

Issuer: TMC Education Corporation Ltd
Security: TMC Education Corporation Ltd

Meeting details:

Date: 28 Oct 2016

Time: 11:00AM

Venue: 250 Middle Road Singapore 188983

Company Description

TMC Education Corporation Ltd, an investment holding company, provides educational services in Singapore. The company operates a private education institution that offers a range of courses, including foundation, diploma, higher diploma, postgraduate, bachelor degree, and professional certification courses. It offers courses in various areas, such as business, law, hospitality and tourism management, information technology, mass communications, English and Chinese languages, GCE O level, and psychology, as well as tertiary certification and preparatory courses. The company also provides marketing and recruitment support services, as well as conducts examinations. TMC Education Corporation Ltd was founded in 1981 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=586)

Q1. For the financial year ended 30 June 2015, the company's independent auditor, Foo Kon Tan LLP, issued its report (the "Independent Auditor's Report") on the consolidated financial statements of the Group with a emphasis of matter that drew attention to Note 1(a) of the financial statements that describes the going concern uncertainty of the group and the company. It stated that:

As at 30 June 2015, the Group's and the Company's current liabilities exceeded current assets by \$8,848,910 and \$13,555,780, respectively. For the financial year ended 30 June 2015, the Group incurred loss for the year of \$5,352,460 and total comprehensive loss for the year of \$5,501,198, and reported net cash used in operating activities of \$4,738,189. At the reporting date, the Group and the Company did not have any unutilised bank credit facilities. These factors indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

In this year's annual report, it was disclosed that:

As at 30 June 2016, the Group's and the Company's current liabilities exceeded current assets by \$3,187,734 and \$8,094,444, respectively. For the financial year ended 30 June 2016, the Group incurred loss for the year of \$5,880,253 and total comprehensive loss for the year of \$5,745,460, and reported net cash used in operating activities of \$5,037,961.

In FY2016, the turnover continued to shrink, the losses are even higher and shareholders' funds dropped to just \$7.8 million. The net asset per share is now just 4.68 cents. In terms of cash flow, the group had consumed more cash in its operating activities (\$5.0 million in 2016 vs. \$4.7 million in 2015). Proceeds of \$4.4 million from the disposal of investment properties helped to shore up the liquidity of the group but the group is now more indebted as it received \$2.5 million in shareholders' loans and \$2 million in third party loan.

Can the independent auditor give their opinion if the group is in a better financial position than a year ago? Does the independent auditor consider it appropriate that the financial statements were prepared on a going concern basis?

Q2. **In the board's opinion, are the steps taken in the financial year ended 30 June 2016 sufficient to turn the group around? Specifically, please elaborate on the following:**

- a) (i) The group's portfolio of freehold investment property is being liquidated to support the core business that is reported a net cash outflow of \$5 million in 2016. Additional funding (with interest charged as high as 8% per annum) has been obtained as well, increasing the group's leverage. **What is the board's view of the company's strategic direction? Is selling prime freehold investment property to support the core business a viable move?**
- b) (ii) The sale of the investment properties is being carried out almost from a distressed position. In note 6 (page 56 – Investment properties), it was disclosed that "During the financial year, ten office units with floor area of 276 square meters and carrying amount of \$5,620,000 were sold to a third party for a net cash consideration of \$4,407,845. Accordingly, a loss of \$1,212,155 was recognised in profit or loss." There is a further loss of \$1.3 million on fair value of the remaining properties. **Could management have taken more pro-active steps to sell the properties earlier and not from a distressed position? Were there no better offers for the ten office units sold? Can management explain why there was a loss of \$1.2 million related to the sale of \$4.4 million?**

- c) (iii) Total staff cost for the year was \$4.3 million in 2016 and \$5.9 million in 2015, accounting for 74% and 77% of the total revenue respectively. Although there was a slight improvement, the cost structure of the group seems high. Once overheads are considered, it would be hard for the group to be profitable with such high staff cost. **Can management give more detail on the cost structure and what can be done to reduce staff cost without affecting the quality of its programmes?**

Q3. In the recent years, traditional education has been disrupted by the rapid and ongoing “digital revolution”. Massive Open Online Course (“MOOC”) sprung out from almost nowhere. Platforms like Coursera, Udacity, EdX and Khan Academy offer certification and offer programmes from universities and industry heavyweights such as Google, Microsoft and IBM. There are also universities that are offering their own programmes online. MIT OpenCourseWare, HarvardX and Stanford Online are examples of the programmes that can be found online.

How relevant is the group’s business of providing private education in Singapore in today’s world? Does Singapore, being an expensive city state, provide the right environment to allow the group to attract the targeted student population? How has the group innovated to keep itself relevant to the students’ needs?