



Securities Investors Association (Singapore)

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Issuer: Health Management International Ltd

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Meeting details:

Date: 29 October 2018

Time: 4.00 p.m.

Venue: Hall 1, Level 1, Devan Nair Institute for Employment and Employability, 80 Jurong East Street 21, Singapore 609607

Company Description

Health Management International Ltd provides private healthcare services in Singapore, Malaysia, and Indonesia. It owns and operates Mahkota Medical Centre, a 288-bed tertiary care hospital in Malacca, Malaysia; and Regency Specialist Hospital, a 218-bed tertiary care hospital in Johor, Malaysia. The company's hospitals provide medical and surgical services, such as breast, cardiothoracic, hepatobiliary-pancreato-biliary, general, oral and maxillofacial, orthopaedic and trauma, plastic and reconstructive, spine, ear, nose, and throat surgery services; and anaesthesiology, cardiology, emergency physician, endocrinology, gastroenterology and hepatology, geriatrics, haematology and haemo-oncology, internal medicine, general dentistry, nephrology, neurology, neurosurgery, obstetrics and gynaecology, gynae – oncology, oncology and radiotherapy, ophthalmology and vitreo retinal, orthodontics, pathology, paediatric, paediatric cardiology and neurology, psychiatric, radiology and interventional radiology, reproductive medicine, respiratory medicine services. Its medical and surgical services also include colorectal surgery, head and neck surgery, emergency medicine, internal medicine, general surgery, gynaecologic oncology, neurosurgery, orthopaedic and trauma surgery, neonatology, urology, and vascular and endovascular surgery, as well as plastic, cosmetic, and reconstruction surgery services. In addition, the company owns and operates HMI Institute of Health Sciences in Singapore that provides healthcare training and education services; and provides hospital management services. The company was founded in 1991 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=588)

1. Building on the consolidation in the ownership of Mahkota Medical Centre and Regency Specialist Hospital, the group acquired a 62.5% equity stake in StarMed @ Farrer Square Pte Ltd for a total commitment of S\$40.0 million.

Marking the group's entry into Singapore, StarMed Specialist Centre (SSC) is a private one-stop ambulatory care centre, comprising specialist clinics, operating theatres, endoscopy suites and radiology facilities. The company has stated that SSC's initial focus will be on cardio-vascular, digestive services and minimally invasive surgeries, and that the gestation period for SSC can potentially be up to two to three years.

- (i) Would management help shareholders understand if the newly acquired SSC can benefit from any operational synergies with the group's two tertiary hospitals in Malaysia?**
- (ii) Can medical staff from the hospitals be cross-deployed to SSC?**
- (iii) Has the senior management team been assembled to spearhead SSC?**
- (iv) How will management be marketing SSC to ramp up its utilisation during the gestation period given that it is not affiliated with other clinics or healthcare providers in Singapore?**
- (v) In its investment thesis for SSC, what is management's projection of the share of foreign patients?**
- (vi) Would SSC require additional capital injection from the company to be fully operational?**

2. As seen in the 5-year financial highlights (page 3), revenue and group-level EBITDA grew by 7.3% and 19% respectively, helped by the expansion of EBITDA margin from 22.2% to 24.6%. Net profit attributable to equity holders increased significantly to RM60.6 million from RM20.6 million due to the consolidation in the ownership of Mahkota and Regency.

Earnings per share have been boosted to 7.29 sen (2017: 3.18 sen) mainly due to higher leverage. Compared to the net cash position as at 30 June 2016 (prior to the consolidation of Mahkota and Regency), the group's net debt position stands at RM137.5 million as at 30 June 2018.

The group successfully raised \$11 million in a share placement to a fund managed by Heliconia Capital Management Pte Ltd. The bulk of the proceeds has been used to partial-fund the SSC investment.

- (i) Has the board reviewed its optimal capital structure to support the group's growth plans?**
- (ii) In carrying out the share placement (vs doing a rights issue), what factors were taking into account by the board? Did the board factor in the dilutive effect of a share placement on its minority shareholders?**

(iii) The group recognised finance costs of RM8.24 million for the financial year ended 30 June 2018, up from RM4.9 million for FY2017 and in line with the increased borrowings. **With gross borrowings amounting to RM196 million, with approximately 94% of the borrowings on variable rates, has the board evaluated the potential impact of interest rates hike on the group's cash flow and profitability?**

(iv) **Has the board set an internal limit to the group's gearing ratio?**

3. At the 20th Annual General Meeting of the company, Professor Tan Chin Tiong is retiring by rotation pursuant to Regulation 95 of the Constitution of the company and who, being eligible, offers himself for re-election. As noted in the annual report, Professor Tan has served on the board for more than nine years and his independence is subject to particularly rigorous review. In fact, Dr Cheah Way Mun and Professor Tan Chin Tiong were both first appointed on 8 September 1999 and would have served for more than 19 years on the board (as at the date of the company's AGM).

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 Code"). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Health%20Management%20International%20Ltd>

The company's response could be found here:

<https://sias.org.sg/media/qareport/HMI%20-%20SIAS%20QA%20-%2020171110.pdf>