

Issuer: Overseas Education Limited

Security: Overseas Education Limited

Meeting details:

Date: 26 April 2017

Time: 16:00H

Venue: 81 Pasir Ris Heights, Singapore 519292

Company Description

Overseas Education Limited, an investment holding company, operates a private foreign system school in Singapore. The company offers an integrated inquiry-based program comprising the international primary curriculum and the international baccalaureate (IB) curriculum within multicultural environment to children aged between 2 and 18 years of primarily expatriate parents. It has approximately 3,000 students from 70 nationalities. The company also provides IB middle years program and the international general certificate of secondary education. In addition, it provides other programs to supplement the curriculum. The company was founded in 1991 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=RQ1)

Q1. In the Chairman’s Message to Shareholder (page 5 of the annual report), the topic of student enrolment was discussed:

Student Enrolment. *Government continues to promote foreign investment as a key policy for domestic growth in Singapore. The current economic climate and an increasing number of places available in new schools are causing a softening of demand. After the 2015 move to our new campus, our High school numbers remained firm, Middle School decline slightly, but Junior schools saw a significant roll reduction.*

Exciting new programs and modern new facilities are expected to attract an increasing number of new student enrolments for next school year, commencing in August 2017.

- a) The student enrolment at the Paterson campus in 2015 was reported to be about 3,600. **Can management help shareholders understand what was the enrolment in the High school, Middle School and Junior schools then?**
- b) **What was the enrolment for the most recent academic year?**

With the benefit of hindsight, there were signs since 2014 of the impending drop in enrolment in the Junior schools although it would be hard to predict the magnitude of the drop. From the 2014 annual report, it was noted that “... softness in enrolment in the junior school” and, in 2015, it was again noted that “... softening of student enrolment numbers, particularly in the junior schools”.

- c) **What are the active measures to increase the enrolment in the Junior schools?**
- d) **How critical is the location/distance of the new campus in parents’ decision making process? Are there ways to mitigate this, for example, by having good transport arrangement tie-ups with reliable operators?**
- e) **Under the private foreign system school (FSS) in Singapore, can the school offer non-academic curriculum and programmes to local students?**

Q2. The company issued S\$150 million bonds on 17 April 2014 with maturity on 17 April 2019. Based on the Consolidated Statement of Cash Flows (page 61), the group generated net cash of \$18.1 million from operating activities. This was a drop from \$26.6 million in 2015.

Net cash used in financing activities increased to \$23.5 million as the group paid \$8.6 million in dividends, \$7.6 million in bond interests and a further \$7.3 million to repurchase bonds.

The group’s cash and cash equivalents at end of the year was \$53.9 million and the face value of the bonds outstanding is \$143 million.

In Note 29 (page 97 – Capital management), the group’s gross debt-equity ratio is at 94.26% and the group’s net borrowing position is \$89.1 million.

- a) **Can the board and management elaborate further on the capital management and on the strength of the group’s financial position?**
- b) **Is the group on track to redeem the bonds as they mature in April 2019?** Without considering the repurchase of bond, the group had a small net cash inflow of \$1 million in 2016.

- c) The Company's policy is to pay dividends of at least 50.0% of its net profit after tax to shareholders for each financial year. **Has the board deliberated on the need for a review on the dividend policy? How sustainable is the current dividend policy?**

Q3. The four independent directors sit on all three board committees (audit, nominating and remuneration) either as chairman or as member. Shareholders' approval is sought to approve the payment of Directors' fees of S\$440,000 in advance for the financial year ending 31 December 2017.

In the Corporate Governance Report (page 32), the company had disclosed the following:

The independent directors are paid directors' fees taking into account factors including but not limited to the effort and time spent and the scope of responsibilities of these directors. Independent directors should not be over-compensated to the extent that their independence may be compromised and no director is involved in deciding his own remuneration.

Each of the four independent directors would receive director's fees of between \$100,000 and \$120,000 based on the disclosure of remuneration (page 33).

- a) **Can the company provide a further breakdown of the fee structure for independent/non-executive directors?**
- b) **Has the company benchmarked the current fees for independent/non-executive directors to similar companies (by risk, by market capitalisation etc) listed on the Singapore Exchange Securities Trading Limited (SGX-ST)?**

The company currently has one campus in Singapore for its private foreign system school. The total assets and market capitalisation of the company are \$337 million and \$156 million respectively.

A large local company listed on the SGX-ST is used as a comparison – the real estate company has total assets and market capitalisation of \$45.7 billion and \$15.6 billion respectively, operates in 28 countries and 138 cities. They have published their fee structure for non-executive directors in their latest annual report.

The remuneration framework for the non-executive Directors remains unchanged from that for the previous financial year. The fee structure for non-executive Directors for FY 2016 is as follows:

	S\$
Basic Retainer Fee	
Board Chairman	750,000 ¹
Director	78,000
Fee for appointment to Audit Committee and Finance & Investment Committee	
Committee Chairman	60,000
Committee member	30,000
Fee for appointment to Executive Resource & Compensation Committee and Risk Committee	
Committee Chairman	35,000
Committee member	22,000
Fee for appointment to any other Board Committee	
Committee Chairman	28,000
Committee member	20,000
Attendance fee for Board/Board Committee meetings (per meeting)	
(a) Attendance in person	
Board meeting	
Local	4,000
Overseas	7,000
Board Committee meeting	
Local	2,200
Overseas	7,000
(b) Attendance via conference telephone or similar communication equipment	
Local and Overseas	1,700
Attendance fee in person or otherwise for project committee meetings/verification meetings/ other meetings where attendance of Directors is required (per meeting)	
Local and Overseas	1,000

¹ The fee is all-inclusive and there will be no separate board retainer fee, committee fee or attendance fee for the Chairman.

(Source: Annual Report of a real estate company listed on SGX with a market capitalisation of \$15.6 billion)

Shareholders understand and agree that directors should be fairly compensated for their time, effort and expertise.

- c) Can shareholders understand how the current fee structure for the company's non-executive directors was determined?