



Securities Investors Association (Singapore)

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Meeting details:

Date: 27 July 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.

Q1. For the financial year ended 31 March 2022, the group had focused on “*expanding the revenue streams from diverse and non-traditional sources*” and increased revenue by \$1.21 million (or 11%) to \$11.99 million.

As noted in the chairman & CEO message, the group’s strategic initiatives are (page 3):

- Expansion of core business services
- Digitalisation of business processes
- Strategic acquisition

To pursue “long term and sustainable growth”, the group will continue to explore opportunities for expansion through acquisitions and strategic alliances apart from the organic growth in the existing business.

Profit for the year decreased from \$3.55 million in FY2021 to \$2.90 million in FY2022. In particular, the group recognised impairment loss on goodwill of \$(339,000) and impairment loss on joint ventures of \$(90,894). As at 31 March 2022, the group’s goodwill amounted to \$6.5 million, following the impairment loss of goodwill of \$(339,000) attributed to Sen Med Holdings Pte. Ltd. and its subsidiaries (“SMH”).

When the Sen Med Group was acquired in January 2019, the net profit before tax of the Sen Med Group was \$618,073 for the twelve months ended 31 December 2018 and the net tangible asset and net asset value of SMH as at 31 December 2018 was \$189,409. The purchase consideration was \$1.733 million for a 55% interest in SMH. A goodwill of \$1.27 million was attributed to SMH.

In addition, on 1 April 2022, the group completed the acquisition of Carlin Management Services Pte. Ltd for \$3.0 million when the net tangible asset value and net asset value of the target was just \$97,181 (See question 2).

- (i) **As the group executes on its growth-by-acquisition strategy, what guidance has the board given to management to ensure that the company does not overpay for its acquisitions and diligently structures its deals to share the risks and rewards with the vendors in a fair manner?**
- (ii) **With regard to the impairment loss on goodwill, what had contributed to these impairments and what were the challenges faced by SMH?**

It was also mentioned in the chairman & CEO message that the group expects more new clinics to be set up as borders are re-opened (page 3).

- (iii) **Can management elaborate further and clarify on the key drivers of the group’s businesses? In particular, how dependent, directly or indirectly, is the group on medical tourism?**

In Note 6 (page 61; Intangible assets), the revenue growth rates and pre-tax discount rates used to determine the recoverable amount of the CGU based on value-in-use calculations are shown (reproduced below):

	Revenue growth rates			Pre-tax discount rates		
	2022	2021	2020	2022	2021	2020
Nex	-1% to 1%	1% to 12%	-33% to 3%	14%	14%	14%
Acctax	2% to 4%	0% to 8%	-10% to 5%	12%	12%	11%
MPS and Jo-	2%	0% to 2%	-32% to 1%	16%	17%	15%
SMH	3% to 20%	1% to 99%	-66% to 157%	15%	17%	15%
ALL	-23% to 31%	0% to 82%	-20% to 9%	16%	17%	11%
SKI Group	2%	2%	-30% to 2%	15%	17%	11%

(Compiled from company annual reports)

The revenue growth rate of SMH was as high as 157% in 2020, before being adjusted down to as high as 99% in 2021 and then to just 3%-20% in 2022. The SKI Group is projected to have revenue growth rates of 2% while management has projected growth rates of between -23% to 31% for ALL.

- (iv) **Will the board be carrying out a review to see if the acquisitions have met management's targets/projections used in the board's approval process and thus create long term shareholder value?**
- (v) **Separately, can the board/management elaborate further on the strategic value of the group's investment in Nuffield Dental Holdings Private Limited ("NDH")? What was the commercial rationale to acquire additional 851 shares of NDH for a consideration of \$200,000 in February 2022? For reference, the group received 4,826 ordinary shares in NDH in satisfaction of the receivables amounting to \$603,895 in October 2021. Did the company announce this additional investment made in February 2022 on SGXNet?**

In Note 34 (page 80; Segment information: Business segment), it can be seen that FY2022 revenue from pharmaceutical services was \$3.41 million (FY2021: \$3.19 million) while the segment profit was \$42,686 (FY2021: loss of \$146,366).

- (vi) **Can management also help shareholders better understand the group's competitive advantage in the pharmaceutical services segment? What is management's strategy to improve its profit margin in this segment?**

Q2. On 25 March 2022, the company announced the proposed acquisition of Carlin Management Services Pte. Ltd. ("CMS") for \$3.0 million. The normalised profit after tax of CMS was approximately \$602,671. Both the net tangible asset value and net asset value of CMS as at 31 December 2021 were \$97,181.

The company stated that the acquisition would allow it to (a) expand its client base to small and medium enterprises in Singapore from self-storage services, machinery rental, food and beverages, and healthcare industries, etc and (b) to increase the revenue of the business support services segment.

The acquisition was completed on 1 April 2022.

- (i) **Can management provide a progress update to shareholders on the integration of CMS including completion date?**
- (ii) **Are there synergies between CMS and the group's other businesses?**
- (iii) **How was the company introduced to CMS?**

In the company's announcement on 25 March 2022, the pro forma financial effects of the Proposed Acquisition were shown as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition and Issuance of Consideration Shares
NTA attributable to equity holders of the Company (S\$)	9,559,396	9,656,577
Number of ordinary shares in issue	131,207,540	133,874,207
NTA per share (Singapore cents)	7.29	7.21

(Source: company announcement dated 25 March 2022)

- (iv) **Can the audit committee and/or the independent auditors help shareholders better understand if the NTA attributable to holders should be lowered by \$2.4 million being the cash amount paid to the vendor?**
- (v) **If so, should the NTA after the acquisition and issuance of consideration shares be lower at approximately 5.42 cents instead of 7.21 cents per share?**
- (vi) **What was the level of oversight and involvement by the sponsor in the group's acquisition?**
- (vii) **What is the level of due diligence carried out by the directors, especially the independent directors, in the group's acquisitions?**

Q3. As shown in Note 34 (Segment information), the group has four primary business segments, which are medical support services, business support services, pharmaceutical services and medical services. Unallocated expenses include corporate headquarter which are not directly attributable to a particular reportable segment above.

34. Segment information (Continued)						
Business segment (Continued)						
	Medical support services	Business support services	Pharmaceutical services	Medical services	Unallocated expenses	Consolidated
	\$	\$	\$	\$	\$	\$
Year ended 31 March 2022						
Revenue						
External revenue	3,793,766	2,845,353	3,405,033	1,949,159	—	11,993,311
Profit/(loss) from operations						
Share of results from joint venture, net of tax	—	—	36,407	—	(38,806)	(2,399)
Impairment loss on goodwill	(339,000)	—	—	—	—	(339,000)
Impairment loss on joint ventures	—	—	—	—	(90,894)	(90,894)
Interest income	—	—	—	—	20,352	20,352
Inventories and consumables & changes in inventories	12,188	—	2,914,445	499,467	—	3,426,100
Finance costs	48,576	563	16,425	18,152	2,547	86,263
Depreciation and amortisation	176,209	28,943	66,141	253,586	125,310	650,189
Employee benefits expense	1,092,682	721,331	280,879	809,242	1,585,434	4,489,568
Income tax expense	176,665	179,818	—	12,407	1,514	370,404
Reportable segment profit/(loss) before income tax	2,569,400	2,345,255	42,686	303,257	(1,994,281)	3,266,317
Net profit/(loss) for the financial year after income tax	2,392,735	2,165,437	42,686	290,850	(1,995,795)	2,895,913

(Source: company annual report; emphasis added)

Unallocated employee benefits expense amounted to \$1.585 million, or 35.3% of the group's total. Unallocated net loss was \$(2.0) million, which was almost as large as the segment profits in medical support services and business support services segments.

- (i) **Can the audit committee (AC) help shareholders better understand the reasons for the large unallocated employee benefits expense?**
- (ii) **How can the AC or the independent auditor help management to better allocate costs to the operating segments?** Doing so will help the group's chief operating decision maker to make decisions about resources to be allocated to the segment and also for the board to assess the segments' performance.

^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.

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](http://www.sias.org.sg)

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[^] 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>)