

TMC LIFE SCIENCES BERHAD
Registration No. 200301021989 (624409-A)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE EIGHTEENTH ANNUAL GENERAL MEETING OF TMC LIFE SCIENCES BERHAD (“**TMCLS**” OR “**THE COMPANY**”) HELD ON A FULLY VIRTUAL BASIS AT THE BROADCAST VENUE AT MEETING ROOM OF SECURITIES SERVICES (HOLDINGS) SDN. BHD., LEVEL 7, MENARA MILENIUM, JALAN DAMANLELA, PUSAT BANDAR DAMANSARA, DAMANSARA HEIGHTS, 50490 KUALA LUMPUR, WILAYAH PERSEKUTUAN ON WEDNESDAY, 4 NOVEMBER 2020 AT 10:00 A.M.

Minority Shareholders Watch Group’s (“MSWG”) questions and answers

Strategy and financial matters

Question 1:

Thomson Hospital Kota Damansara (“THKD”)

The expansion of THKD has been delayed due to the movement control order (“**MCO**”) and is now scheduled to open in the third quarter of 2021 (Page 10 of Annual Report 2020).

The expansion will enable THKD to bring even more services and facilities to the community, including, among others:

- 600 Beds
- 11 Operating Theatres
- More than 150 Specialist Outpatient

(Page 6 of the Annual Report 2020)

Upon commencement of operation, what is the THKD’s targeted growth rate in both top-line and bottom-lines for the next two (2) financial years?

Answer:

With the completion of the THKD expansion project, the Group would be adding significant capacity to its existing operations. In addition to the increase in beds and operating theatres, the Group would be expanding the service offerings to include new services such as the new Cancer & Radiosurgery Centre and Nuclear Medicine Centre. The Group’s revenue and profits are expected to grow significantly over the next two (2) financial years as a result of the added capacity and additional service offering.

Question 2:

As for the project at Thomson Iskandar Medical Hub, the Group aims to complete the hospital within 12 to 24 months after the Rapid Transit System (“**RTS**”) project at Bukit Chagar is fully operational (Page 17 of the Annual Report 2020).

- i What is the progress of the project at the Thomson Iskandar Medical Hub?
- ii When does the Company expect the RTS project at Bukit Chagar to be operational?

Answer:

Thomson Iskandar Medical Hub piling work has been completed and the necessary authority approvals are still in the midst of being obtained.

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According to the report by New Straits Times on 30 July 2020, the RTS project is expected to have its testing and commissioning from 2025 to end of 2026. It is therefore reasonable to expect the RTS to be operational at the beginning of 2027. However, there might be some uncertainties due to economic and political challenges faced in Johor at this time.

Question 3:

The Ministry of Health (“**MOH**”) indicated that TMCLS will work together to manage the situation of Covid-19. If the situation worsens, perhaps the private sector will need to take on some of the load of non-Covid-19 cases while the public sector focuses on the Covid-19 cases (Source: The Edge Markets dated 22 April 2020).

What is the latest development on this arrangement?

Answer:

In March 2020, all private hospitals engaged with the MOH to prepare for the worst due to the surge of Covid-19 cases. TMCLS, together with other private healthcare players, are more than willing to work with the MOH to off-load the burden of non-Covid-19 cases from the public hospitals. Our tertiary hospital, THKD, is located nearby the designated admitting Covid-19 hospital for Selangor, Hospital Sungai Buloh (“**HSB**”). As early as April 2020, THKD began to receive patients who were being transferred out of HSB to make way for Covid-19 patients. However, at the present moment, the capacity of HSB to accommodate the Covid-19 patients is still available and THKD has stopped receiving such patients since June 2020.

In addition, during the peak of the Covid-19 second wave in March 2020, THKD loaned two (2) units of its ventilators to HSB upon the request of MOH. The ventilators have since been returned in June 2020. TMCLS would continue to monitor and offer its assistance to MOH as the need arises.

Question 4:

TMCLS had been impacted by the lower patient load due to the MCO (Source: The Star dated 1 August 2020).

In March 2020, THKD’s occupancy dropped to the lowest it had been in many years at 40% (Page 16 of Annual Report 2020).

- i. What is the current patient load for THKD and fertility operations?
- ii. What is THKD’s current occupancy rate?

Answer:

The current patient load at THKD has recovered close to pre-Covid-19 level. However, bed occupancy ratios are still an estimated 14 percentage points lower than the peak occupancy rate of 68%. This was due to several factors, including patient preference for shorter stay and day procedures to avoid prolonged exposure in a hospital setting as well

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as THKD's infection control procedures which prohibit patients with influenza-like illness from sharing a room with other patients. For this financial year, THKD's occupancy rate stood at 54%.

The Group's fertility business on the other hand continues to suffer a decrease by as much as 30% compared to normal business volumes due to the impact of border controls on medical tourism. Currently, TMCLS is focusing on marketing activities on the local market, using online platforms and leveraging evolving market conditions, such as the recent announcement on Employees' Provident Fund's ("**EPF**") withdrawals for fertility treatments.

Question 5:

There is a worldwide shortage in personal protective equipment ("**PPE**") to safeguard doctors and nurses (Source: The Edge Markets dated 22 April 2020).

What is the cost increase associated with the procurement of PPE for the Company?

Answer:

PPE has been in short supply in Malaysia during the early stage of the MCO due to closures of factories both in China and Malaysia. However, through proactive planning, TMCLS was able to secure sufficient stocks of PPE for the front-liners and employees. Subsequently, as factories and manufacturers were allowed to operate and more players entered into PPE production, the supply of PPE to the market has returned to normal from May 2020 onwards.

The cost increase associated with the procurement of PPE has not significantly impacted the Company's results for the financial period ended 30 June 2020.

Corporate governance ("CG**") matters**

Question 1:

Resolutions 10 and 11

Non-Executive Directors will be eligible to participate in the Employees' Share Option Scheme ("**ESOS**") in the Company.

While MSWG recognises the contribution of the Non-Executive Directors to the Company, MSWG does not encourage the practice of giving options to them as they play the governance role in the Company. They should also be responsible for monitoring the option allocation to employees and Executive Directors. Furthermore, ESOS, by definition, is meant for executive staff.

Why is the ESOS extended to the Non-Executive Directors since Directors' fees and other benefits are supposed to be sufficient to compensate the services rendered by them?

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Answer:

One (1) of the objectives of the ESOS scheme is to recognise the contribution, reward and retain eligible persons whose services are vital to the continued growth of the Group. The Non-Executive Directors of the Company devote sufficient time and attention to their professional obligations, providing informed and balanced views for decision-making and have always acted in the best interest of the Company and shareholders.

Furthermore, under the By-Laws of the ESOS of TMCLS approved in the Extraordinary General Meeting held in 2015, Clause 5.4 states that 'Each Director can only participate in the Scheme in one (1) capacity irrespective of the number of directorship or positions he holds in the Group.'

Question 2:

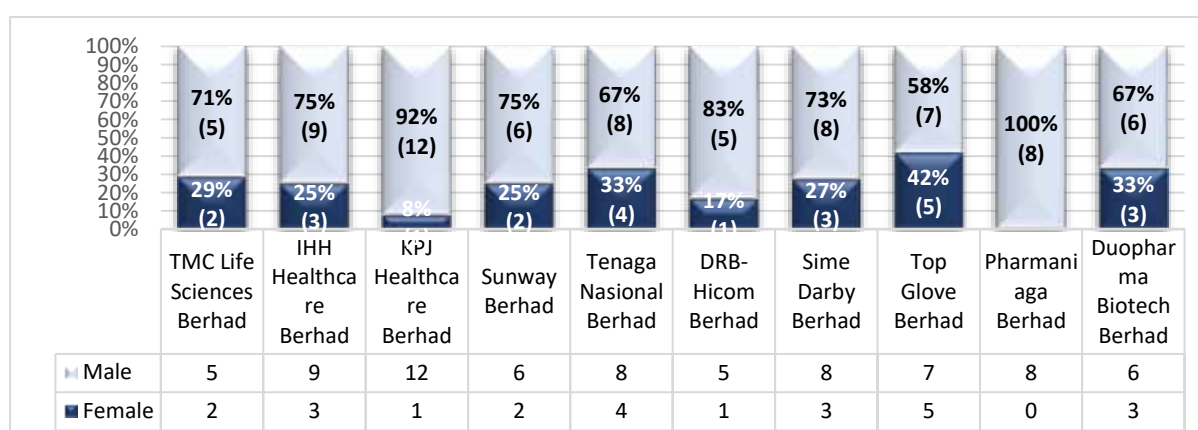
As stated in the CG Report, the Company departed from Practice 4.5 on Malaysian Code on Corporate Governance which stipulated that the Board of Directors ("**Board**") discloses in its Annual Report the Company's policies on gender diversity, its targets and measures to meet those targets.

When does the Board intend to adopt this Practice?

Answer:

On 25 January 2019, TMCLS had appointed the Group Chief Executive Officer of the Company, Ms. Wan Nadiah binti Wan Mohd Abdullah Yaakob to be the Executive Director to the Board, increasing the women participation in the Board from one (1) to two (2), therefore raising the percentage of female Directors from 14% to 28.6%.

According to Deloitte Global's latest edition of *Women in the Boardroom* report in December 2019, there was an increase of 5% to 7% women participation in boardrooms in Malaysia compared to their previous report published in 2017. As indicated in the table below, TMCLS's percentage of female Directors compared favourably with the Company's peers in healthcare and other sectors:



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However, the Group continues to be mindful of Practice 4.5 on Malaysian Code on Corporate Governance and would include the measure and timeframe in CG Report, upon achieving a market capitalisation of RM2.0 billion, making TMCLS a Large Company as defined under the Malaysian Code of Corporate Governance.

Shareholders' questions and answers session

Mr. Chua Song Yun, a shareholder raised the following questions:

- THKD expansion project:
 - How much capital expenditure ("**CAPEX**") did the Group spent for this project?
 - What is the expected total investment for this project?
 - Upon its completion in third quarter of 2021, how much is the additional depreciation cost and how fast Management expects the project to start to contribute positively to the Group?
- Thomson Iskandar Medical Hub:
 - How much CAPEX did the Group spent for this project?
 - What is the expected total investment for this project?
 - It is reported in the news that the Johor Bahru-Singapore RTS project may only be completed soonest by 2026. This implies that this project is expected to have a very long waiting period. Why does the completion date of this project is dependent on the completion of RTS project?
 - Will there be an increase of project cost for the long investment period?
- Although the percentage of impaired receivables against revenue (3.56%) and collection days (63 days) have improved compared to previous year, these figures were still significantly lower compared to other peer companies such as IHH Healthcare Berhad ("**IHH**") (i.e. 0.42% and 44 days, respectively). What is the rationale? Does TMCLS have a different operating nature that resulting in higher credit losses and collection days?
- Considering that even prior to Covid-19 pandemic, the occupancy rates are still low at approximately 60%. Will there be sufficient demand for the THKD expanded new capacity?
- Considering that the total investment for Thomson Iskandar Medical Hub was at RM1.2 billion and insufficient Group's current cash level to fund it, what are the funding strategies for this project?

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Answer:

Ms. Wan Nadiah binti Wan Mohd Abdullah Yaakob ("**Ms. Wan Nadiah**"), *Group Chief Executive Officer* and Mr. Jimmy Wong Yu Chee ("**Mr. Jimmy Wong**"), *Group Chief Financial Officer* replied to the above questions raised as follows:

- The total CAPEX spent on THKD expansion project as at September 2020 was RM189.0 million while the expected total investment for first phase of THKD expansion project would be RM454.0 million. Upon the completion of THKD expansion project in third quarter of 2021, there would be an additional depreciation cost of approximately RM10.0 million.

In view that the said expansion is an extension from the existing operating hospital, the Group foresees to generate positive earnings before interest, taxes, depreciation, and amortisation ("**EBITDA**") by its first year of operation and for the said expansion to contribute positively to the Group bottom line by second year of operation.

- The total CAPEX spent on Thomson Iskandar Medical Hub project was RM93.0 million while the expected total investment for Thomson Iskandar Medical Hub project was RM1.2 billion.

The commencement of Thomson Iskandar Medical Hub project dependent upon the completion of RTS project because RTS project is essential to the viability of the project. It is expected that RTS project would facilitate the movement of people from Singapore and across the border, which is important to the business model.

The higher project cost over the long investment period has been estimated for and the Group would be on its best efforts to ensure that the financial planning for the project is conducted appropriately subject to the future economic conditions.

- IHH Group is operating in other countries such as Singapore, Turkey, China and Hong Kong with a slightly different business model than THKD. For instance, IHH Singapore operates in a business environment that they practice pay and claim basis which lead to a lower receivables, which is different from the business environment in Malaysia. THKD Group's receivables are mainly from corporate customers with smaller portion from cash customers and hence, it is not comparable in terms of receivable revenue and collection days.
- The general occupancy rates reflected did not indicate the demand on the types of beds. Based on the observation in THKD, the highest number of beds that are in demand are single beds and critical care beds. Currently, THKD has a large proportion of neonatal and special care baby unit beds which may not be high in occupancy rates. THKD expansion is designed to provide a significant proportion of single beds and critical care beds that are in demand. Management expects that the occupancy rates and demands in beds upon THKD expansion would be higher than the current general occupancy rates which are not reflective of the composition of beds in the new building.

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- The Company is in the midst of exploring various funding options to fund Thomson Iskandar Medical Hub project.

Mr. Teh Peng Tin, a shareholder enquired whether the Board would consider giving Touch 'n Go e-wallet as a token of appreciation for shareholders who had participated in the Annual General Meeting remotely, during this difficult time of COVID-19 pandemic.

Answer:

Ms. Wan Nadiah responded that a token of appreciation would be sent by e-mail to the shareholders/proxies/corporate representatives who have attended this Meeting after the Meeting.

Mr. Leow Yuk Loong, a shareholder enquired whether there will be any impairment loss in the future.

Answer:

Mr. Jimmy Wong responded that based on the annual impairment testing undertaken by the Group, no impairment loss is required for the carrying amount of the goodwill in accordance with the Malaysian Financial Reporting Standards 136: *Impairment of Assets*. The Group would continue to monitor if impairment loss is required.

Mr. Lee Eng Shan, a shareholder raised the following questions:

- In relation to the withdrawal of EPF for in-vitro fertilisation (“**IVF**”) treatments, what is THKD new wing performance guidance?
- What is the contribution from maternity division?
- What is the reason for the Group’s EBITDA to be lowered than IHH and how does it compared to Sunway Medical Group?
- Is the medical tourism model in flawed given the restriction in travelling during the COVID-19 pandemic period?
- Does Management foresee more or a smaller number of babies would be delivered after MCO and does the medical tourism carries higher price compared to local patients?

Answer:

Ms. Wan Nadiah replied to the above questions raised as follows:

- The fertility division contributes about 20% of revenue to the Group and has been significantly affected during the financial period due to cross-border travel restrictions.

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- The EBITDA margin in fertility division is higher than the tertiary hospital. In comparison with Sunway Medical Group, the Group's EBITDA is slightly lower at present. However, the Group is currently at the stage to ramp up for opening and hence, a significant commission cost would be incurred during this period.
- Medical tourism such as hospitality and other sectors that are important to the Malaysian economy had been significantly impacted by cross-border restrictions during this COVID-19 pandemic period and this situation is likely to continue along with the general Malaysian economic outlook. However, the Group has been innovating to realign with the new business operating environment, for instance launching of tele-health and drive-thru services in the branches and focusing on other value-added services such as bundling of services offered by TCM and IVF Fertility Centre to launch innovative packages to target the local market in order to mitigate the impact of cross-border restrictions at this COVID-19 pandemic period.
- The delivery rates remained relatively stable with no increase nor decrease throughout the MCO period. The medical tourism market does have a higher average bill size and profitability as the types of services offered are not available at their home country.

Mr. Gor Ching Ruey, a proxy holder raised the following questions:

- When is the commencement of operation of THKD expansion project?
- How is the lock down impact on the operations of TMC Fertility Centres based on Management's projection?

Answer:

Ms. Wan Nadiah replied to the above questions raised as follows:

- The THKD expansion project is expected to commence its operation in the third quarter of 2021, which has already taken into account the delay from the first MCO that was announced in March 2020.
- The current cross-border restrictions had impacted TMC Fertility Centres' operations by approximately 20% and vary by locations. Some of the branches, which are key medical tourism hubs, i.e. Penang and Johor Bahru had been significantly impacted compared to other branches in Klang Valley which have been able to retain a high proportion of local patients. The Group would continue to make efforts to sustain and had launched tele-consultation and tele-health platform, including TMC Fertility Centres. Management foresees that the business operations would continue to remain slightly weakened. However, Management had oriented themselves towards local markets and due to changes in regulations, i.e. EPF's withdrawals for IVF treatments, it allows the Group to open up to a bigger market segment.

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Mr. Chew Len Chet, a shareholder raised the following questions:

- How many issuances of new shares are projected for under Resolution 7 (Authority to issue shares pursuant to the Companies Act 2006)?
- TMCLS is lacking on investment fund managers' radar which rendered TMCLS to miss out on mutual fund managers' interests. TMCLS's financial performance details are also lacking in Yahoo Finance, Google Finance, etc. Thus, many corporate investors are not investing in TMCLS due to lack of information. How could TMCLS attract more institutional investors?
- What is the financial performance on different market segments in IVF, pharmaceutical, etc. so that the shareholders can benchmark against market leaders to justify their investment?

Answer:

Mr. Jimmy Wong and Ms. Wan Nadiah replied to the above questions raised as follows:

- The Company did not project any issuance of new shares annually but would consider the impact if the Company is to grant the ESOS to the eligible employees and Directors of the Group.
- TMCLS is not under the investment fund managers' radar as its public shareholding spread is thin and hence, not much liquidity available in the market.
- Management would compile the information on question no. 3 and reply accordingly after the Meeting.

Answer (after the Meeting via email to Mr. Chew Len Chet):

The fertility revenue contributed to 15% of the 2020 Group's revenue. For ten (10) months ended 30 June 2020 ("**FY 2020**"), the fertility revenue dropped by 6% compared to ten (10) months ended 30 June 2019. The EBITDA margin for fertility branches was 28%, dropping by 8 percentage points and the EBITDA dropped 26% compared to ten (10) months ended 30 June 2019, mostly due to impact of border controls and MCO.

The competitors' margins range from 24.2% to 43.5%, based on their 2019 audited financial statements. However, these figures have not taken into consideration the impact of border controls and MCO from March 2020.

The FY 2020 pharmacy revenue continues to improve, growing 148% to RM870k, with loss after tax of RM390k compared to RM339k for the ten (10) months ended 30 June 2019.

The FY2020 Thomson TCM's revenue rose by 89% to RM168k, with loss after tax of RM552k, compared to loss after tax of RM361k for the ten (10) months ended 30 June 2019.

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Given the upward trend of these two (2) businesses despite the general economic downturn and MCOs, Management is optimistic that the business would be on track to breakeven in the near future.

Ms. Tan Hooi Im, a shareholder enquired whether TMCLS co-operate with insurance companies to encourage their agents to propose to their clients to choose THKD to seek for consultation.

Answer:

Ms. Wan Nadiyah responded that TMCLS has a relatively good relationships with insurance companies and their agencies, which is reflective by the high corporate receivables compared to cash receivables in the Group.