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: UG Healthcare Corporation Limited

Stock code: 8K7

Meeting details:
Date: 29 October 2021
Time: 10.00 a.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 benefitted from strong demand for disposable examination gloves which led to highly favourable average selling prices (ASP), especially in the first three quarters of FY2021 (July 2020 to March 2021) due to the abrupt disequilibrium in supply and demand.

The ASP has been on a declining trend since April 2021 as the urgency to stockpile reduces. The group increased its production capacity by 500 million pieces in April 2021, bringing the current total installed production capacity to 3.4 billion pieces of gloves per annum.

When the third manufacturing facility comes online, total installed production capacity will be further increased to 4.6 billion pieces of gloves per annum by the end of March 2022.

(i) **Can management elaborate further on its growth plans? Are there plans to further increase the group's production capacity after the third manufacturing site? What guidance has the board given to management in terms of growth (i.e. increases in production capacity) in view of the risk of a potential global oversupply in production capacity?** Since the onset of the pandemic, incumbent glovemakers have similarly increased their production capacity while hot money has entered the industry looking for quick profits.

(ii) **What is the total cost for the third manufacturing facility?**

(iii) **What is the ASP/ROI used in the board approval process/management's projections?**

(iv) **Is management expecting the ASP to normalise in the next 12-24 months? What is the new normal for glovemakers in terms of the operating landscape?**

(v) The group manufactures and distributes its proprietary "Unigloves" brand of products, under the own-brand manufacturing (OBM) business model. **Are there any features that differentiates "Unigloves" products from that of its peers? Also, what are the group's competitive advantages in the gloves-making industry?**

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Q2. The "allowance for trade receivables" is a key audit matter (KAM) highlighted by the independent auditor in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 30 June 2021, the group recorded trade receivables of $50.9 million under current assets. With reference to SFRS(I) 9, the group used an allowance matrix to estimate expected credit losses for trade receivables. The expected credit losses rates were based on the group's historical loss experience of the customers, for the last 3 years prior to the reporting date for various customer groups that were assessed through an age analysis and by geographical locations, adjusted for forward looking factors specific to the debtors and the economic environment which could affect the ability of the debtors to settle the trade receivables.

Details of the group's credit risk policy can be found on pages 122 to 126.

As shown on page 124, the loss allowance for trade receivables is determined as follows:

	Current	Past due more than 1 to 90 days	Past due more than 91 to 180 days	Past due more than 180 days	Total
30 June 2021					
Expected credit loss rates	–	–	–	47.5%	
Trade receivables (gross) ($'000)	44,195	3,647	2,287	1,652	51,781
Loss allowance ($'000)	–	–	–	784	784
30 June 2020					
Expected credit loss rates	–	–	–	63.4%	
Trade receivables (gross) ($'000)	15,923	10,364	834	927	28,048
Loss allowance ($'000)	–	–	–	588	588

(Source: company annual report)

While revenue and trade receivables increased by 135% and 85% respectively, the loss allowance appears to be relatively low and increased by just 33% to $784,000 in FY2021.

(i) **Can management elaborate further and justify the use of 0% as the expected credit loss rates for trade receivables past due more than 1 to 180 days?**

(ii) **What deliberations did the audit committee have on the group's expected credit loss framework, including the allowance matrix?**

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(iii) Separately, in Note 5 (page 96 – Other income), interest income decreased from $155,000 to $108,000 when cash and cash equivalents increased from $9.29 million in FY2020 to $68.44 million in FY2021.

18. Cash and bank balances

	Group		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Cash and bank balances	67,204	7,795	11,446	28
Fixed deposits	1,237	1,497	–	–
Cash and cash equivalents	68,441	9,292	11,446	28

Fixed deposits bear interest at an average rate of 1.54% (2020: 2.7%) per annum and are for a tenure of period ranging from 15 to 365 days (2020: 30 to 365 days).

Can the audit committee help shareholders understand the reasons for the decrease in interest income? Is management looking to improve its cash management?

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Q3. The attendance of directors at board and board committee meetings is shown on page 32 of the annual report and reproduced below:

Directors' attendance at Board and board committee meetings in FY2021

	Board		Audit Committee		Nominating Committee		Remuneration Committee	
Directors	**No. of Meetings Held(1)**	**No. of Meetings Attended**	**No. of Meetings Held(1)**	**No. of Meetings Attended**	**No. of Meetings Held(1)**	**No. of Meetings Attended**	**No. of Meetings Held(1)**	**No. of Meetings Attended**
Yip Wah Pung	4	4	4	4	1	1	2	2
Lee Keck Keong	4	4	4	4(2)	1	1	2	1(2)
Lee Jun Yih	4	4	4	4(2)	1	1(2)	2	2(2)
Lee Jun Linn	4	4	4	4(2)	1	1(2)	2	1(2)
Wong See Keong	4	4	4	4(2)	1	1(2)	2	1(2)
Lawrence Ng	4	4	4	4	1	1	2	2
Vincent Leow	4	4	4	4	1	1	2	2

(1) Represents the number of meetings held as applicable to each individual director.
(2) Attendance at meetings on a "By Invitation" basis.

(Source: company annual report)

As can be seen from the table above, in FY2021, the executive directors attended the board committee meetings by invitation. It would appear the board committee meetings (with the exception of remuneration committee meetings) are attended by all directors, making them the same as board meetings.

(i) **Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?**

(ii) **What is the group dynamics at the board committee meetings when the independent directors on the board committee may be reviewing and discussing matters that are related to or affect the executive directors?** Such board committee meetings would have included agenda items on interested party transactions, performance assessment, remuneration of the executive directors and on the audit/financial reporting/internal controls of the group.

(iii) **Do the executive directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from board meetings? Are the committees able to make decisions objectively and independently?**

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^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

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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)