Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Informatics Education Ltd

Security: Informatics Education Ltd

Meeting details:
Date: 18 July 2018
Time: 2.00 p.m.
Venue: 100 Victoria Street #13-01/02 National Library Building, Singapore 188064

Company Description

Informatics Education Ltd, an investment holding company, franchises and licenses for computer and commercial training centers and examination facilitators in Singapore, the United Kingdom, and the Asia Pacific. The company operates through two segments, Higher Education and Corporate Training. The Higher Education segment offers diploma, advanced diploma, degree, and masters qualifications in a range of business, engineering, and technological subjects to college going students and lifelong learners, as well as provides through an online virtual campus. The Corporate Training segment offers training and skills upgrading and enhancement to the general workforce in technical and non-technical areas. The company also offers computer and business education and training services; business management consultancy and child development services; and operation system support services. In addition, it is involved in the operation of e-learning portal that offers e-learning for higher education, corporations, and education services. The company was founded in 1983 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code= BOU)

1. On 3 July 2018, the company announced that its independent auditor has included an emphasis of matter in respect of the existence of a material uncertainty which may cast doubt on the Group's and the Company's ability to continue as a going concern in the Independent Auditors' Report on the financial statements of the Group for the financial year ended 31 March 2018.

Other than a letter of undertaking from an indirect controlling shareholder to provide financial support of up to $5 million until 30 June 2019, the board has stated that it is of the view that the Group is able to continue as a going concern as the group has been "*taking steps to pursue new and profitable revenue streams to generate cash flow growth, and to streamline processes and leveraging on technology to achieve leaner management structure and cost efficiency*".

Based on the latest quarterly update, the company has stated the future direction of the group as follows:

> *The Board expects business conditions to remain challenging, especially for the Private Education segment in Singapore. However the business is demonstrating signs of improvement. The granting of the Enhanced Regulation Framework (ERF) License extension for Informatics Academy, a wholly owned subsidiary of the Company, for the period of May 2022 provides greater certainty to the business in a competitive student recruitment market. The Group will also continue to leverage on its 4-year Edutrust award, to increase student recruitment for its Singapore School.*
>
> *The Group is pursuing new and profitable revenue streams to generate cash flow growth, with particular emphasis on expanding product capability such as NCC Education's Digi suite of computing programs, which caters to primary and secondary school students, in the Licensing segment. Additionally, new programs such as the eSports Diploma, which is unique in Singapore, and a computing program with an internship attachment, will attract more potential students.*
>
> *This group has achieved cost reduction in particular manpower and a leaner management structure.*

To help shareholders understand the changes and the potential for improvement, please provide better clarity on the following matters:

(i) Enhanced Regulation Framework (ERF) License: What is the impact of the receipt of the ERF License on student enrolment at Informatics Academy? Has management estimated the breakeven enrolment? Can management elaborate further on the strategy to increase enrolment?

(ii) NCC Education: How does NCC Education sign up more partners to offer more of its programmes? What is the acquisition cost to acquire such partners and how soon can a new partner be profitable/contribute to positive earnings and cashflow to the group?

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(iii) **Manpower and leaner structure:** Despite the group's claim to achieving cost reduction in particular to manpower and having a leaner management structure, the group's staff cost has increased to 78% of revenue in 2018 versus 73% of revenue in 2017. **How much more cost savings can the group achieve without sacrifice the quality of its teaching?**

(iv) **In the opinion of the board, how long will the group require to turnaround its operations given that the financial support from the controlling shareholder is up to 30 June 2019?**

2. In the company's Corporate Governance Report, the company noted that it has not complied with Guideline 2.2 of the 2012 Code of Corporate Governance to have independent directors make up at least half the board when the chairman is not an independent director.

The board has stated that (page 14):

> *Currently, matters requiring the Board's approval are discussed and deliberated with participation of each Director and decisions are made collectively without any individual or small group of individuals influencing or dominating the decision-making process. Therefore, the Board is of the view that while the current composition of the Board does not meet the requirement of the guideline, it is sufficient for it to exercise objective and balanced judgement on corporate affairs. It also ensures that key issues and strategies are critically reviewed, constructively challenged, fully discussed and thoroughly examined. Nevertheless, the Board is reviewing the composition of Independent Directors will make up at least half of the Board by 31 March 2019* [sic]*.*

(i) **Can the board explain in greater detail the reason(s) for the delay to reconstitute the board such that independent directors make up at least half the board?**

(ii) **What is the search and nomination process for new directors, especially independent directors?**

(iii) **In the opinion of the board, would the addition of qualified and experienced directors, especially directors with the relevant experience such as in turnaround or for-profit education, can help in the group's restructuring efforts?**

(iv) **Would the nominating committee (NC) consider reconstituting the board as soon as possible?**

In addition, can the board explain the due and careful rigorous review that it had carried out to review the independence of the two long tenured independent directors who have served on the board since 2004 and 2006? Can the NC elaborate further on the deliberations it has had on board succession plans for directors? What

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are the board's near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?

3. The "Allowances for impairment in trade receivables" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 31). 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 31 March 2018, the gross balance of trade receivables amounted to $1,534,000, against which allowance for doubtful debts of $746,000 was made. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management.

As shown in Note 15 (page 67 – Trade and other receivables), the group has $1.53 million in trade receivables as at 31 March 2018 (2017: $2.07 million).

- **(i)** **Given the nature of the group's business and the business model, can management help shareholders understand how it had allowed trade receivables past due to amount to $1.53 million or nearly 20% of the total revenue ?**
- **(ii)** **Can management provide better visibility on the profile of the debtors?**
- **(iii)** **Has the audit committee considered it necessary to review the group's credit risk policy, especially in its approach to credit assessment?**
- **(iv)** **What are management's efforts to collect the long-outstanding debts?**

A copy of the questions for the Annual Report for the financial year ended 31 March 2017 could be found here:

https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=240

The company's response could be found here: -----