Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: HC Surgical Specialists Limited

Stock code: 1B1

Meeting details:
Date: 27 September 2022
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.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Q1. Revenue decreased from $23.4 million in 2021 to $19.3 million in FY2022. The decrease has been attributed to lower number of patients selecting to pursue "elective medical treatment" in view of the lifting of the COVID-19 restrictions and easing of borders restrictions which paved way for overseas travel.

(i) **Are the group's medical procedures considered "elective" and/or discretionary/non-essential? Is there evidence that (potential) patients have put off or cancelled their procedures now that they are able to travel overseas?**

(ii) **What is management's strategy to increase the number of patients/medical procedures and to increase revenue/profitability?**

(iii) **What are the reasons that the two clinics at Mount Alvernia and Dleedon were closed? Were the two clinics underperforming? In addition, what were the objectives of the internal restructuring? Are there any changes to the group's operations and strategy following the internal restructuring?**

(iv) **How has management finetuned its (local) expansion strategy? Can the company (re)state its expansion strategy?**

In the CEO's statement, it was shared that there is "currently an unprecedented shortage of operating room, endoscopy room and ward bed availability". One of the reasons is the exodus of foreign medical staff that have left Singapore due to personal reasons.

(v) **What were the utilisation rates of the group's 11 endoscopy centres?**

(vi) **Have the group's operations been affected by manpower constraints? Is the group successful in retaining experienced nurses and staff?**

Q2. As disclosed in Note 5 (page 100; Intangible assets), the group has made an impairment loss of approximately $745,000 to "Julian Ong Endoscopy & Surgery Pte Ltd" (JOES) in FY2022. The carrying amount of JOES, which represents a CGU by itself, was determined to be higher than its recoverable amount of approximately $1,672,000 based on its current financial performance.

JOES recognised a profit of $1.01 million in FY2020 and losses of $(157,000) and $(14,000) in FY2021 and FY2022 respectively. Revenue from FY2020 was $2.76 million, $1.15 million and $0.91 million respectively.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

In particular, it is noted that the assumed revenue growth rates of JOES were -36% to 81% in FY2021 and -65% to 245% in FY2022 (see table below). JOES is the only subsidiary in the group that had negative growth rates in the value-in-use calculations.

5. INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill (Continued)

Key assumptions used for value-in-use calculations:

	Revenue growth rates		Discount rate	
	2022	2021	2022	2021
LBPL	2%	2%	10.5%	9.4%
JOES	-65% to 245%	-36% to 81%	10.5%	9.4%
MLCS	2% to 3%	2% to 3%	10.5%	9.4%
MST	2%	4%	10.5%	9.4%
JLES	5% to 15%	5% to 15%	10.5%	9.4%
GMH	15% to 20%	10% to 212%	10.5%	9.4%

(Source: company annual report)

(i) **Can the board, especially the independent directors, help shareholders understand if the directors have reviewed the performance of JOES given that revenue had decreased in the past two years and JOES has been loss-making?** In comparison, the group and its subsidiaries (such as LBPL, JLES) have been profitable in the past two years and LBPL has been able to increase revenue and profits in the past two years.

(ii) **Did the group overpay for the acquisition of JOES given that the group has made impairment for goodwill on JOES of $722,000 in FY2020 and $745,000 in FY2022?**

(iii) **Going forward, what are the levers available to the group to improve the performance of JOES?**

(iv) **For the benefit of shareholders, can the board, especially the independent directors, help shareholders better understand the board's decision making and approval processes for the proposed acquisition of the remaining 30% of the total issued and paid-up share capital of JOES that was announced on 31 December 2020?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

The group has a put option that would require the non-controlling interest to repurchase the issued and fully paid-up share capital held by the company in JOES, at an amount in excess of the company's investment. In Note 14 (page 118; Derivative financial instruments), the company has disclosed that "management" assessed that the probability of exercising the put option is low.

(v) **Would it be timely for the independent directors to carry out a strategic review to determine if the group would benefit from exercising the put option to safeguard shareholder value after considering all the factors, including but not limited to reputation risks of the group, performance of JOES in the past two FYs?**

Q3. As noted in the corporate governance report, the company switched its service provider for the internal audit function from TRS Forensics Pte Ltd to NLA Risk Consulting Pte Ltd with effect from 1 February 2022.

(i) **Can the audit committee (AC) help shareholders better understand the reasons for the change?**

(ii) **What were the criteria used by the AC to shortlist and select the new internal auditor?**

(iii) **What were the scope and the key findings of the internal audit in FY2022?**

(iv) **How long is the internal audit cycle?**

(v) **What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations of the internal auditors?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

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

Join our mailing list here to receive latest news and upcoming events.

CONNECT WITH US