Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Medinex Limited

Stock code: OTX

Meeting details:
Date: 25 August 2020
Time: 2.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As noted in the letter to shareholders, the group achieved an increase in profit attributable to owners of the company from approximately $0.82 million in the financial year ended 31 December 2018 to approximately $3.64 million in FY2020 (a 15-month period due to the change in financial year).

The group has executed on its "growth through acquisition" strategy and has made the following investments in the past 15 months:

- Sen Med Holdings, a predominantly X-ray and health screening business
- Ark Leadership & Learning Pte. Ltd. ("Ark"), a human resource consultancy firm
- a redeemable convertible loan into Nuffield Dental Holdings Private Limited
- SKI Corporate Services Pte. Ltd. (currently known as Medinex Advisory Pte. Ltd.) and SKI Consultancy Pte. Ltd. which provide business support services such as accounting, tax and corporate secretarial services
- Convertible loan agreement of $750,000 with Singapore Paincare Holdings Limited (which has since been converted into shares)

As at 30 July 2020, the group increased its investment into Singapore Paincare Holdings to $1.92 million, which is nearly 20% of the group's audited net tangible asset as at 31 December 2018.

(i) As shown above, the acquisitions were made in different areas, including minority investments in other listed companies. **Would management provide shareholders with a more holistic view of the group's acquisition strategy (including the capital allocation)? In particular, is it a key strategic thrust for the group to acquire more medical services businesses/clinics?**

(ii) The medical support services business segment grew strongly in FY2020 and remains the biggest contributor of profit for the group. **Would management help shareholders understand the key drivers for the strong performance in the medical support services segment? Please provide a breakdown to show the organic growth (on a 12 month, year-on-year basis) and the increase due to newly acquired businesses. Are there any services or technologies that the group would be looking to add to this segment?**

(iii) **Does management have the experience and the bandwidth to oversee an increasingly diverse and larger network of businesses? What is the level of oversight by the board and by management of its non-controlling investments?**

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Q2. The "Impairment assessment of goodwill" is a key audit matter (KAM) highlighted by the independent auditor (page 46). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 March 2020, the group's goodwill amounted to approximately $6,845,000, which included the goodwill of approximately $3,206,000 arising from new acquisitions during the financial period from 1 January 2019 to 31 March 2020. Goodwill accounted for more than 35% and approximately 47% of the group's total assets and total equity respectively.

(i) **What guidance has the board given to management as the group carries out its acquisitions? Specifically, how does the group maintain prudence and acquire companies/businesses at fair prices without overpaying for aggressive assumptions in its valuation models?**

(ii) On page 81, the group has shown the revenue growth rate assumptions that were used in the value-in-use calculations.

Key assumptions used for value-in-use calculations:

	Revenue growth rate	
	31 March 2020	**31 December 2018**
Nex	**−33% to 3%**	5% to 7%
Acctax	**−10% to 5%**	-5% to 9%
PPS and Jo-L	**−32% to 1%**	3% to 6%
SMH	**−66% to 157%**	–
ALL	**−20% to 9%**	–
SKI Group	**−30% to 2%**	–

(Source: company annual report)

Given the defensive/non-discretionary nature of most of the group's businesses, can management help shareholders understand the reasons for the significant (projected) negative growth rate? Can management elaborate further on its pro-active plans to maintain/increase revenue?

(iii) **Would the group be including the Purchase Price Allocation reports for its acquisitions in the annual reports?**

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(iv) In particular, for the acquisition of Ark Leadership & Learning ("Ark"), prior to the company's acquisition, the revenue for Ark was $280,605 in FY2018 and the gross profit was $266,709. Net profit before and after tax were $205,569 and $191,340 respectively. However, the vendor had paid out a dividend of $270,000 and the company acquired Ark for $1.008 million when the total equity with just $4,129. On page 81, it is shown that the goodwill allocated to Ark is $871,648. **Can the board help shareholders understand if the vendor (Ms Low Mui Keow, Valerie) continues to be employed directly by Ark and that her remuneration will be recognised as staff cost affecting the net profit of Ark?**

Under the terms of the sale and purchase agreement, the vendor of ALL had provided a profit guarantee that the aggregate profit after tax of for a three-year period commencing from 1 April 2019 and shall not be less than $576,000.

In addition, as Ms Low Mui Keow, Valerie is the immediate family of a director, the CEO and substantial shareholder, would the company be disclosing her remuneration in bands no wider than $100,000 in its annual report (if the remuneration exceeds $100,000 during the year)? This is the requirement of Provision 8.2 in the Code of Corporate Governance 2018.

Q3. On 5 August 2020, the company announced that there were material variances between the audited financial statements for the financial period ended 31 March 2020 and the unaudited financial statements for the financial period ended 31 March 2020 which was first released by the company on 23 July 2020.

Following the finalisation of the audit, certain adjustments and reclassifications proposed by the external auditors to the unaudited statement of financial position and consolidated statement of cash flows for FY2020 were adopted.

Reasons for the adjustments/reclassifications included:

- recognition of the share of results at company level instead of group level for an investment that was classified as financial asset at fair value through profit or loss
- increase in interest income mainly due to reclassification of other income to interest income
- reclassification of purchase consideration
- offsetting amount owing to director of subsidiary against the dividends paid to non-controlling interests
- reclassification of income tax paid from other payables

In the previous financial year, on 5 April 2019, the company had also announced that there were variances between the audited and unaudited financial statements for the financial year ended 31 December 2018.

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Reasons for the adjustments/reclassifications included:

- decrease in other income mainly due to reclassification of ad-hoc service income from other income to revenue
- decrease in changes in inventories mainly due to reclassification of inventories written off from other expenses
- loss allowance on receivables being reclassified from other expenses
- increase in finance lease payables mainly due to the reclassification of financial lease payables from non-current to current for the portion of liabilities due within the next 12 months

The adjustments/reclassifications were as large as $4.15 million.

Since the listing, the company has had to announce material variances between the audited financial statements of the group and the unaudited results for both of its full year financial statements.

The group provides business support services including accounting and corporate services to companies as an ancillary service. It has also been accredited as an Accredited Training Organisation (ATO) for the attainment of the Chartered Accountant (Singapore) designation.

(i) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

(ii) **Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

(iii) **Is the company (and its officers) familiar with Singapore Financial Reporting Standards (International)?** The reasons for the material discrepancies included the reclassification of financial lease payables from non-current to current for the portion of liabilities due within the next 12 months.

(iv) **Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**

(v) **Specifically, what was the level of involvement by the AC chairman and each of the AC members in the preparation of the financial statements? Has the AC been effective in the discharge of its responsibilities?**

(vi) **Can the AC update shareholders on the improvements made/to be made to the group's financial reporting systems and processes?**

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(vii) **What guidance has the sponsor given to the company in the area of financial and reporting matters and the effectiveness and adequacy of the internal control and procedures?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)