. Fan Kow Hin to Ms. Angeleca Lim:

"Angie,

a. *The commercial reason for the sales of [HME] is to divest the unprofitable biz. There is no expectation of 22% growth. The $440k is the option price, should we decide to exercise the Option. It does not reflect our view of the growth rate. It is a Option value agreed with the owner should we decide to exercise the Option.*

b. *This is the divestment of the assets which are unprofitable in [HME], and we have the Option valid for 2 years which we can exercise. If we do not exercise, then the Option expires by the end of 2 years.*

c. *This is based on a "willing buyer-willing seller" basis, and the same is for the Option price.*

d. *The new [HME] Board will determine the affairs of [HME]. We do not have control of the Board.*

e. *The value of [HME] will be determine by [HME] and Board. The risks and rewards will be in the hands of the [HME] Company.*

f. *It is the Option to the [HME] shares.*

Regards
KowHin"

6.46 We have however, not sighted the responses by the Group (if any) to KPMG in respect of the queries raised by KPMG on the disposal of HME by HMG to Mr. Yeo Kay Beng.

6.47 On 22 May 2018, we interviewed Mr. Yeo Kay Beng. The interview notes, duly amended and signed by Mr. Yeo Kay Beng, are as follows:

<u>Prior To The Acquisition Of The Shares Of Healthway Medical Enterprises Pte Ltd</u>

a. *"Mr. Yeo Kay Beng and Mr. Andrew Aathar, a then shareholder of the Company, were former classmates and friends. Sometime in 2010, Mr. Andrew Aathar approached Mr. Yeo Kay Beng to enquire whether Mr. Yeo Kay Beng would be keen to acquire the shares of HME from HMG.*

b. *Prior to the acquisition of the shares of HME, Mr. Yeo Kay Beng did not know or have any relationships with the then Company's substantial shareholders / directors / management save for Mr. Andrew Aathar, who was his former classmate and friend.*

c. *No due diligence was carried out by Mr. Yeo Kay Beng for his acquisition of the shares of HME in 2010. Mr. Yeo Kay Beng also did not seek professional advice in this acquisition save that his friend (not identified) had assisted him to look through the documents that he had to execute for the aforesaid acquisition.*

d. *Mr. Yeo Kay Beng informed that he did not carry out any due diligence of HME or seek professional advice on this acquisition as he had acquired the shares of HME based on his trust in Mr. Andrew Aathar and the expected returns that he would be receiving under the HME Term Sheet.*

e. *As per Mr. Yeo Kay Beng's recollection, the initial understanding that he had with the Company was that he would acquire the shares of HME for a period of one year and would receive his returns for his "investment" in HME thereafter.*

f. *Prior to the acquisition of the shares of HME, Mr. Yeo Kay Beng understood from Mr. Andrew Aathar as follows:*

   i. *HME was then a new "start-up";*

ii. *The Company required some funding;*

iii. *The Company would like to "take this out to build it up independently"; and*

iv. *The Company would like to "take it out of the books of HMG".*

g. *Mr. Yeo Kay Beng informed that the consideration of S$2 million for the shares of HME was proposed by Mr. Andrew Aathar and the Company had "promised and assured" that the Company would buy back the shares of HME from Mr. Yeo Kay Beng.*

h. *[Mr. Yeo Kay Beng] was only aware of the medical clinics owned by HME which were listed in the HME Term Sheet.*

i. *Mr. Yeo Kay Beng was liaising with Mr. Andrew Aathar and Mr. David Yan* (the Company's former General Manager, Corporate Finance) *of the Company for his acquisition of the shares of HME in 2010.*

j. *As per Mr. Yeo Kay Beng's recollection, the consideration of S$2 million (from Mr. Yeo Kay Beng to HMG in 2010) was paid sometime in 2011 by instalments.*

k. *Prior to his acquisition of the shares in HME, Mr. Yeo Kay Beng did not know or have any relationships with Mr. Eric Wong.*

<u>After The Acquisition Of The Shares Of Healthway Medical Enterprises Pte Ltd</u>

l. *Mr. Yeo Kay Beng was merely a "pure investor" and "sleeping partner", and does not have the knowledge to manage the operations of a healthcare business. In this regard, he did not nominate himself to be a director of HME.*

m. *During his tenure as a shareholder of HME, Mr. Yeo Kay Beng informed as follows:*

i. *He had met some of the Group's finance personnel, i.e. Mr. David Yan, Ms. Angeleca Lim, etc.;*

ii. *He had met Mr. Fan Kow Hin once after 2014 to discuss on the transfer of the shares of HME to HMG;*

iii. *He had met Mr. Sonny Yuen some time in 2015 or 2016 to discuss the steps required to be taken for the transfer(s) of the shares of HME from Mr. Yeo Kay Beng to HMG as this has been long past the [three] year period as agreed; and*

iv. *He had never met and spoken to Mr. Eric Wong. The appointment of Mr. Eric Wong as a director of HME in 2010 was nominated by the Company and Mr. Yeo Kay Beng had executed the necessary documents in his capacity as a shareholder of HME to appoint Mr. Eric Wong as a director of HME.*

n. *As per Mr. Yeo Kay Beng's recollection, the documents that he had executed in his capacity as a shareholder of HME were the appointment of director(s) of HME, appointment of auditors of HME and the approval of the director's fees during his tenure as a shareholder of HME.*

o. *During his tenure as a shareholder of HME, the audited financial statements of HME for the financial year ended 31 December 2014 were the only documents that were provided to him by the Company.*

p. *The strategic goals of HME were not presented to him by the Group's management. None of the directors of HME reported to Mr. Yeo Kay Beng during his tenure as a shareholder of HME. Mr. Yeo Kay Beng was also not a signatory to HME bank accounts and he was not aware of who the signatories were.*

q. *The operations of HME were managed by the Group.*

r. *Mr. Yeo Kay Beng also informed that he was not aware of the following:*

i. *The HME Loan Facility Agreements entered into between HMG and HME;*

ii. *That Mr. Eric Wong had executed the loan facility agreement dated 15 November 2010 entered into between HMG and HME prior to his appointment as a director of HME on 1 December 2010;*

iii. *That Mr. Fan Kow Hin and Dr. Jong Hee Sen had remained as directors of HME until 30 September 2011;*

iv. *Whether the management service contract dated 15 November 2010 entered into between HMG and HME was extended after the initial three years' period;*

v. *Mr. Eric Wong's role as a director of HME;*

vi. *Whether the Group's management has presented the strategic goals of HME to Mr. Eric Wong;*

vii. *Who the bank signatories of HME's bank accounts were;*

viii. *That HME had obtained a loan from Sakura Tech (S) Pte Ltd and issued bonds to Asia Advantage Fund LP in 2012;*

ix. *That the Company and HMG had guaranteed the aforesaid loan and bonds issued by HME; and*

x. *That the Group and former directors of HME were guarantors of HME's bank loan and finance lease liabilities.*

s. *The consideration of S$3,540,000 paid by HMG to Mr. Yeo Kay Beng was in part:*

i. *Cash of S$1,100,000; and*

ii. *Shares in IHC".*

Financial Results of Healthway Medical Enterprises Pte Ltd

6.48 Based on HME's audited financial statements / management accounts for the financial years ended 31 December 2010 to 2016, we note that its financial results were as follows:

HME's Profit And Loss Statements

	2010	2011	2012	2013	2014	2015	2016
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Revenue	8,847	13,710	17,637	20,562	18,456	19,629	20,632
Other Income	150	117	88	117	98	113	118
Total Revenue	**8,997**	**13,827**	**17,725**	**20,679**	**18,554**	**19,742**	**20,750**
Total Expenses	16,381	27,332	31,542	32,326	32,120	27,160	20,875
Net Profit / (Loss) Before Tax	**(7,384)**	**(13,505)**	**(13,817)**	**(11,647)**	**(13,566)**	**(7,418)**	**(125)**

HME's Financial Position

	2010	2011	2012	2013	2014	2015	2016
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Total Assets <A>	6,767	8,400	8,874	8,023	4,488	4,324	5,123
Total Liabilities <B>	11,021	26,158	40,450	51,050	61,082	68,336	69,261
Share Capital <C>	500	500	500	500	500	500	500
Accumulated Losses <A - B - C>	(4,754)	(18,258)	(32,076)	(43,527)	(57,094)	(64,512)	(64,638)

6.49 As can be noted from the above tables, HME had been incurring losses since 2010.

VI. Observations And Findings

6.50 Based on our findings, we note that after HMG had disposed its entire shareholdings in HME to Mr. Yeo Kay Beng on 15 November 2010:

a. The management of the Group remained the authorised signatories to the bank accounts of HME;

b. HME was included and required to follow the Group's authorisation policies, in particular, the authorisation limits for cheques and payment signatories, sales, purchases, capital expenditure, write-off & provision, treasury & investments and recruitments;

c. The registered office of HME remained at 2 Leng Kee Road #06-07 Thye Hong Centre Singapore 159086 which was the same as the Group;

d. The Group was managing the day-to-day operations of the HME;

e. HME was included in the Group's target balance arrangement with DBS Bank Limited;

f. HMG had issued a letter of support to HME on or around 12 January 2015;

g. A loan of S$5 million taken by HME with Sakura Tech (S) Pte Ltd in January 2012 was guaranteed by the Company;

h. Bonds totalling S$5 million issued by HME to Asia Advantage Fund LP in April 2012 and June 2012 were guaranteed by the Company and HMG. As per the Company's Directors' Resolutions passed in writing dated 30 April 2012 and 29 June 2012 whereby it was resolved that the Company would guarantee the aforesaid bonds issued by HME to Asia Advantage Fund LP, it was mentioned that HME was a subsidiary of the Company;

i. The amount owing from HME to the Group was unsecured;

j. HME's bank loans were guaranteed by the Company, HMG and certain former directors of HME;

k. HME's finance lease liabilities were secured by guarantees from the Group and former directors of HME; and

l. Details of HME's bank loans and finance lease liabilities, as per the audited financial statements of HME for the financial years ended 31 December 2010 to 2014, were as follows:

	2010	2011	2012	2013	2014
	S$	S$	S$	S$	S$
Bank Loan	1,616,383	1,132,732	625,372	91,548	-
Finance Lease Liabilities	417,207	665,273	460,893	256,430	108,424
Total	**2,033,590**	**1,798,005**	**1,086,265**	**347,978**	**108,424**

6.51 Based on our review, we also note as follows:

a. Mr. Yeo Kay Beng does not appear to have any direct relationship with the then Company's substantial shareholders / directors / management. Mr Yeo Kay Beng is also not an associate[12] of the Company's controlling shareholders / directors / chief executive officer(s).

[12] As defined in the SGX-ST Listing Manual Section B: Rules of Catalist.

b. The HME Supplementary Addendums entered into between HMG, HME and Mr. Yeo Kay Beng were to broaden the scope of HMG's rights to acquire the shares in HME from Mr. Yeo Kay Beng;

c. HMG had sold certain of its specialists care business (e.g. psychological wellness, specialist dentistry, ophthalmology, etc.) housed under HME to Mr. Yeo Kay Beng in November 2010 and the number of clinics sold to Mr. Yeo Kay Beng was 32;

d. The sale consideration of S$2 million (from HMG to Mr. Yeo Kay Beng) and purchase consideration of S$3,540,000 (by HMG from Mr. Yeo Kay Beng) were arrived at on a willing buyer and willing seller basis and no valuation was carried out to determine the aforesaid considerations;

e. The sale of the entire shareholdings of HME by HMG to Mr. Yeo Kay Beng in 2010 was to divest unprofitable business of the Group (please see paragraph 6.15 of this Report regarding the rationale to dispose HME in 2010) (NB: As mentioned in paragraph 6.49 of this Report, we note that HME had been incurring losses since 2010.);

f. We have not sighted the responses by the Group (if any) to KPMG in respect of the queries raised by KPMG on the disposal of HME by HMG to Mr. Yeo Kay Beng;

g. We have not sighted any documentary evidence on the Group's attempt(s) in sourcing for potential buyer(s) for the entire shareholdings of HME before agreeing to sell the same to Mr. Yeo Kay Beng;

h. We have not sighted any documentary evidence on the presentation of the strategic goals of HME by the Group's management to Mr. Yeo Kay Beng and / or Mr. Eric Wong as well as the approval obtained from Mr. Yeo Kay Beng and / or Mr. Eric Wong on the same;

i. We have not sighted the written agreement between HMG and HME (if any) on the extension of the management service contract for *"a further term of three (3) years"* after the expiry of the Initial Term (as defined in the management service contract dated 15 November 2010); and

j. We have not sighted any drawing notice from HME to HMG on the purpose of drawings made by HME pursuant to the loan facility agreements dated 15 November 2010, 15 November 2011 and 15 March 2013.

6.52 It is also not clear as to how involved Mr. Eric Wong was, as a director of HME between 1 December 2010 and 5 May 2015, in managing the affairs of HME and whether he had exercised his power as a director of HME to object to the strategic goals of HME set by the Group's management.

6.53 Nevertheless, as mentioned in paragraph 6.51(d) of this Report, the sale consideration for the shares of HME from HMG to Mr. Yeo Kay Beng in 2010 was S$2 million and Mr. Yeo Kay Beng had paid for the same. The sale consideration was arrived at on a willing buyer and willing seller basis. In addition, the management service contract dated 15 November 2010 was executed by Mr. Yeo Kay Beng on behalf of HME (please see paragraph 6.22 of this Report).

6.54 As also mentioned in paragraph 6.33 of this Report, nothing has come to our attention to suggest that the loans extended by the Group to HME were not from fees charged by the Group to HME as well as net working capital incurred by the Group on behalf of HME.

VII. <u>Safeguards / Controls</u>

6.55 Based on our findings, it appears that the safeguards / controls put in place by the Group in respect of the loans extended to HME are as follows:

a. The warranties and undertakings given by Mr. Yeo Kay Beng and HME to HMG under the HME Option Agreements;

b. The day-to-day operations of HME was managed by the Group under the management service contract dated 15 November 2010. Accordingly, the Group would have full knowledge of the operations of HME;

c. The Group's management remained the authorised signatories of the bank accounts of HME; and

d. HME was required to follow the Group's authorisation policies, in particular, the authorisation limits for cheques and payment signatories, sales, purchases, capital expenditure, write-off & provision, treasury & investments and recruitments.

VIII. Weakness In Corporate Governance

6.56 While we note that the disclosures in the Company's announcement dated 21 December 2010 as well as in the Group's audited financial statements for the financial years ended 31 December 2010 to 2015 may not have been precise or had been lacking in some details (please see paragraphs 7.13 and 7.56 of this Report), it does not appear to us that there were any breaches of the SGX-ST Listing Manual Section B: Rules of Catalist arising from the loans extended by the Group to HME. However, we stress that any of our views, statements and / or findings stated herein are expressed and / or made in our capacity as the appointed Independent Reviewer for this Report and strictly in compliance with the specific mandate conferred on us by the terms of our appointment. Accordingly, nothing herein shall be treated and / or construed as a waiver of the disclaimer against liability set out in paragraph 4.12 of this Report that we are not in a position to and do not provide any legal advice to the Company, the Group, HME, Wei Yi Entities and / or any of the entities concerned.

Disclosure Of Information

6.57 For good order, the Company should have made the following disclosures:

a. That the Group would have to extend loans to HME pursuant to the HME Term Sheet in its announcement dated 21 December 2010. Pursuant to the HME Term Sheet, HMG shall provide funding to HME for expansion of new clinic(s) and working capital (please see paragraph 6.21 of this Report); and

b. The Company should have identified the name of the borrower (i.e. HME) in the Group's audited financial statements for the financial years ended 31 December 2010 to 2015 instead of stating it as "*Loan 1*" or "*Loan A*" or "*Amounts due from party A*". We note that the Company had identified HME as the borrower in the Group's audited financial statements for the financial year ended 31 December 2016 although we are not aware as to why the Company had decided to do so for the aforesaid financial year.

(This space has been intentionally left blank.)

D. LOANS EXTENDED TO MEDICAL CENTRES OWNED BY WEI YI SHI YE CO LTD

I. Background

6.58 As per the Company's prospectus dated 26 June 2008, we note that the Company had intended to expand overseas *"through acquisitions, joint ventures and strategic alliances"* and build a *""Healthway" service name through establishing state-of-the-art medical facilities in key cities"*[13]. We note that China was the country identified by the Company for its overseas expansion.

6.59 We note a Notice of EGM dated 20 October 2009 together with a Circular dated 20 October 2009 to the shareholders in relation to the following resolutions to be passed at the Company's EGM to be held on 4 November 2009:

a. *"The proposed grant of a convertible loan of S$3,300,000 to [Crane Medical] as an Interested Person Transaction;*

b. *The proposed provision of working capital funding not exceeding RMB1,500,000 to [Crane Medical] as an Interested Person Transaction;*

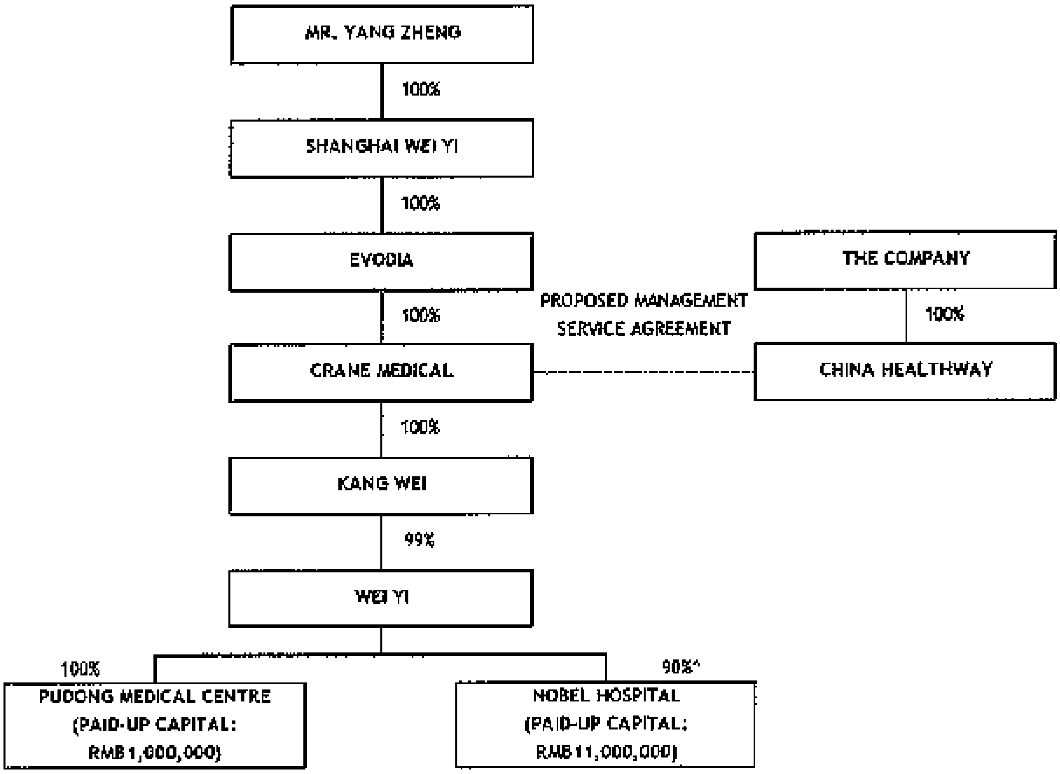
c. *The proposed call option granted by [Evodia] to [the Company] as an Interested Person Transaction; and*

d. *The proposed entry into a Management Service Contract between [China Healthway] and [Crane Medical] as an Interested Person Transaction".*

(This space has been intentionally left blank.)

[13] Page 130 of the Company's prospectus dated 26 June 2008.

6.60 As per paragraph 7 of the Company's Circular dated 20 October 2009, the group structure after the proposed transactions excluding the proposed call option was as follows:



^ *"The balance 10% of the issued and paid-up share capital of Nobel Hospital is owned by third parties who are not related to [the Company], [the Board] or any of the substantial shareholders".*

6.61 At the Company's EGM held on 4 November 2009, all the resolutions listed in the Company's Circular dated 20 October 2009 were passed. The Company announced the results of the EGM on 4 November 2009.

6.62 On 10 February 2010, the Company announced that *"[the Company] has fully utilised the balance of the net proceeds from the IPO amounting to approximately S$3 million (the "IPO Proceeds") as part of the convertible loan of S$3.3 million extended to [Crane Medical] on 10 December 2009, in accordance with the Convertible Loan Agreement dated 23 June 2009"*.

6.63 We note a Notice of EGM dated 22 February 2010 together with a Circular dated 22 February 2010 to the shareholders in relation to the following resolutions to be passed at the Company's EGM to be held on 9 March 2010:

a. *"[The Group's] greater focus and investment in providing healthcare services in China (**"The Proposed China Expansion Plans"**);*

b. *Shareholders' mandate for the proposed placement of up to 108,000,000 new ordinary shares in the capital of [the Company] to [IFC] (**"The Proposed IFC Placement"**); and*

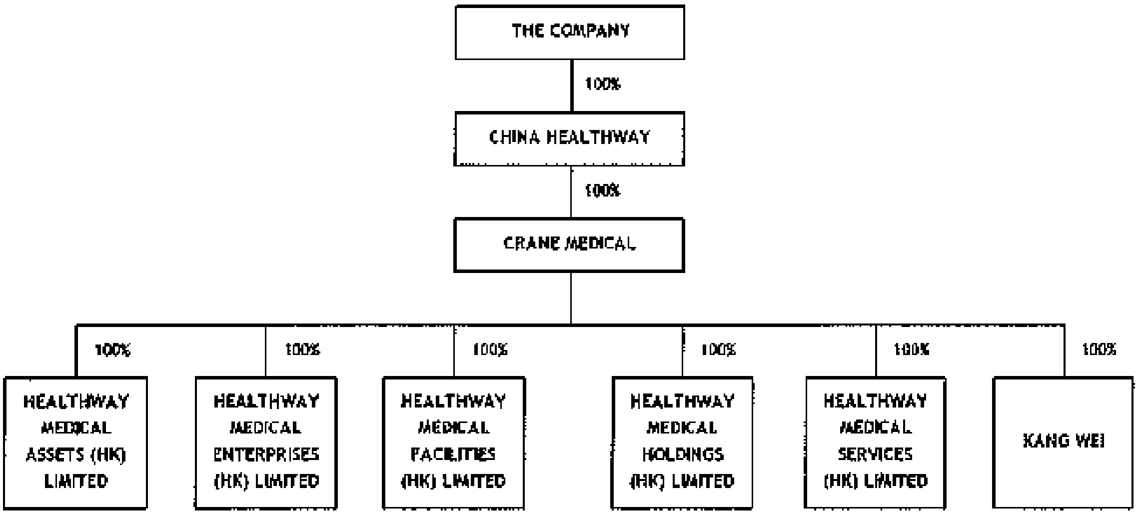
c. *The proposed placement of up to 85,873,404 new ordinary shares in the capital of [the Company] to [OOL, Mr. Fan Kow Hin, Dr. Jong Hee Sen, Dr. Wong Weng Hong and Mr. Andrew Aathar] ("The Proposed Placement")".*

6.64 At the Company's EGM held on 9 March 2010, all the resolutions listed in the Company's Circular dated 22 February 2010 were passed. The Company announced the results of the EGM on 9 March 2010.

6.65 On 15 March 2010, the Company announced, amongst others, that "*[the Company] has on 15 March 2010 entered into a subscription agreement with [IFC] for the subscription of up to 108,000,000 IFC Placement Shares at a price of S$0.13 each*" and "*following the completion of the Proposed IFC Placement, the Proposed Placement may also take place simultaneously, whereby up to 85,873,404 Placement Shares may be issued under the Proposed Placement*".

6.66 As per the press release dated 15 March 2010 by IFC (www.ifc.org), it was announced that "*[IFC], a member of the World Bank Group, is providing [US$25 million] in financing to Singapore-based Healthway Medical Corporation Ltd to help widen access to high-quality medical care in underserved areas of China and set standards in health management and patient-care practices for the local health community. [IFC's US$25 million] financing, comprising a [US$15 million] senior loan and equity of [US$10 million], will be used to expand [the Company's] operations by setting up a network of primary and ambulatory facilities in districts of Shanghai. After establishing a presence in Shanghai, the project will expand to neighboring provinces and interior regions whose populations do not have access to affordable quality care. [The Company] also is considering other local health sector investments, including secondary hospitals, and maternity and elderly care centers*".

6.67 On 12 April 2010, the Company announced, amongst others, that "*[the Company] has executed an assignment notice to assign the call option ("Call Option") to purchase the 100 shares ("Option Shares") representing the entire issued share capital of [Crane Medical] to [China Healthway], a wholly-owned subsidiary of [the Company]. [China Healthway] has subsequently exercised the Call Option, pursuant to which [China Healthway] has on 9 April 2010 acquired the Option Shares at an aggregate price of S$100 from [Evodia]*" and "*The structure of the [Crane Medical's] group of companies after the aforesaid transactions is as follows*":



6.68 On 6 May 2010, the Company announced, amongst others, that "[*the Company] has on 6 May 2010 completed:*

> a. *The placement of 105,369,230 IFC Placement Shares in accordance with the terms of the subscription agreement dated 15 March 2010 entered between [the Company] and [IFC]; and*
>
> b. *The placement of 85,000,000 Placement Shares in accordance with the terms of the subscription agreements dated 26 January 2010 entered between [the Company] and [OOL, Mr. Fan Kow Hin, Dr. Jong Hee Sen, Dr. Wong Weng Hong and Mr. Andrew Aathar]*".

6.69 On 14 August 2010, the Company announced, amongst others, that:

> a. *"[The Group] has entered into agreements with several third party companies and individuals to operate and manage twelve (12) medical and dental centres in China (the "Agreements");*
>
> b. *These Agreements to operate and manage medical facilities involves an investment of approximately RMB38 million (approximately S$7.6 million) over a period of three months. These medical facilities include multi-specialty centres, dental centres and specialised hospitals located in Shanghai and Hangzhou;*
>
> c. *[The Group] intends to finance the above investment through its internal funds and / or borrowings; and*

d. *None of the Directors, controlling or substantial shareholders of [the Group], and their respective associates has any interest, direct or indirect in the foregoing, save through their interests in [the Company]".*

II. **Agreements Entered Into Between Healthway Medical Corporation Limited, Crane Medical Pte Ltd And International Finance Corporation**

6.70 We note that the following agreements were entered into between the Company, Crane Medical and IFC in 2010:

a. Subscription agreement dated 15 March 2010 between the Company and IFC; and

b. Loan agreement dated 30 April 2010 between Crane Medical and IFC.

Subscription Agreement Dated 15 March 2010 Between Healthway Medical Corporation Limited And International Finance Corporation

6.71 We set out below, the salient terms of the subscription agreement dated 15 March 2010 between the Company and IFC:

a. The subscription price for each of the Company's shares shall be S$0.13;

b. China Healthway, acting as designated nominee for and on behalf of the Company, shall acquire Crane Medical under the call option agreement dated 23 June 2009 entered into between the Company and Evodia;

c. Crane Medical to own and control all of the shares of Kang Wei;

d. Kang Wei to transfer all of its shares in Wei Yi to independent third parties satisfactory to IFC (**"Nominee Shareholders"**) and the Nominee Shareholders, through Wei Yi, were the indirect owners of Pudong Medical Centre and Nobel Hospital (the "**Spin Off**");

e. The Spin Off had not resulted in any breach of any existing contracts;

f. Kang Wei to enter into arrangements with the Nominee Shareholders to effectively restrict and control the transfer and exercise of the shares of Wei Yi held by the Nominee Shareholders; and

g. None of China Healthway, Crane Medical, Kang Wei or their affiliates directly or indirectly owned the shares of Pudong Medical Centre or Nobel Hospital.

<u>Loan Agreement Dated 30 April 2010 Between Crane Medical Pte Ltd And International Finance Corporation</u>

6.72 We set out below, the salient terms of the loan agreement dated 30 April 2010 between Crane Medical and IFC:

a. The loan amount was US$15 million;

b. China Healthway, acting as designated nominee for and on behalf of the Company, shall acquire Crane Medical under the call option agreement dated 23 June 2009 entered into between the Company and Evodia;

c. The management service contract entered into between the Company and Crane Medical had been terminated;

d. Crane Medical to own and control all of the shares of Kang Wei;

e. Kang Wei to transfer all of its shares in Wei Yi to independent third parties satisfactory to IFC ("**Nominee Shareholders**") and the Nominee Shareholders, through Wei Yi, were the indirect owners of Pudong Medical Centre and Nobel Hospital (the "**Spin Off**");

f. The Spin Off had not resulted in any breach of any existing contracts;

g. Kang Wei to enter into arrangements with the Nominee Shareholders to effectively restrict and control the transfer and exercise of the shares of Wei Yi held by the Nominee Shareholders;

h. None of China Healthway, Crane Medical, Kang Wei or their affiliates directly or indirectly owned the shares of Pudong Medical Centre or Nobel Hospital; and

i. Kang Wei to enter into management service contracts with Pudong Medical Centre and Nobel Hospital.

6.73 Based on our review, we also note as follows:

a. The subscription agreement dated 15 March 2010 and the loan agreement dated 30 April 2010 were approved by the Board;

b. The funding from IFC was to be solely applied towards the Company's expansion plans in China;

c. Crane Medical did not drawdown the loan of US$15 million from IFC;

d. Crane Medical did not drawdown the aforesaid IFC loan as Crane Medical did not meet the conditions for disbursement set out in the loan agreement dated 30 April 2010; and

e. The loan agreement dated 30 April 2010 between Crane Medical and IFC appears to have been terminated on 1 January 2014.

III. <u>Agreements Entered Into Between Kang Wei Investment Consultancy (Shanghai) Co Ltd And Mr. Yang Zheng</u>

6.74 We have been provided with the following agreements entered into between Kang Wei and Mr. Yang Zheng:

a. Agreement dated 10 March 2010 between Kang Wei and Mr. Yang Zheng;

b. Agreement dated 6 April 2010 between Kang Wei and Mr. Yang Zheng; and

c. Debt assignment agreement dated 31 March 2015 between Kang Wei, Wei Yi and Mr. Yang Zheng.

<u>Agreement Dated 10 March 2010 Between Kang Wei Investment Consultancy (Shanghai) Co Ltd And Mr. Yang Zheng</u>

6.75 Based on our review of the agreement dated 10 March 2010 between Kang Wei and Mr. Yang Zheng, we note as follows:

a. Mr. Yang Zheng did not pay Kang Wei the sum of RMB5 million, being the purchase consideration, at the time of his acquisition of the shares of Wei Yi from Kang Wei[14] as he was facing cash flow problems;

b. Kang Wei and Mr. Yang Zheng agreed to the following payment terms:

   i. Mr. Yang Zheng promised to pay Kang Wei the sum of RMB5 million in instalments over five years and the aforesaid sum was to be paid in full by 10 March 2015;

   ii. To protect the interest of Kang Wei, Mr. Yang Zheng agreed to pledge his shares in Wei Yi to Kang Wei as security; and

   iii. If Mr. Yang Zheng failed to pay Kang Wei the sum of RMB5 million in full by 10 March 2015, Kang Wei would have the rights with effect from 10 March 2015 to decide whether to purchase the shares of Wei Yi from Mr. Yang Zheng. The purchase price by Kang Wei will be based on the net asset value of Wei Yi and shall be first used to set-off the outstanding interest with the balance used to set-off the outstanding principal owing from Mr. Yang Zheng.

<u>Agreement Dated 6 April 2010 Between Kang Wei Investment Consultancy (Shanghai) Co Ltd And Mr. Yang Zheng</u>

6.76 Based on our review of the agreement dated 6 April 2010 between Kang Wei and Mr. Yang Zheng, we note as follows:

a. Kang Wei had sold its shares held in Wei Yi to Mr. Yang Zheng for a consideration of RMB5 million;

b. Mr. Yang Zheng had pledged all his shares in Wei Yi to Kang Wei for the period 6 April 2010 to 5 April 2016 (the shares pledging period) as Mr. Yang Zheng did not pay Kang Wei for his purchase of the shares of Wei Yi (NB: As per paragraph 7 of the Company's Circular dated 20 October 2009, Kang Wei was one of the shareholders of Wei Yi and Mr. Yang Zheng was the ultimate beneficiary of Kang Wei (please see paragraph 6.60 of this Report);

c. Without the approval of Kang Wei, Mr. Yang Zheng was not allowed to transfer or assign his shares in Wei Yi to a third party; and

[14] As per Kang Wei's share transfer document dated 11 March 2010, we note that the transfer of Wei Yi shares from Kang Wei to Mr. Yang Zhang was in March 2010.

d. During the shares pledging period, Kang Wei enjoyed the rights as a shareholder of Wei Yi (i.e. to receive dividends from Wei Yi in respect of the pledged shares, etc.).

6.77 Based on our preliminary review of Kang Wei's general ledgers for the financial years 2010 and 2011, its bank statement for March 2011 and a deposit advice on the receipt of RMB5 million from Mr. Yang Zheng, it appears that Kang Wei had received the sum of RMB5 million from Mr. Yang Zheng for his purchase of the shares of Wei Yi in March 2011.

6.78 Nevertheless, as per the minutes of the Directors' Meeting held on 13 May 2016, it was mentioned that:

a. *"Mr. Wong Yee Kong Andrew* (the former president of the Company) *presented a power point presentation to [the Board] on the operations of [the Group] in China including the payroll headcount, shares pledging agreement, email "China Update" dated 11 May 2016, disposal proceeds, legality, loan covenant impact and [the Company's] position on the operations in China;*

b. *In relation to the payroll headcount, it was noted that total 109 employees were there in all clinics of [the Group] in China;*

c. *In relation to shares pledging agreement, it was noted that the duration of the agreement was for 72 months from signing, which is from 4 April 2010 to 5 April 2016 and both parties could negotiate for extension upon end of duration;*

d. *In relation to [the Company's] position on the operations in China, the following management's recommendations were noted:*

   i. *To discontinue management agreement;*

   ii. *To stop funding China operations;*

   iii. *To recover loan receivables from China.*

e. *[The Board] noted the following rationale of the management in arriving at the above recommendations:*

   i. *It took 9 years for Parkway to breakeven in their operations in China with lots of efforts;*

ii. *[The Company] does not have spare cash to fund far away operations from Singapore;*

iii. *The investment is not worth of the expected returns.*

f. *[The Board] approved the following based on the recommendations made by the management:*

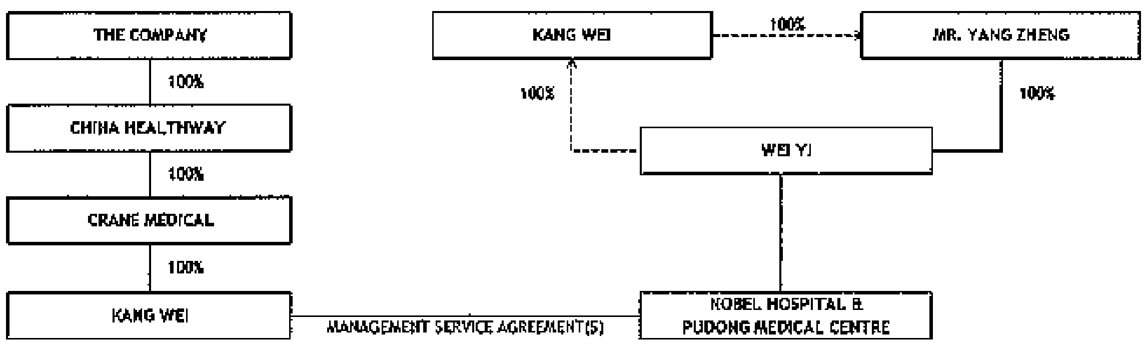
i. *To stop funding China operations;*

ii. *To consult Chinese lawyers to advise legal aspects of cessation of the management agreement;*

iii. *To explore all avenues to recover all loans extended to [Mr. Yang Zheng]".*

6.79 We have not sighted the power point slides presented to the Board as mentioned in the minutes of the Directors' Meeting held on 13 May 2016.

6.80 In view of the foregoing, we note that the group structure was as follows:



<u>Debt Assignment Agreement Dated 31 March 2015 Between Kang Wei Investment Consultancy (Shanghai) Co Ltd, Wei Yi Shi Ye Co Ltd And Mr. Yang Zheng</u>

6.81 Based on our review of the debt assignment agreement dated 31 March 2015 between Kang Wei, Wei Yi and Mr. Yang Zheng, we note as follows:

a. Kang Wei and Wei Yi confirmed that the amount owing from Wei Yi to Kang Wei as at 31 March 2015, was S$20.5 million;

b. It was agreed between Kang Wei, Wei Yi and Mr. Yang Zheng that the debt of S$20.5 million would be assigned to Mr. Yang Zheng and Mr. Yang Zheng undertook to pay the sum of S$20.5 million to Kang Wei;

c. The sum of S$20.5 million was to be paid in two instalments; the first 50% to be paid by 7 May 2016 and the remaining 50% to be paid by 7 May 2017; and

d. After the execution of the aforesaid agreement, Kang Wei also agreed that it would not make any claims against Wei Yi for the sum of S$20.5 million, in the event that Mr. Yang Zheng fails to fulfill the aforesaid repayment obligations.

6.82 We are not aware as to why Kang Wei had agreed to the aforesaid repayment obligations set out at paragraph 6.81(d) above (i.e. that Kang Wei would not make any claims against Wei Yi for the sum of S$20.5 million in the event that Mr. Yang Zheng fails to fulfill the repayment obligations).

6.83 Save for the agreements mentioned in paragraphs 6.75, 6.76 and 6.81 of this Report, we have not sighted any other agreements between the Group and Mr. Yang Zheng (if any).

IV. <u>The Group's Business Model in China</u>

6.84 We have been provided with the board paper dated 13 August 2010 titled "Business Model - HMC's China Operations" which was approved by the Board at the Directors' Meeting held on 13 August 2010. The aforesaid board paper mentioned, amongst others, that:

a. *"Under Chinese regulations, foreign companies are restricted from holding medical licences or own medical facilities. Hence, n China our main business activities consist mainly of providing management consultancy services and financing of third party medical asset-owning companies (MACs). This is done through a combination of entering into Management Service Contracts (MSCs) with MACs to manage and operate their medical facilities, as well as Asset Leasing Contracts (ALCs) to fund MACs to acquire and upgrade as well providing sufficient working capital for the medical facilities. These categories of the funding have been endorsed by [IFC];*

b. *[Kang Wei] will be the entity that enters into MSCs with MACs;*

c. *Chinese regulations restrict foreign-owned companies holding medical licences or own medical facilities. Effectively, the above would allow [the Company] to operate and manage carefully selected medical facilities without owning [MACs];*

d. *This business model has been used by many foreign-owned companies in China. [The Company has] cleared this model with [its] Chinese lawyers and [IFC] had also done separate clearance with their Chinese counsel. [IFC] has accepted it has a workable structure; and*

e. *Chinese regulations provide for foreign JV in healthcare companies, provided these meets with the several criteria and must be approved in central Beijing. The process itself can take many years. [The Company] would look at this form in later stage of its business in China".*

6.85 We have also been provided with the board paper titled "Healthway China - Structure and Management" which was approved by the Audit Committee and the Board at the Audit Committee Meeting held on 10 May 2011 and the Directors' Meeting held on 13 May 2011 respectively. We note that the aforesaid board paper was prepared by the management to explain and address the queries raised by KPMG in their audit of the Group's financial statements for the financial year ended 31 December 2010. We also note that the said board paper was prepared after the Group's audited financial statements for the financial year ended 31 December 2010 was signed off by KPMG (NB: The Group's audited financial statements for the financial year ended 31 December 2010 was dated 9 April 2011).

6.86 The said board paper contains the following documents:

a. Management's responses to, amongst others, certain clauses in the management service agreements entered into between Kang Wei and Wei Yi Entities in 2010, medical licences in China, holder of the medical licences, control of Wei Yi Entities and the Company's business model in China;

b. Legal advice dated 8 April 2011 from Shanghai Ding Li Law Firm to Kang Wei;

c. Unsigned letter dated 18 April 2011 from Kang Wei to Shanghai Municipal Health Inspection; and

d. Unsigned letter dated 15 April 2011 from one Mr. Shen Zuo Zhen (沈左正) to one 范总 (NB: In the aforesaid unsigned letter, it was addressed to 范总. Nevertheless, we are not able to establish whether Fanzhong refers to Mr. Fan Kow Hin).

6.87 Based on our review of the aforesaid legal advice from Shanghai Ding Li Law Firm, we note, amongst others, that:

a. Kang Wei is a foreign wholly-owned company incorporated in China;

b. The relationship between Kang Wei and Wei Yi Entities does not constitute an "investor-investee relationship" and Kang Wei is merely a service provider of Wei Yi Entities;

c. According to Chinese Law, medical licence can only be applied and owned by an applicant in which its ultimate beneficiary is a citizen of China; and

d. As the shareholder of Wei Yi, Mr. Yang Zheng has direct or indirect control over Wei Yi Entities. Accordingly, Mr. Yang Zheng has the rights and authority to change the management or legal representative(s) of Wei Yi Entities. The legal representative(s) appointed and approved by Mr. Yang Zheng would be responsible for the management of Wei Yi Entities.

6.88 Based on the documents contained in the said board paper, the Board concluded that the Company neither controlled nor owned Wei Yi Entities and the Company merely provided funding and management services to Wei Yi Entities.

6.89 As per the Company's Directors' Resolutions in Writing dated 13 February 2013, it was resolved that "*[the Board] approves the Board Paper on "Assessment of Control over Chinese Clinics" that was circulated on 8 February 2013, with the conclusion that control of these clinics resides with the PRC owner [Mr. Yang Zheng] and therefore, these China clinics should not be consolidated in the books of [the Company].*

6.90 We have not sighted the board paper titled "Assessment of Control over Chinese Clinics" and are therefore, not aware of the contents of the aforesaid board paper.

V. Agreements Entered Into Between Kang Wei Investment Consultancy (Shanghai) Co Ltd, Crane Medical Pte Ltd And The Medical Centres Owned By Wei Yi Shi Ye Co Ltd

6.91 The following agreements were entered into between Kang Wei, Crane Medical and Wei Yi Entities:

a. Loan agreements and supplementary loan agreements between Kang Wei and Wei Yi Entities in 2010, 2011, 2012, 2013, 2015 and 2016 ("Wei Yi Loan Agreements");

b. Management service agreements between Kang Wei (as the Business Manager) and Wei Yi Entities (Wei Yi or Kang An as the business owner) in 2010 (**"2010 Management Service Agreements"**)

c. Management service agreement between Kang Wei (as the Business Manager) and Wei Yi (as the business owner) in 2014 (**"2014 Management Service Management"**);

d. Franchise agreements between Crane Medical and Wei Yi Entities in 2010; and

e. Service agreements between Crane Medical and Wei Yi Entities in 2010.

<u>Wei Yi Loan Agreements</u>

6.92 We set out below, the salient terms of the Wei Yi Loan Agreements:

a.

	<u>Terms</u>
Type of loan:	Long-term loan
Purpose of loan:	Working capital
Period of loan:	10 years

b. The 2016 loan agreements superseded the prior years' loan agreements;

c. Interest rate was altered from 5% per annum to not exceeding 10% per annum since 2012; and

d. Kang Wei agreed to waive the interest charged in respect of the loans extended to Wei Yi Entities.

6.93 Based on our review of the Wei Yi Loan Agreements as well as the amounts owing from Wei Yi Entities to Kang Wei (the outstanding amounts reflected in Kang Wei's general ledgers) from 2010 to 2016, the Wei Yi Loan Agreements executed in the various years were to alter the loan limit granted by Kang Wei to Wei Yi Entities so that the actual amounts owing from Wei Yi Entities to Kang Wei did not exceed the loan limit mentioned in the Wei Yi Loan Agreements.

6.94 We set out below, the loan limit granted by Kang Wei to Wei Yi Entities in 2010 / 2011 / 2012 and 2016 as per the Wei Yi Loan Agreements:

S/N	Name	Loan Limit (RMB)	
		2010 / 2011 / 2012	2016
1	Pudong Medical Centre	15,000,000	31,050,000
2	Kang An	18,500,000	27,550,000
3	Nobel Hospital	16,500,000	26,700,000
4	Wei Yi	23,000,000	26,150,000
5	Kang Wei Medical Centre	No limit*	20,450,000
6	Da Rui Tong	2,100,000	7,000,000
7	Xin Yi	900,000	5,450,000
8	Bo Ao	400,000	3,700,000
9	Kang Liang	800,000	2,100,000
10	Zhi Nuo	2,100,000	1,900,000
11	Heng Jie Dental	1,800,000	1,600,000
12	Heng Jie Computer	10,000*	1,500,000
13	Zhuo Wei	400,000	1,100,000
14	Wei Yi Kang Hong	200,000*	700,000
15	Jun Kang	No limit*	550,000

* We note that the first loan agreements entered into between Kang Wei and the above parties were in 2011 or 2012.

2010 Management Service Agreements

6.95 We set out below, the salient terms of the 2010 Management Service Agreements:

a.

	Terms
Period of Agreement:	10 years
Extension:	Not more than five years
Management fee:	10% of total revenue
Incentive fee:	80% of operating profit

b. Kang Wei was the sole representative of Wei Yi Entities;

c. Kang Wei to manage the affairs of Wei Yi Entities; and

d. Without the written consent from Kang Wei, Wei Yi / Kang An shall not transfer, sell, pledge its shares in Wei Yi Entities and Wei Yi / Kang An also did not have the rights to terminate the 2010 Management Service Agreements.

<u>2014 Management Service Agreement</u>

6.96 We set out below, the salient terms of the 2014 Management Service Agreement:

a. The 2014 Management Service Agreement superseded the 2010 Management Service Agreements;

b. Kang Wei was the sole and exclusive agent of Wei Yi Entities;

c. Kang Wei to provide management services to Wei Yi Entities which include, but not limited to:

i. General management;

ii. Financial and accounting;

iii. Marketing and sales;

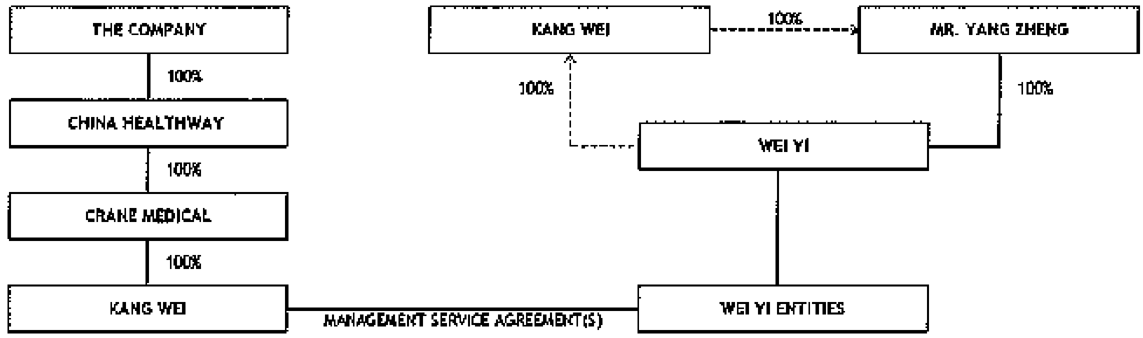
d. Kang Wei to provide funding to Wei Yi Entities for operating needs; and

e.

	Terms
Period of Agreement:	Six years after 1 January 2014
Extension:	Five years
Management fee:	RMB100,000 per month

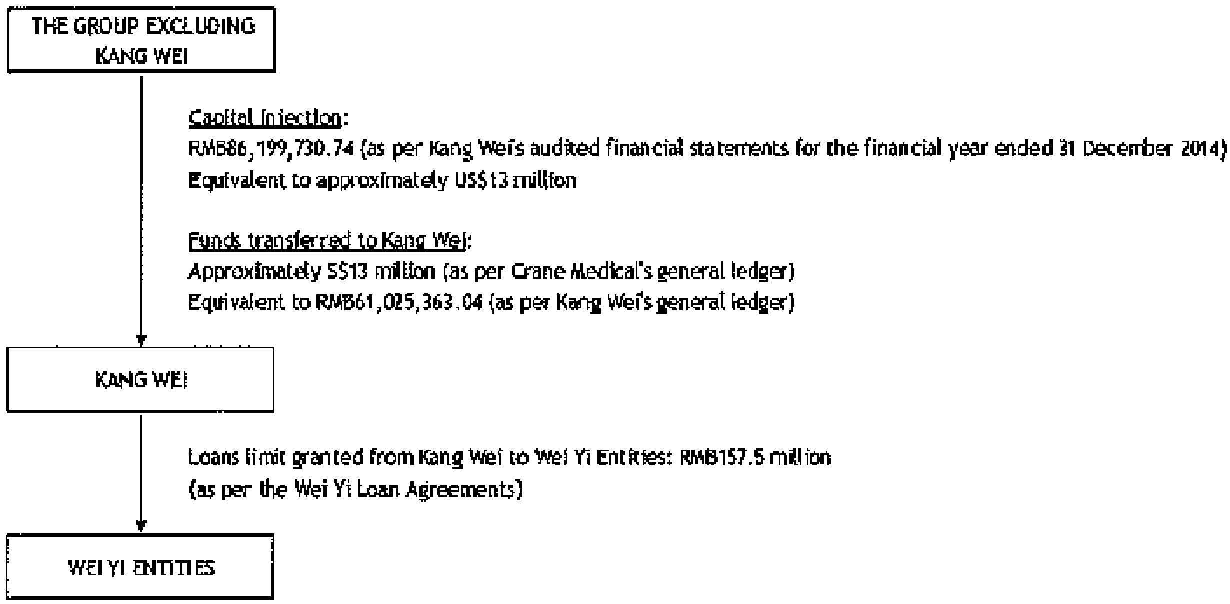
(This space has been intentionally left blank.)

6.97 As a result of the various agreements entered into between Kang Wei and Wei Yi Entities, the group structure became as follows:



VI. Amount(s) Owing From The Medical Centres Owned By Wei Yi Shi Ye Co Ltd

6.98 Based on our review, we note that most of the flow of the funds extended to Wei Yi Entities were as follows:



6.99 As per the capital injection reports issued by the audit firms as well as the audited financial statements of Kang Wei for the financial year ended 31 December 2014, we note that the share capital of Kang Wei was RMB86,199,730.74 (equivalent to approximately US$13 million). We have traced the flow of funds from the Group to Kang Wei in respect of the capital injection of RMB86,199,730.74 (equivalent to approximately US$13 million) and noted that Kang Wei had received the sum of RMB86,199,730.74 from the Group.

6.100 Between 2012 and 2016, we note that approximately S$13 million (equivalent to RMB61,025,363.04) was transferred from the Group to Kang Wei. We have traced the flow of funds from the Group to Kang Wei in respect of the aforesaid transfers and noted that Kang Wei had received the sum of approximately S$13 million (equivalent to RMB61,025,363.04) from the Group.

6.101 We have also traced the funds transferred from Kang Wei to Wei Yi Entities. Based on our review of the samples selected, we note that Wei Yi Entities had received the funds transferred from Kang Wei. That is, nothing has come to our attention to suggest that Wei Yi Entities were not the parties that received the funds from Kang Wei.

6.102 We set out below, the amount owing from Wei Yi Entities to the Group as at 31 December 2010 to 2016:

Year	Amount Owing From Wei Yi Entities To The Group[15]	Increase
	S$'000	S$'000
2010	15,353	-
2011	21,252	5,899
2012	23,642	2,390
2013	28,500	4,858
2014	32,589	4,089
2015	35,812	3,223
2016	36,381	569

(This space has been intentionally left blank.)

[15] Amounts as per the Group's audited financial statements for the financial years ended 31 December 2010 to 2016.

6.103 The amount of S$36.381 million was made up of:

Management Services Rendered By Kang Wei To Wei Yi Entities	Loans From Kang Wei To Wei Yi Entities	Repayment From Wei Yi Entities To Kang Wei	Franchising And Services Fees Rendered By Crane Medical To Wei Yi Entities	Net Amount Owing From One Mr. Aaron Tan Boon Cheong To Crane Medical	Conversion Rate Difference	Net Amount Owing From Wei Yi Entities To The Group
S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
<A>	<B>	<C>	<D>	<E>	<F>	<A + B + C + D + E + F>
2,600[16]	31,943[17]	(1,859)[18]	3,328	200	169	36,381

Management Services / Franchising And Services Fees

6.104 Based on our review of the samples selected, we note that the amounts of approximately S$5.928 million (S$2.6 million + S$3.328 million) owing from Wei Yi Entities to the Group as at 31 December 2016 arose from fees charged by the Group to Wei Yi Entities. That is, nothing has come to our attention to suggest that the aforesaid amounts of approximately S$5.928 million were not from fees charged by the Group to Wei Yi Entities.

Loans From Kang Wei To Wei Yi Entities

6.105 As mentioned in paragraph 6.101 of this Report, we note that Wei Yi Entities had received the funds transferred from Kang Wei. Based on our review of the samples selected, we have sighted payment vouchers / payment requisition forms of Kang Wei that appear to be appropriately processed, approved and signed off for the purpose of remitting funds from Kang Wei to Wei Yi Entities.

[16] Management fees of RMB12,496,854 / RMB4.8054 (the exchange rate applied by the Company as at 31 December 2016).

[17] Loans of RMB153,501,812 / RMB4.8054 (the exchange rate applied by the Company as at 31 December 2016).

[18] Repayment of RMB8,935,193 / RMB4.8054 (the exchange rate applied by the Company as at 31 December 2016).

Net Amount Owing From One Mr. Aaron Tan Boon Cheong To Crane Medical

6.106 Nevertheless, based on our review, we are not aware as to why the net amount of S$200,000 owing from Mr. Aaron Tan Boon Cheong was recorded as an amount owing from Wei Yi Entities to the Group.

6.107 We also set out below, the amount owing from the respective Wei Yi Entities to Kang Wei as at 31 December 2016:

Wei Yi Entities	Management Services Rendered By Kang Wei To Wei Yi Entities	Loans From Kang Wei To Wei Yi Entities	Repayment From Wei Yi Entities To Kang Wei	Total
	RMB	RMB	RMB	RMB
	<A>	<B>	<C>	<A + B + C>
Jun Kang	-	818,480	(298,000)	520,480
Wei Yi Kang Hong	-	694,100	-	694,100
Zhuo Wei	348,044	725,645	(250)	1,073,439
Heng Jie Computer	-	1,467,419	(9,000)	1,458,419
Heng Jie Dental	388,076	1,249,245	(63,110)	1,574,211
Zhi Nuo	362,738	1,508,592	(23,530)	1,847,800
Kang Liang	511,241	1,886,070	(304,595)	2,092,716
Bo Ao	397,648	3,879,230	(600,268)	3,676,610
Xin Yi	399,986	5,140,518	(133,470)	5,407,034
Da Rui Tong	537,147	6,887,081	(449,614)	6,974,614
Kang Wei Medical Centre	124,103	23,148,885	(2,866,688)	20,406,300
Wei Yi	2,700,000	23,418,755	-	26,118,755
Nobel Hospital	2,272,583	24,776,319	(352,711)	26,696,191
Kang An	3,053,388	26,482,801	(2,017,979)	27,518,210
Pudong Medical Centre	1,401,900	31,418,672	(1,815,978)	31,004,594
	12,496,854	153,501,812	(8,935,193)	157,063,473
Exchange rate @ RMB4.8054 to S$1	4.8054	4.8054	4.8054	4.8054
In S$'000	2,600	31,943	(1,859)	32,684

6.108 Based on the Group's audited financial statements for the financial years ended 31 December 2010 to 2016, we note that the allowance for impairment made for the amount owing from Wei Yi Entities to the Group as at 31 December 2016 was S$36.381 million. Details of the allowance for impairment of S$36.381 million made for the amount owing from Wei Yi Entities to the Group are as follows:

Year	Net Amount Before Impairment	Allowance For Impairment	Net Amount After Impairment
	S$'000	S$'000	S$'000
	<A>	<B>	<A - B>
2010	15,353	-	15,353
2011	21,252	-	21,252
2012	23,642	-	23,642
2013	28,500	13,000	15,500
2014	32,589	13,000	19,589
2015	35,812	14,812	21,000
2016	36,381	36,381	-

6.109 For the purpose of this Report, we have not carried out an impairment assessment on the recoverability of the net amount owing from Wei Yi Entities for the financial years ended 31 December 2010 to 2016.

6.110 Based on the minutes of the Audit Committee Meetings held on 24 February 2015 and 5 May 2015, it was mentioned that Mr. Yang Zheng had executed a statement confirming the repayment amount of S$20.5 million and the repayment date for the same to the Group in respect of the loans extended to Wei Yi Entities.

6.111 As per the debt assignment agreement dated 31 March 2015 between Kang Wei, Wei Yi and Mr. Yang Zheng, Mr. Yang Zheng had undertaken to pay the sum of S$20.5 million to Kang Wei (please see paragraph 6.81 of this Report).

6.112 As per Note 12 of the Group's audited financial statements for the financial year ended 31 December 2016, it was mentioned that "*In the previous financial year, a letter of intent was signed between a third party and the sole shareholder of [Wei Yi] to acquire [Wei Yi] at a purchase consideration of $21,000,000 and the sales proceeds was intended to be utilised by the sole shareholder of [Wei Yi] for the settlement of the loans provided by [the Group]*".

6.113 As per the letter of intent dated 8 June 2015 between Mr. Yang Zheng and Kang Shi[19], we note as follows:

a. The sale and purchase consideration of the shares of Wei Yi was S$21 million; and

b. The aforesaid letter of intent would be terminated if the sale and purchase of the shares of Wei Yi was not completed by 31 March 2016.

<u>Funding Provided To The Medical Centres Owned By Wei Yi Shi Ye Co Ltd</u>

6.114 We have been provided with the board paper dated 14 April 2014 titled "Termination of the Management Contract & Exit Strategy of the China Clinics" which was approved by the Board at the Directors' Meeting held on 5 May 2014.

6.115 Based on our review of the aforesaid board paper, we note that the key issues faced by Wei Yi Entities in their operations in China were as follows:

a. Management team;

b. Lack of medical personnel;

c. Lack of sustainable funding; and

d. Unstable administrative structure.

6.116 Notwithstanding the aforesaid, the Group continued to remit funds to Kang Wei in 2015 and 2016 to support the operations of Wei Yi Entities. Supplementary loan agreements were entered into between Kang Wei and Wei Yi Entities in 2015 and 2016.

6.117 As per the minutes of the Audit Committee Meeting held on 13 May 2016, it was also mentioned that *"it is noted that funding to support China's operations has ceased with effect from 15 April 2016"*. As per the minutes of the Directors' Meeting held on 13 May 2016, it was further mentioned that the Board had approved the recommendation to *"stop funding China operations"*.

6.118 Nevertheless, the Group continued to remit funds to Kang Wei to support the operations of Wei Yi Entities after 15 April 2016.

[19] As per the minutes of the Audit Committee Meeting held on 22 February 2016, we note that Kang Shi is a subsidiary of IHC.

6.119 According to Mr. Fan Kow Hin and Mr. Eric Wong, there were values in the medical licences held by Wei Yi Entities' clinics. In this regard, the Group had continued to remit funds to Kang Wei to support the operations of Wei Yi Entities so that Wei Yi Entities could maintain their medical licences.

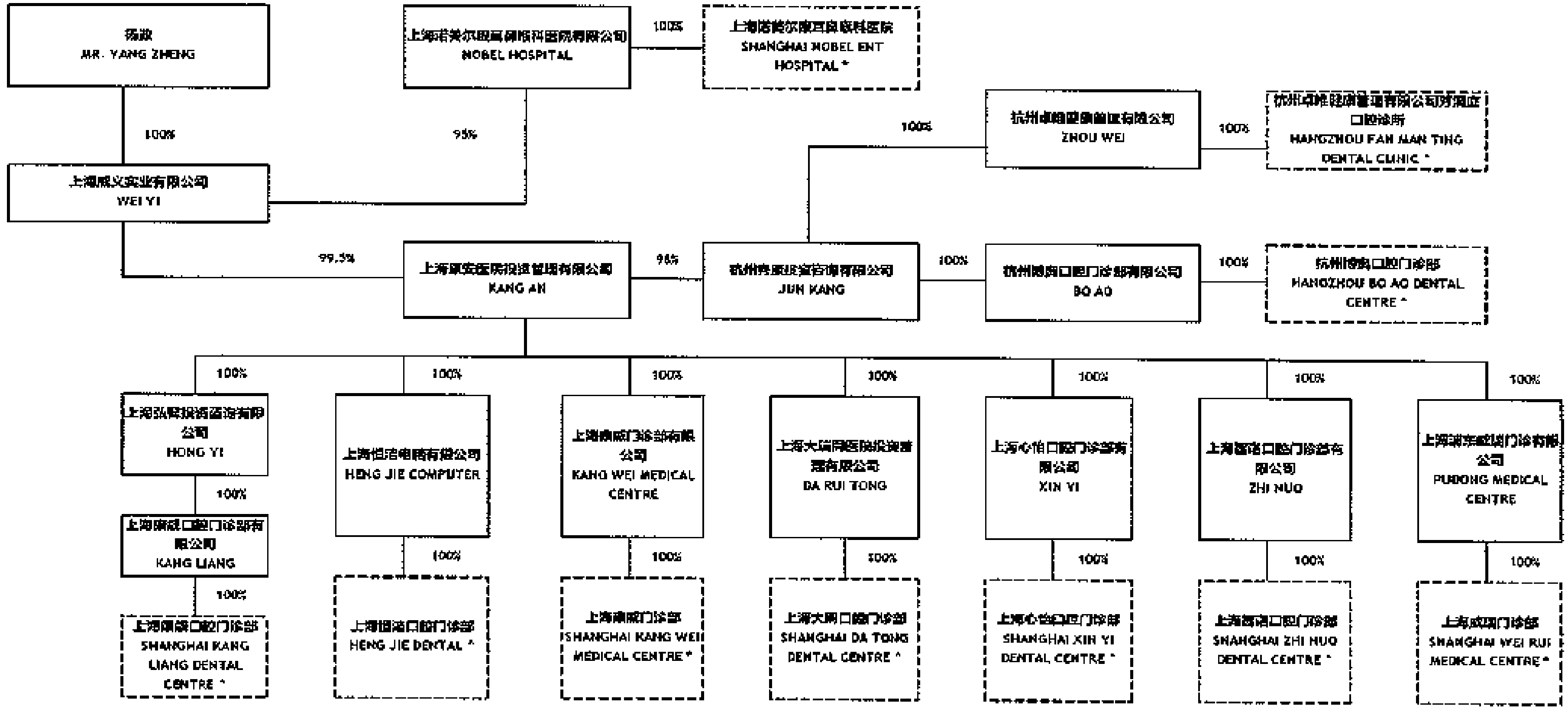
6.120 As per paragraph 8 of the unaudited financial statements and dividends announcement of the Group for the financial year ended 31 December 2016 dated 24 February 2017, it was mentioned, amongst others, that "*[The Group's] continued funding to [Wei Yi Entities] has been largely driven by [the Group's] intent to expand into the China market and to facilitate the continued operations of the medical centers in China in order to preserve the value of relevant licenses*".

(This space has been intentionally left blank.)

VII. Medical Centres Owned By Wei Yi Shi Ye Co Ltd

6.121 Based on our review of the business profile searches of Wei Yi Entities, we note that they are either investment holding companies or in the management consulting or healthcare business.

6.122 We set out below, the group structure of Wei Yi Entities as at August 2017 based on the aforesaid business profile searches as well as the group structure of Wei Yi Entities provided to us:



* Clinics set up by Wei Yi

^ Clinics acquired by Wei Yi as per Appendix A circulated at the EXCO Meeting held on 22 January 2011 / the investment memorandums

6.123 From the above organisation chart, we note that Mr. Yang Zheng is the ultimate shareholder of Wei Yi Entities.

6.124 Based on the business profile search of Wei Yi Kang Hong dated 22 August 2017, we note that Ms. Zhang Xue Ting is the sole shareholder of Wei Yi Kang Hong.

Legal Representative(s)

6.125 We set out below, the legal representative(s) of Kang Wei (part of the Group) and Wei Yi Entities as at December 2010 and August 2017:

Name	Legal Representative As At December 2010[20]	Legal Representative As At August 2017[21]
Kang An	Mr. Fan Ping Li	Mr. Fan Kow Hin
Zhi Nuo	Mr. Fan Ping Li	Dr. Jong Hee Sen
Jun Kang	Mr. Fan Ping Li	Mr. Sonny Yuen
Bo Ao	Mr. Fan Ping Li	Mr. Fan Ping Li
Da Rui Tong	Mr. Fan Ping Li	Ms. Jamie Fan
Heng Jie Computer	Mr. Fan Ping Li	Ms. Jamie Fan
Hong Yi	Mr. Zhan Tai Ming	Ms. Jamie Fan
Kang Wei	Mr. Fan Ping Li	Ms. Jamie Fan
Wei Yi	Mr. Fan Ping Li	Ms. Jamie Fan
Wei Yi Kang Hong	Mr. Fan Ping Li	Ms. Jamie Fan
Kang Liang	Mr. Gu Sin Bin	Dr. Zhou Rong Ming
Kang Wei Medical Centre	Mr. Lan Bing Wen	Dr. Zhou Rong Ming
Nobel Hospital	Mr. Fan Ping Li	Dr. Zhou Rong Ming
Pudong Medical Centre	Mr. Fan Ping Li	Dr. Zhou Rong Ming
Heng Jie Dental	Mr. Gu Sun Bin	Mr. Gu Sun Bin
Zhuo Wei	Mr. Gu Sun Bin	Mr. Gu Sun Bin
Xin Yi	Mr. Fan Ping Li	Mr. Ma Xiao Feng

[20] Information obtained from either the business profile searches conducted or the corporate secretarial records of Wei Yi Entities or https://www.qichacha.com/.

[21] Information obtained from either the business profile searches conducted or https://www.qichacha.com/.

6.126 From the above table, we note that some of the legal representatives of Wei Yi Entities were related to / associated with the Group as follows:

a. Mr. Fan Kow Hin was the Company's former director;

b. Dr. Jong Hee Sen was the Company's former director;

c. Mr. Sonny Yuen is the Company's independent director;

d. Mr. Fan Ping Li was the Company's former General Manager, Corporate Development and former General Manager of China Healthway[22] and is the son of Mr. Fan Kow Hin;

e. Ms. Jamie Fan was the Company's former Business Development Manager[23] and is the daughter of Mr. Fan Kow Hin; and

f. Dr. Zhou Rong Ming, Mr. Gu Sun Bin and Mr. Ma Xiao Feng were the former employees of the Group in China.

6.127 According to Mr. Fan Kow Hin and Mr. Eric Wong, the rationale for the management / employees of the Company to be appointed as the legal representatives of Wei Yi Entities was to safeguard and protect the Company's interest pertaining to the loans extended by the Group to Wei Yi Entities.

(This space has been intentionally left blank.)

[22] Mr. Fan Ping Li was the General Manager of China Healthway till 15 January 2011 (please see page 17 of the Group's audited financial statements for the financial year ended 31 December 2010).

[23] Ms. Jamie Fan's was *"responsible for the liaison and support of business development / operations between Singapore Headquarters & China since 2013"* (please see paragraph 18 of the Group's unaudited financial statements and dividends announcement for the financial year ended 31 December 2013 dated 26 February 2014).

Financial Results

6.128 We set out below, the financial results of Wei Yi Entities from 2010 to 2016 as per their audited financial statements or management accounts:

Wei Yi Entities	2010	2011	2012	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bo Ao	(304)	(1,357)	(709)	(450)	(466)	(478)	(467)
Da Rui Tong	(2,355)	(239)	(1,304)	(1,256)	(1,352)	(1,159)	(1,062)
Heng Jie Computer	(1,193)	-	(1)	(1)	(331)	(457)	(537)
Heng Jie Dental	-	(967)	(415)	(139)	(11)	(33)	(8)
Jun Kang	(16)	(1,077)	(343)	(31)	(2)	-	-
Kang An	(5,154)	(3,707)	(2,695)	(2,683)	(2,433)	(2,722)	(841)
Kang Liang	(847)	(550)	(194)	(207)	(258)	(404)	(485)
Kang Wei Medical Centre	-	(8,250)	(7,261)	(6,576)	(3,699)	(2,166)	(4,038)
Nobel Hospital	(11,611)	(5,141)	(4,977)	(3,274)	(2,890)	(2,260)	(2,030)
Pudong Medical Centre	(7,359)	(6,448)	(4,414)	(3,558)	(3,519)	(3,571)	(3,238)
Wei Yi	(243)	(331)	(226)	-	(1,200)	(1,211)	(300)
Wei Yi Kang Hong	-	(123)	(1,000)	902	(8)	(58)	(58)
Xin Yi	(883)	(1,417)	(848)	(859)	(934)	(1,009)	(1,160)
Zhi Nuo	(2,032)	(921)	(548)	(224)	(564)	(453)	(416)
Zhuo Wei	(14)	(709)	(459)	(139)	(507)	(5)	(3)

6.129 From the above table, we note that Wei Yi Entities had been incurring losses since 2010 save for Wei Yi Kang Hong which generated a profit of approximately RMB902,000 in 2013.

(This space has been intentionally left blank.)

Cessation Of Operations

6.130 As per the schedule pertaining to the date of cessation of Wei Yi Entities' clinics as well as the medical licences of the respective Wei Yi Entities' clinics made available to us, we note as follows:

Wei Yi Entities' Clinic	Date Of Cessation	Effective Licence Period
Hangzhou Bo Ao Dental Centre	1-Jan-2013	20-Jun-2011 to 29-Jun-2014
Shanghai Zhi Nuo Dental Centre	1-Jan-2013	29-Apr-2008 to 28-Apr-2013
Hangzhou Fan Man Ting Dental Clinic	1-Mar-2013	26-Nov-2010 to 30-Jun-2014
Heng Jie Dental	1-Mar-2013	1-Jan-2013 to 31-Dec-2017
Shanghai Nobel Ent Hospital	1-Mar-2015	9-Mar-2011 to 8-Mar-2016
Shanghai Da Tong Dental Centre	1-Apr-2015	2-Apr-2013 to 1-Apr-2018
Shanghai Wei Rui Medical Centre	1-Dec-2016	1-Jan-2012 to 31-Dec-2017
Shanghai Kang Wei Medical Centre	1-May-2017	24-May-2016 to 23-May-2021
Shanghai Xin Yi Dental Centre	1-May-2017	12-Aug-2016 to 23-Aug-2019
Shanghai Kang Liang Dental Centre	N/A	16-Jul-2014 to 7-Sep- 2018

6.131 We note that there was an increase in the amounts owing from the immediate holding companies of Wei Yi Entities' clinics to Kang Wei notwithstanding that these Wei Yi Entities' clinics had ceased their operations. We set out below, the details of the increase in the amounts owing from these immediate holding companies of Wei Yi Entities' clinics to Kang Wei:

Wei Yi Entities' Clinic	Date Of Cessation	Net Amount Owing To Kang Wei As At Date Of Cessation	Net Amount Owing To Kang Wei As At 31 December 2016	Increase
		RMB	RMB	RMB
		<A>	<B>	<B - A>
Hangzhou Bo Ao Dental Centre	1-Jan-2013	1,792,438	3,676,610	1,884,172
Shanghai Zhi Nuo Dental Centre	1-Jan-2013	1,003,830	1,847,800	843,970
Hangzhou Fan Man Ting Dental Clinic	1-Mar-2013	1,040,187	1,073,440	33,253
Heng Jie Dental	1-Mar-2013	1,492,145	3,032,630	1,540,485

Wei Yi Entities' Clinic	Date Of Cessation	Net Amount Owing To Kang Wei As At Date Of Cessation	Net Amount Owing To Kang Wei As At 31 December 2016	Increase
		RMB	RMB	RMB
		<A>	<B>	<B - A>
Shanghai Nobel Ent Hospital	1-Mar-2015	24,867,655	26,696,191	1,828,536
Shanghai Da Tong Dental Centre	1-Apr-2015	5,719,680	6,974,614	1,254,934
Shanghai Wei Rui Medical Centre	1-Dec-2016	31,004,294	31,004,594	300

6.132 Based on our review of the samples selected, we note that the increase in the amounts owing to Kang Wei was due mainly to rental expenses, renovation costs and staff costs incurred by the respective immediate holding companies of Wei Yi Entities' clinics after the cessation of Wei Yi Entities' clinics' operations. We also note that the funds were remitted from Kang Wei to the immediate holding companies of Wei Yi Entities' clinics in order for them to make the aforesaid payments.

6.133 On 5 August 2017, we conducted site visits to Shanghai Nobel Ent Hospital, Shanghai Xin Yi Dental Centre and Shanghai Kang Liang Dental Centre. We note that Shanghai Nobel Ent Hospital and Shanghai Xin Yi Dental Centre had ceased operations while Shanghai Kang Liang Dental Centre was still in operation.

VIII. Observations And Findings

6.134 Our observations and findings are as follows:

a. Under Chinese Law, medical licence can only be applied and owned by an applicant in which its ultimate beneficiary is a citizen of China;

b. Mr. Yang Zheng is the ultimate sole-shareholder of Wei Yi;

c. The former legal representative(s) / legal representative(s) of Wei Yi Entities was / were / is / are the former directors, independent director and former employees of the Company / the Group;

d. The authorised signatories to the bank accounts of Wei Yi Entities were / are the former legal representative(s) / legal representative(s) of Wei Yi Entities;

e. The corporate seals of Kang Wei and Wei Yi Entities were kept with MinterEllison (a law firm in Shanghai - Kang Wei's solicitors) since 2015;

f. Multiple approvals were required before the corporate seals of Kang Wei and Wei Yi Entities would be released by MinterEllison for use. Approval must firstly be obtained from the Group's management / employees in Singapore for the authorised representatives in China to request for the release of the corporate seals of Kang Wei and Wei Yi Entities from MinterEllison for use;

g. Ms. Jamie Fan's legal representative seal is currently kept with the Group's finance department in Singapore;

h. We are not aware as to who is / are in possession of the legal representative seals of Mr. Fan Kow Hin, Dr. Zhou Rong Ming, Mr. Gu Sun Bin, Mr. Sonny Yuen, Mr. Fan Ping Li, Mr. Ma Xiao Feng and Dr. Jong Hee Sen;

i. The Wei Yi Loan Agreements executed in the various years were to alter the loan limit granted by Kang Wei to Wei Yi Entities so that the actual amounts owing from Wei Yi Entities to Kang Wei did not exceed the loan limit mentioned in the Wei Yi Loan Agreements;

j. Funds were first remitted by the Group to Kang Wei and Kang Wei would in turn, disburse the funds to the respective Wei Yi Entities;

k. Amounts of approximately S$5.928 million owing from Wei Yi Entities to the Group as at 31 December 2016 arose from fees charged by the Group to Wei Yi Entities;

l. Nothing has come to our attention to suggest that Wei Yi Entities were not the parties that received the funds (i.e. the loans) from Kang Wei;

m. Wei Yi Entities had been incurring losses since 2010 save for Wei Yi Kang Hong which generated a profit of approximately RMB902,000 in 2013;

n. Nine out of the 10 Wei Yi Entities' clinics had already ceased operations;

o. We are not aware as to why the net amount of S$200,000 owing from Mr. Aaron Tan Boon Cheong was recorded as an amount owing from Wei Yi Entities to the Group;

p. The Group continued to remit funds to Kang Wei to support the operations of Wei Yi Entities notwithstanding that the Board at the Directors' Meeting held on 5 May 2014 agreed to execute the exit strategy in China and the Board at the Directors' Meeting held on 13 May 2016 agreed to "*stop funding China operation*" as well as at the Audit Committee Meeting held on 13 May 2016, whereby it was mentioned that "*it is noted that funding to support China's operations has ceased with effect from 15 April 2016*"; and

q. The Group had continued to fund Wei Yi Entities' operations so that Wei Yi Entities could maintain their medical licences.

IX. Safeguards / Controls

6.135 Based on our findings, it appears that the safeguards / controls put in place by the Group in respect of the loans extended to Wei Yi Entities are as follows:

a. The Group managed the day-to-day operations of Wei Yi Entities under the 2010 Management Service Agreements / 2014 Management Service Agreement. Accordingly, the Group would have full knowledge of the operations of Wei Yi Entities;

b. The former legal representative(s) / legal representative(s) of Wei Yi Entities was / were / is / are the former directors, independent director and former employees of the Company / the Group;

c. The authorised signatories to the bank accounts of Wei Yi Entities were / are the former legal representative(s) / legal representative(s) of Wei Yi Entities; and

d. The corporate seals of Kang Wei and Wei Yi Entities were kept with MinterEllison since 2015 and multiple approvals were required before the corporate seals of Kang Wei and Wei Yi Entities would be released by MinterEllison for use.

(This space has been intentionally left blank.)

X. Weakness In Corporate Governance

6.136 While we note that the disclosures in the Group's audited financial statements for the financial years ended 31 December 2010 to 31 December 2015 may not have been precise or had been lacking in some details (please see paragraph 8.118 of this Report), it does not appear to us that there were any breaches of the SGX-ST Listing Manual Section B: Rules of Catalist arising from the loans extended by the Group to Wei Yi Entities. However, we stress that any of our views, statements and / or findings stated herein are expressed and / or made in our capacity as the appointed Independent Reviewer for this Report and strictly in compliance with the specific mandate conferred on us by the terms of our appointment. Accordingly, nothing herein shall be treated and / or construed as a waiver of the disclaimer against liability set out in paragraph 4.12 of this Report that we are not in a position to and do not provide any legal advice to the Company, the Group, HME, Wei Yi Entities and / or any of the entities concerned.

Disclosure Of Information

6.137 For good order, the Company should have made the following disclosures:

a. The Company should have identified the name of the borrower (i.e. Wei Yi Entities) in the Group's audited financial statements for the financial years ended 31 December 2010 to 2015 instead of stating it as "*Loan 2*" or "*Loan B*" or "*Amounts due from party B*". We note that the Company had identified Wei Yi Entities as the borrower in the Group's audited financial statements for the financial year ended 31 December 2016 although we are not aware as to why the Company had decided to do so for the aforesaid financial year; and

b. The Company should have disclosed that the former legal representative(s) / legal representative(s) of Wei Yi Entities were / are the former directors, independent director and former employees of the Company / the Group for those financial years prior to 31 December 2016. We note that in the Group's audited financial statements for the financial year ended 31 December 2016, it was mentioned that "*At [the Group]'s request, the owner of [Wei Yi] agreed and appointed [Ms. Jamie Fan] as the sole Executive Director and legal representative of [Wei Yi] to provide better visibility to [the Group] over the utilisation of the funds that have been provided to [Wei Yi]. [Ms. Jamie Fan] is the daughter of [Mr. Fan Kow Hin], who was the Executive Chairman of [the Company] up to 16 May 2015*". Nevertheless, we are not aware as to why the Company decided to make the aforesaid disclosure in the financial year ended 31 December 2016.

Funding Provided To The Medical Centres Owned By Wei Yi Shi Ye Co Ltd

6.138 We note that the Group continued to remit funds to Kang Wei to support the operations of Wei Yi Entities notwithstanding that:

a. The Board had approved the board paper dated 14 April 2014 titled "Termination of the Management Contract & Exit Strategy of the China Clinics" at the Directors' Meeting held on 5 May 2014;

b. As per the minutes of the Audit Committee Meeting held on 13 May 2016, it was mentioned that *"It is noted that funding to support China's operations has ceased with effect from 15 April 2016"*; and

c. At the Directors' Meeting held on 13 May 2016, it was mentioned that *"[The Board] approved the following based on the recommendations made by the management:*

i. To stop funding China operations;

ii. To consult Chinese lawyers to advise legal aspects of cessation of the management agreement;

iii. To explore all avenues to recover all loans extended to [Mr. Yang Zheng]".

6.139 As mentioned in paragraph 6.119 of this Report, according to Mr. Fan Kow Hin and Mr. Eric Wong, there were values in the medical licences held by Wei Yi Entities' clinics. In this regard, the Group had continued to remit funds to Kang Wei to support the operations of Wei Yi Entities so that Wei Yi Entities could maintain their medical licences.

6.140 While we note the rationale for the Group to continue to remit funds to Kang Wei to support the operations of Wei Yi Entities was so that Wei Yi Entities could maintain their medical licences, this is not in accordance with:

a. The directions set by the Directors on 5 May 2014 to terminate the 2010 Management Service Agreements & 2014 Management Service Agreement, and exit from China;

b. The information provided to the Audit Committee on 13 May 2016 whereby it was mentioned that *"It is noted that funding to support China's operations has ceased with effect from 15 April 2016"*; and

c. The directions set by the Directors on 13 May 2016 to *"stop funding China operations"*.

6.141 Notwithstanding the aforesaid, from our review of the subsequent minutes of the Directors' Meetings and the Audit Committee Meeting held in June 2016, July 2016, August 2016 and November 2016 (i.e. after 13 May 2016) as well as the Company's announcement dated 24 February 2017, we note as follows:

a. At the Audit Committee Meeting held on 30 June 2016, it was mentioned, amongst others, that Mr. Chew Khong Yuen, the former Financial Controller of the Company, *"briefed [the Audit Committee] the overview cash flow forecast for each individual month from June to December 2016 and throughout the briefing, discussion ensued and questions raised by the members of the Audit Committee were answered by"* Mr. Chew Khong Yuen and one of the main assumptions in the cash flow forecast was *"remittance of S$270k per month for China operations"*;

b. At the Directors' Meeting held on 7 July 2016, it was mentioned, amongst others, that:

   i. *"[Mr. Pee Tong Lim] raised his concern that it was not suitable for [the Company] to continue providing funds to finance the China operations as the Singapore operations have not been generating sufficient funds for [the Group] in Singapore. In addition, [PwC has] already informed [the Board] that every sum of money remitted by [the Group] to fund the China operations will need to be written off. [Mr. Eric Wong] responded that he shared [Mr. Pee Tong Lim's] concerns, but asked to give [Ms. Veronica Chan] some time to make her proposals regarding the China operations;*

   ii. *Briefly, [Ms. Veronica Chan] explained to [the Board] that although some of the medical outlets in China were not profitable, there were ways to recover some value from such outlets, including the sale of these outlets to third parties as they are fitted medical premises and have the licence to operate a medical clinic, plus there is some brand value in these medical clinics. In addition, some clinics in China were close to turning profitable and would need slightly more time. Further, time was also needed to implement the sale initiatives, and that the sudden closure of the China operations due to lack of funding can result in a total loss situation;*

   iii. *[The Board] was open to receive suitable proposals by the Management for the China operations"*;

c. At the Directors' Meeting held on 12 August 2016, it was mentioned that "*the management will present a full report and recommendation to [the Board] in relation to its operations in China in the next meeting*";

d. At the Directors' Meeting held on 14 November 2016, it was mentioned that "*the management will present a full report and recommendation to [the Board] in relation to exit of [the Group] from its operations in China in the next meeting*";

e. The unaudited financial statements and dividends announcement of the Group for the financial year ended 31 December 2016 was approved by the Board and announced on 24 February 2017. At paragraph 8 of the unaudited financial statements and dividends announcement of the Group for the financial year ended 31 December 2016 dated 24 February 2017, it was mentioned, amongst others, that "*[The Group's] continued funding to [Wei Yi Entities] has been largely driven by [the Group's] intent to expand into the China market and to facilitate the continued operations of the medical centers in China in order to preserve the value of relevant licenses*".

6.142 In this regard, it appears to us that the Board was aware that the Group had continued to remit funds to Kang Wei to support the operations of Wei Yi Entities after 13 May 2016.

6.143 Nevertheless, we have not sighted the report regarding the management's recommendation on the Group's operations in China to the Board.

(This space has been intentionally left blank.)