HEALTHWAY MEDICAL CORPORATION LIMITED
(Company Registration No.: 200708625C)
(Incorporated in the Republic of Singapore)

FINDINGS OF THE INDEPENDENT REVIEWER

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1. INTRODUCTION

1.1 The Board of Directors ("**Board**" or "**Directors**") of Healthway Medical Corporation Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcements dated 27 February 2017, 11 April 2017, 8 December 2017, 28 March 2018 and 29 June 2018 (collectively, the "**Previous Announcements**"). Unless otherwise defined, the capitalised terms used herein shall have the same meanings as defined in the Previous Announcements.

1.2 As stated in the announcement dated 11 April 2017, the Company appointed BDO LLP as the Independent Reviewer to look into the extensions of loans by the Group to Healthway Medical Enterprises Pte. Ltd. ("**HME**") and Wei Yi Shi Ye Co. Ltd (the "**Wei Yi Entities**") with the objective of establishing whether there are any breaches of the SGX-ST Listing Manual Section B: Rules of Catalist ("**Catalist Rules**").

1.3 On 30 July 2018, BDO LLP issued its independent review report (the "**Independent Report**") to the Company.

1.4 An executive summary of the Independent Report (the "**Executive Summary**") prepared by BDO LLP is attached to this announcement as Annex A.

2. FINDINGS OF THE INDEPENDENT REVIEW

2.1 A summary of the key findings of the Independent Review is set out below.

<u>Loans extended by the Group to HME</u>

2.2 According to the Independent Report, the board of the Company (the "**Previous Board**") approved an agreement pursuant to which HME was disposed to an independent third party, in November 2010 (the "**Agreement**"), as HME was in a development stage and had many centres which were not performing well. As a result of the Agreement, Healthway Medical Group Pte. Ltd. (a wholly owned subsidiary of the Company) ("**HMG**") would cease to be a shareholder of HME and the sole shareholder of HME would be an independent third party. Through a management services contract which was signed between HMG and the independent third party, HMG would provide management services for HME, which included general management, financial accounting and marketing and sales services, and would earn management fees before HME becomes profitable and self-sustaining. The disposal of HME was expected to improve the performance of the Group and the bottom-line performance of the Company in 2011. Pursuant to the Agreement, the Group would provide funding to HME for the expansion of new clinics and for working capital and the Company would be granted a call option to acquire 100% of the total issued and paid up capital of HME, which would expire 2 years from the completion of the Agreement. The call option was subsequently extended to 30 June 2017.

2.3 In connection with the Agreement, the loans extended by the Group to HME were discussed at various meetings of the Previous Board between FY2010 and FY2015 and were also reported in the Group's audited financial statements between FY2010 and FY2016, which were approved by the Shareholders. The Group's audited financial statements for FY2010 to FY2016 reported that the Group provides long term funding for the development, setup and operations of a borrower which was identified as HME in the Group's audited financial statement for FY2016. As stated in the Independent Report, there is nothing to suggest that the loans extended by the Group to HME were not for the aforementioned purposes.

2.4 BDO LLP also highlighted that the following safeguards and controls had been put in place by the Group in respect of the loans extended to HME:

(a) There were warranties and undertakings given by the independent third party to HMG under the option agreement dated 15 November 2010 and the undated addendum to the option agreement dated 15 November 2010.

(b) The day-to-day operations of HME were 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.

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

2.5 The loans extended by the Group to HME totalling approximately S$48 million (net of allowance for impairment loss of S$18 million) over 7 years was disclosed in a circular issued by the Company dated 6 April 2017 in relation to, among others, "*the Proposed acquisition of Healthway Medical Enterprises Pte. Ltd.*" ("**Circular**"). It was also disclosed in the Circular that upon completion of the proposed acquisition of HME, the outstanding receivables of S$65 million would be accounted for as goodwill. At the extraordinary general meeting ("**EGM**") held on 21 April 2017, 98.02% of the Company's shareholders present or voting by proxy approved the acquisition of HME by the Company for a consideration of S$3.54 million. The results of the EGM were announced by the Company on 21 April 2017.

2.6 BDO LLP are of the view that while some of the disclosures made by the Company in relation to the loans extended by the Group to HME may not have been precise or had been lacking in some details, there does not appear to be any breaches of the Catalist Rules. The Independent Report also does not identify any Interested Person Transactions in breach of Chapter 9 of the Catalist Rules.

Loans extended by the Group to the Wei Yi Entities

2.7 According to the Company's 26 June 2008 prospectus referred to in the Independent Report, the Group 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. The country that the Previous Board identified for its overseas expansion was China.

2.8 According to the Independent Report, the Company had received legal advice that Chinese law mandates that medical licenses can only be applied for and be owned by a company whose ultimate beneficial owner is a Chinese citizen and that funding could not be provided in the form of investments. The Previous Board thus discussed and approved at a meeting held on 13 August 2010 that the Group (through Kang Wei Investment Consultancy (Shanghai) Co Ltd ("**Kang Wei**") (a wholly-owned indirect subsidiary of the Company) would expand into China through the extension of loans to the Wei Yi Entities, whose beneficial owner was Mr. Yang Zheng, a Chinese citizen.

2.9 Based on a sample of seven clinics owned by the Wei Yi Entities, BDO LLP noted that the increase in amounts owing by the Wei Yi Entities to Kang Wei was due to legitimate transactions, such as rental expenses, renovation costs and staff costs.

2.10 BDO LLP also highlighted that the following safeguards and controls had been put in place by the Group in respect of the loans extended to the Wei Yi Entities:

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

(b) The former legal representative / legal representatives of the 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 the Wei Yi Entities were / are the former legal representative / legal representatives of the Wei Yi Entities.

(d) The corporate seals of Kang Wei and the Wei Yi Entities were kept with Kang Wei's solicitors, MinterEllison Shanghai Office ("**MinterEllison**") since 2015 and multiple approvals were required before the corporate seals of Kang Wei and the Wei Yi Entities would be released by MinterEllison for use.

2.11 According to the Independent Report, the Board resolved to stop funding the Wei Yi Entities on 13 May 2016. However, the Company continued to fund the Wei Yi Entities through Kang Wei to support the Wei Yi Entities so that the Wei Yi Entities could maintain their medical licences, which had value. The continued funding of the Wei Yi Entities was discussed at Board meetings attended by a number of directors including Mr. Wong Ong Ming Eric and was also disclosed in the unaudited financial statements and dividend announcement of the Group for FY2016 dated 24 February 2017 where it was mentioned that the continued funding of the Wei Yi entities was driven by the Group's intent to expand into the China market and to facilitate the continued operations of the medical centres in China in order to preserve the value of the relevant licences.

2.12 According to the Independent Report, allowances were made for the impairment of amounts owing from the Wei Yi Entities to the Group between 2013 and 2016, which was disclosed in the Group's audited financial statements for FY2013 to FY 2016. As at 31 December 2016, the total allowance for impairment made for the total amounts owing from the Wei Yi Entities to the Group was approximately S$36.4 million. The total allowance for impairment is net of approximately S$1.9 million which was repaid by the Wei Yi Entities to Kang Wei and included the loans extended by the Group to the Wei Yi Entities between 2010 and 2016, which stands at an aggregate amount of approximately S$32.0 million, as well as fees for management services and franchise services amounting to approximately S$5.9 million.

2.13 BDO LLP are of the view that while some of the disclosures made by the Company in relation to the loans extended by the Group to the Wei Yi Entities may not have been precise or had been lacking in some details, there does not appear to be any breaches of the Catalist Rules. The Independent Report also does not identify any Interested Person Transactions in breach of Chapter 9 of the Catalist Rules.

2.14 In the course of their work, BDO LLP reviewed Kang Wei's audited financial statements for FY2010 to FY2014, management accounts for FY2015 and FY2016, general ledgers, general ledgers vouchers and the corresponding supporting documents and the bank account statements for FY2010 to FY2016. According to the Independent Report, there was nothing to suggest that the Wei Yi Entities did not receive the funds from Kang Wei.

3. ACTIONS GOING FORWARD

3.1 Given that the Independent Report did not identify any breaches of the Catalist Rules or any irregular transactions or irregular disbursements of funds arising out of the loans extended by the Group to HME or the Wei Yi Entities, the Board does not envisage any further action to be taken in relation to the matters arising out of the Independent Report.

3.2 The Board will continue to take all necessary actions to safeguard the interests of the Shareholders and the Group.

BY ORDER OF THE BOARD

Raymond Lam Kuo Wei
Company Secretary

30 July 2018

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*This announcement has been prepared by the Company and its contents have been reviewed by PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"), for compliance with the SGX-ST Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.*

The contact person for the Sponsor is Ms Gillian Goh, Director, Head of Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg).