

Issuer: MindChamps PreSchool Limited

Security: MindChamps PreSchool Limited

Meeting details:

Date: 16 April 2018

Time: 2.30 p.m.

Venue: Pan Pacific Singapore, Pacific 1-2, Level 1, 7 Raffles Boulevard, Marina Square, Singapore 039595

Company Description

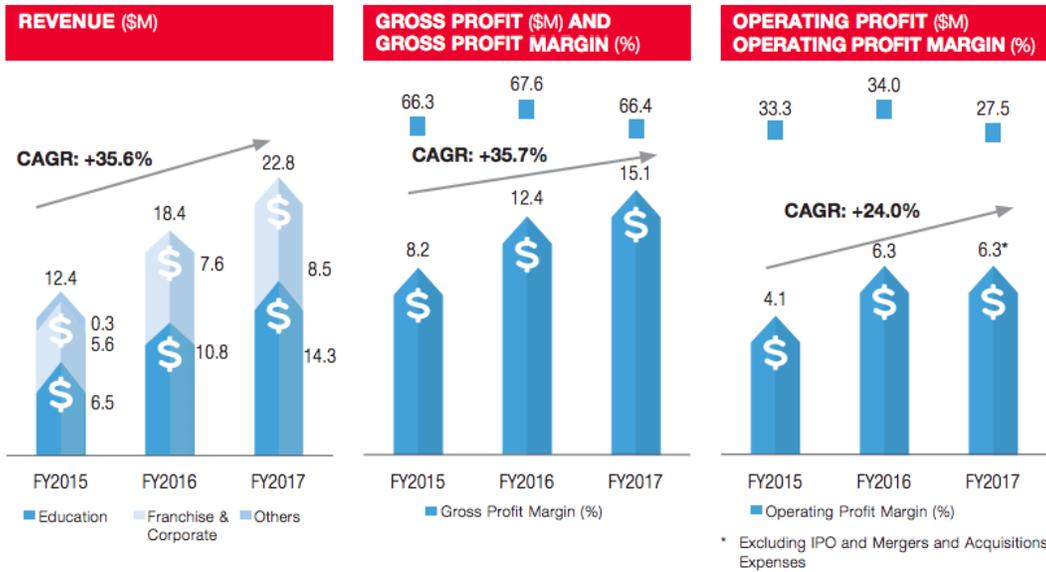
MindChamps PreSchool Limited provides early childhood education services in Singapore. It operates through three segments: Education, Franchise, and Others. The company owns, operates, and franchises infant care centers for children from 2 to 18 months old; preschools for children from 18 months to 6 years old; and enrichment centers that offer reading and writing programs for children between 3 to 10 years old, as well as theatre-related enrichment programs for children. It also offers training programs for adults at the certificate and diploma levels in early childhood care and education; and operates commercial schools offering higher education programs. The company operates 10 preschool, and reading and writing centers in Singapore and Australia; and 44 franchisee-owned-franchisee-operated centers in Singapore, the Philippines, Australia, and the United Arab Emirates. The company was formerly known as MindChamps Preschool (Worldwide) Pte. Limited. MindChamps PreSchool Limited was founded in 2008 is headquartered in Singapore.

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

1. As mentioned in the Executive Chairman’s Message (page 4 of the annual report), the group reported a 24% increase in revenue to hit \$22.8 million but operating profits was steady at \$6.3 million, before accounting for IPO expenses and acquisition expenses related to the acquisition of early childhood centres in Australia.

A summary of the group’s operating performance (page 12) is reproduced below:

(i) Healthy Operating Performance



(Source: Company annual report)

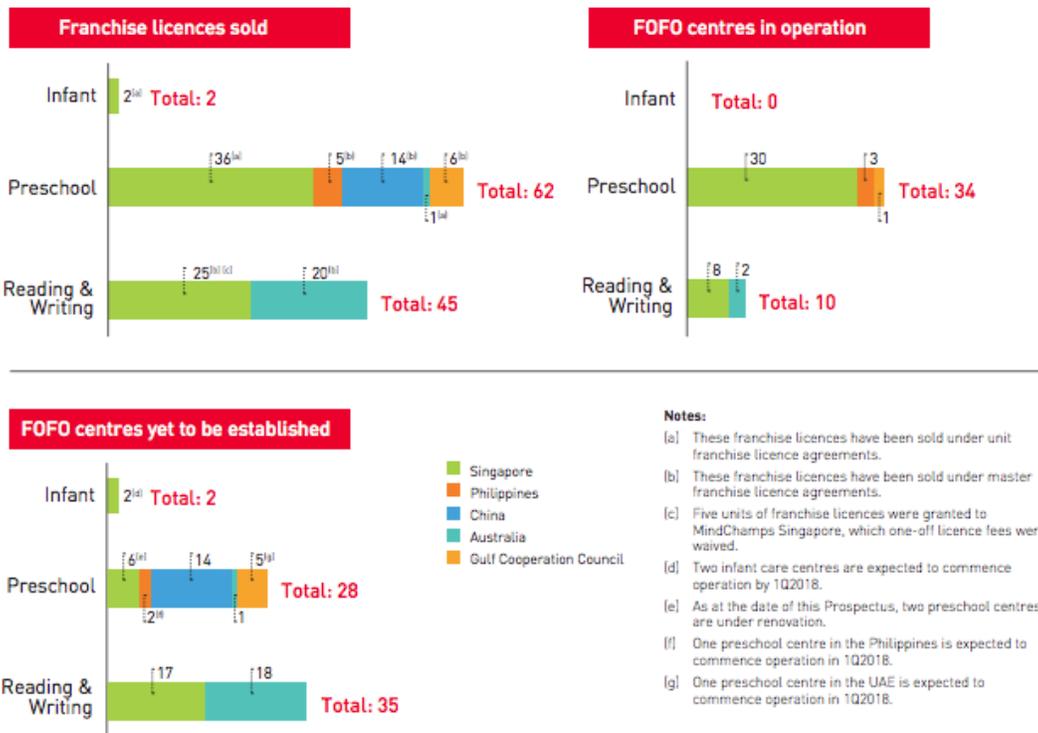
- (i) **Can management explain in greater detail what caused the significant drop in the operating profit margin from 34.0% in FY2016 to 27.5% in FY2017? This is before the one-off expenses of the IPO and acquisition expenses. What is management’s target for operating profit margin going forward?**
- (ii) In addition, as disclosed by the company on 26 February 2018, the group acquired 100% of the issued shares of MindChamps PreSchool @ Woodlands Pte. Ltd. **Why did the group acquired the Woodlands franchise from the franchisee and paying more than \$1 million above the net tangible asset in the process?**
- (iii) **Is there a shift in the group’s business model by buying back franchisee-owned-franchisee-operated (“FOFO”) centres and running them as company-owned-company-operated (“COCO”) centres?**

2. As disclosed in the prospectus dated 17 November 2017, as at the Latest Practicable Date, the group has sold a total of 109 licences under unit franchise agreements and master franchise agreements.

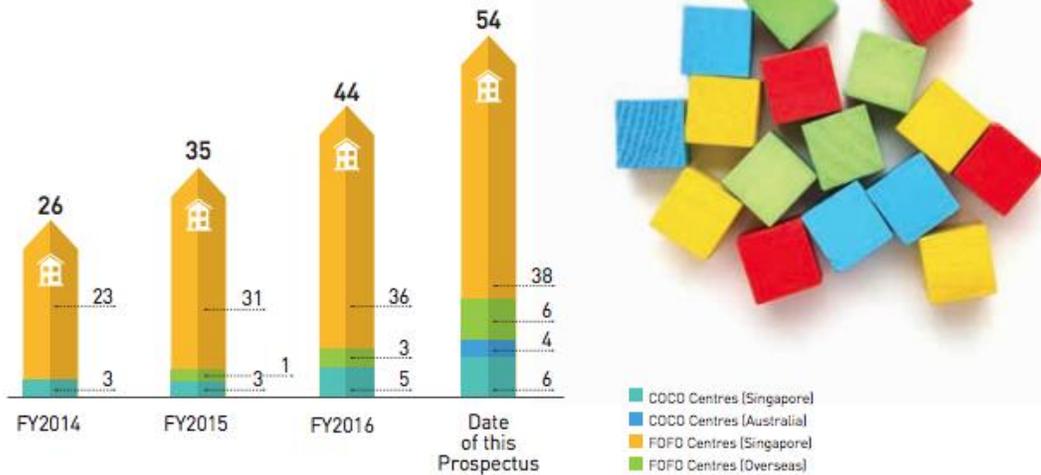
In Singapore, as at the Latest Practicable Date, of the 63 franchise licences sold to third party franchisees in Singapore, 38 FOFO centres were in operation in Singapore as at the Latest Practicable Date, comprising 30 centres under the brand name MindChamps PreSchool and eight centres under the brand name MindChamps Reading & Writing.

The group's Franchise Network was shown very clearly in the Prospectus both in table form (page 75) and diagrammatically (page vii, and reproduced below).

MINDCHAMPS' FRANCHISE NETWORK:



NUMBER OF CENTRES:



(Source: Company Prospectus)

- (i) To help shareholders understand the growth of the group's network, would management consider providing a detailed update in the annual report on the number of centres, the number of franchise licences sold and the number of FOFO centres in operation?
- (ii) What is the level of support given by the group to the franchisees to assist them in establishing their FOFO centres?
- (iii) What is the typical time lag between the sale of a licence and the opening of a FOFO centre?

In addition, can management also clarify if the group's expansion strategy in Australia is to grow by selling licences to franchisees to operate their FOFO centres? If so, would the four schools acquired on 10 November 2017 serve as the group's COCO centres in Australia that would be used as the reference schools/training schools for interested franchisees?

3. On 18 February 2018, the group announced that it had entered into a joint venture agreement with China First Capital Group Limited to establish a fund (the "China Preschool Fund") which has an investment objective of establishing and acquiring preschools in the People's Republic of China and operating them under the "MindChamps" brand.

The China Preschool Fund targets to raise an initial tranche of US\$200 million from the offering and sale of limited partnership interests to limited partners of the China Preschool Fund.

- (i) Who is in charge of fund raising?
- (ii) Of the US\$200 million target, how much has been raised so far? When is the expected first close of the fund?
- (iii) What is the targeted life span of the fund?
- (iv) What is the group's experience of running preschool centres in China? How does the group intend to bridge the differences in culture, language and expectations?