



Securities Investors Association (Singapore)

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GST Reg No: M90367530Y

Issuer: HC Surgical Specialists Limited

Security: HC Surgical Specialists Limited

Meeting details:

Date: 27 September 2018

Time: 2.00 p.m.

Venue: 180 Island Club Road, Level 3 Ballroom 3, The Singapore Island Country Club, Singapore 578774

Company Description

HC Surgical Specialists Limited, an investment holding company, provides medical services. It offers endoscopic procedures, including gastroscopies and colonoscopies; and general surgery services with a focus on colorectal procedures in a network of clinics. The company also offers treatment services for other conditions, such as haemorrhoids, anal abscesses, anal fissures, cholecystitis, anal fistula, gallstones and inflammation of the gallbladder, hernias, colorectal cancer, stomach cancer, colonic diverticular disease, and cysts and lipomas; and piles, vein laser vascular and laparoscopy, and other general medical services. It operates 14 clinics in Singapore. The company was incorporated in 2015 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=1B1)

1. The company provided shareholders with an update of its progress since its listing and included some key financial information on pages 8 to 9 (Financial Highlights) in the annual report.

4 specialists have been successfully added to the group since 2016. The group's patient base has also been expanded with the set-up and acquisition of GP clinics and medical support services companies.

- (i) Can management help shareholders understand if the group is still actively pursuing a regional expansion? If so, can management elaborate further on its strategy to expand in the region given that medical care is highly personal and there are specific challenges, such as language, culture, local laws and regulations? Will the regional business model include setting up/acquiring clinics in new cities or will the group explore a hub-and-spoke model where the new sites will primarily refer patients to the clinics in Singapore?**
- (ii) Has management shortlisted certain cities or countries that would be attractive to the group?**
- (iii) As the group scales up its operations, how does management ensure that the group avoids/prevents instances of overcharging and over-servicing patients?**

As seen on page 9 (Financial Highlights), the reliance on the two founding doctors have been reduced as the number of specialists and clinics increased since 2016. The group also reported the highest levels of revenue, operating income, adjusted profit after tax to owners and earning per shares since its listing.

- (iv) Can Dr. Heah, as executive director and CEO, help shareholders understand if his patient loads/cases has decreased or increased over the years? How much time does the CEO spent on non-patient matters, such as the operational and strategic matters of the group?**
- (v) Has the board/management estimated the number of endoscopy centres and specialists that the local market can support?**

2. As seen in Note 5 (page 95 – Intangible assets), the carrying value of goodwill increased to \$5.09 million as the group acquires specialist clinics and GP clinics. For the group's investments in associates (namely MediNex Pte. Ltd.), the carrying amount of \$5.7 million includes \$4.4 million of goodwill (page 107).

- (i) How does the board ensure that the acquisitions are prudent and are not overly aggressive?**
- (ii) What are the safeguards put in place to mitigate the acquisition/integration risks of the acquired subsidiaries given that the**

specialists/doctors are usually the most critical factors in making the acquisition a success?

In particular, as disclosed in Note 7 (pages 105 to 107 – Investments in associates), the group acquired a 49% stake in MediNex Pte. Ltd. (MDN) for \$4.38 million on 5 July 2017 but had its interest in MDN diluted to 33.45% on 9 November 2017.

- (iii) Was the board/management made aware that the group's 49% stake would be diluted within 6 months after its investment and proceeded knowing so?**
- (iv) Did the board/management consider having anti-dilution provisions in its investments to protect the group's interests?**

Subsequently on 30 November 2017, the group acquired a further 2.32% equity interest in MDN for a cash consideration of \$1 million to raise its stake to 35.77%.

- (v) Can management elaborate further on the bolt-on acquisition by MDN in October/November 2017? How did the prospects and valuation of MDN change as a result of the acquisition by MDN?**
- (vi) Can the board help shareholders understand if it had approved the acquisition of the 2.32% equity stake for an additional \$1 million (when the initial stake of 49% was acquired at \$4.38 million)? Was this follow-up investment in MDN anticipated when the group first invested in MDN?**
- (vii) Would it be prudent to carry out an independent valuation of MDN?**

3. The group's net cash flow from operating activities amounted to \$6.1 million while it recognised a net cash outflow due to investing activities of \$8.4 million as the group invests in expanding its network of clinics and specialists.

Net cash used in financial activities was \$1.5 million, partly due to the dividend payment of \$2.69 million to owners of the company and offset by bank borrowings with effective interest rates of 2.38% to 2.99% per annum. At the end of the financial year, the group had cash and cash equivalent of \$5.0 million, down from \$8.8 million a year ago.

- (i) Would the board further clarify on the group's capital management framework? Specifically, would the group be looking to fund its expansion with leverage?**
- (ii) If so, has the board determined a prudent gearing ratio to ensure that the group does not over-extend itself financially?**

In addition, as noted in the Offer document dated 25 October 2016, the directors intend to recommend and distribute dividends of not less than 70% of the group's profit after tax for FY2017, FY2018 and FY2019 even though the company does not have a fixed dividend policy.



- (iii) **With the successful scaling up of the group's operations, would the board consider it opportune to deliberate on a dividend policy for the company?**
- (iv) **Also, would the board be able to provide shareholders with better clarity on its intention to distribute dividends beyond FY2019?**

Comment: It is noted that the company's AGMs are held in venues (such as Temasek Club and Singapore Island Country Club) that may not be very accessible to shareholders if they do not drive. **Would the board consider picking a venue for the company's AGM that is more accessible to facilitate shareholders who do not drive?**

A copy of the questions for the Annual Report for the financial year ended 31 May 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=HC%20Surgical%20Specialists%20Ltd>

The company's response could be found here: -----