



**Securities Investors Association (Singapore)**

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: [admin@sias.org.sg](mailto:admin@sias.org.sg) [www.sias.org.sg](http://www.sias.org.sg)

UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** Raffles Education Corporation Limited

**Security:** Raffles Education Corporation Limited

**Meeting details:**

Date: 29 October 2018

Time: 10.00 a.m.

Venue: Cinnamon Room, Level 5, Novotel Singapore Clarke Quay, 177A River Valley Road, Singapore 179031

**Company Description**

Raffles Education Corporation Limited, an investment holding company, provides education and related services in ASEAN, North Asia, South Asia, Australasia, and Europe. It operates through Education, Education Facilities Rental Service, and Real Estate Investment & Development segments. The company provides degree, diploma, and certificate programs in various disciplines, including design, business, technology, applied psychology, K-12 education, tertiary education, foundation studies, and English language program. In addition, it operates Raffles University Iskandar; Tianjin University of Commerce Boustead College; Raffles American School that offers American K-12 education; Raffles Milano Istituto Moda e Design, which provides degree and masters programs in various disciplines of design; and Oriental University City campus. Further, it engages in education facilities leasing and commercial leasing activities for supporting facilities; and real estate investment and development activities. Additionally, the company offers education supporting and utilities management, and business and management consultancy services. It operates through 25 colleges/universities in 23 cities across 13 countries. Raffles Education Corporation Limited was founded in 1990 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=NR7](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=NR7))

1. In the Letter to shareholders, the Chairman and CEO gave a brief overview of the development of the group, commenting on the new campus in Johor by Raffles University Iskandar. Three paragraphs were devoted to update shareholders on the changes in the board. No other strategic, operational or financial matters were mentioned.

A brief 3-year financial highlight was shown on page 10, the FY2017-2018 year-on-year comparison and segment breakdown was provided on page 11 and a brief financial review, in prose, was shown on page 12. The financial review, reproduced below, does not meaningfully improve shareholders' understanding of the performance of the group.



### FY2018 FINANCIAL REVIEW

Group revenue was flat between FY2017 and FY2018.

The Group's net profit increased to \$22.6 million in FY2018 as compared to \$0.2 million in in FY2017.

The Group's Net Asset Value per Share decreased to 45.09 cents in FY2018 from 54.60 cents in FY2017. The Group's FY2018 net gearing was 0.51 times.

The challenging global education environment, currency volatility, increasing interest rates and increasing competition continue to impact the Group.

The Group continues to streamline and restructure its operations for better cost management and improved efficiency.

(Source: Company annual report)

The sections that followed, namely Business overview (1 page including an organisation chart occupying half a page), Raffles university system (1 page including half a page of pictures), Strategy (over 3 pages including 2 pages of pictures), provided short descriptions without giving shareholders any deep insights into the business and the developments in the year.

There were two sections, over 19 pages, showcasing students' achievements, awards and their personal reflection of their Raffles experience. This appears to be more apt in a student recruitment brochure, and not shown so extensively in an annual report for the company.

**Would the board consider a review of the contents in the annual report to make it fit-for-purpose? The board might want to consider providing shareholders with updated numbers, developments, and key insights, in the following sections, such as a detailed CEO/Executive management report and Operational and financial review which includes market developments and trends, key performance indicators, challenges and prospects and outlook.**

2. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Education:** Revenue slipped in the education business from \$80.3 million to \$79.0 million. Segment profit decreased from \$14.98 million to \$5.43 million, a drop of more than 60%. **Can management elaborate further on the reason(s) for the steep decrease? While there are one-off non-cash impact arising from the impairment of goodwill (\$2.36 million due to RCDC), lower fair value gains on investment property, can management shed some light on the operational factors (such as fees, enrolment, staff cost etc)? What are management's pro-active plans to increase the profitability of the core segment of the group?**
- (ii) **Raffles College Pty Ltd ("RCDC"):** In the last annual report, management has stated that it is "confident in receiving CRICOS registration in early 2018". **Can management update shareholders on the progress made by RCDC for its CRICOS re-registration?** It is noted that the group has recognised an impairment of \$2.36 million relating to the goodwill of RCDC.
- (iii) **Impairment testing:** **Would the audit committee help shareholders understand why it might be reasonable to assume (a) the revenue growth rate of 65% (2017: 43%) and (b) terminal growth rate of 2.5% (2017: Nil) in the measuring the value-in-use of RCDC?** Even with these new assumptions, the impairment loss was \$2.36 million. **Can the audit committee/management show the sensitivity analysis of the carrying amount of goodwill of RCDC based on the assumptions? Can the physical campus support a terminal growth rate of 2.5%?**
- (iv) **Accreditation:** **Given the delay in the re-registration of RCDC (which has affected the group's ability to admit foreign students to its higher education courses), does the audit committee consider the group's accreditation systems and processes to be a high risk area for the group? Would it be prudent to review the group's processes for the different licences/jurisdictions to identify any possible weakness and lapses?**
- (v) **Cash flow:** As disclosed in Note 33 (page 167 – Capital management), the group and the company are in compliance with all externally imposed capital requirements relating to financial covenants on its borrowings. From Note 22 (page 147 – Finance costs), it can be seen that the interest expense for the year was \$15.5 million (2017: \$12.75 million), compare to cash generated from operations of \$5.7 million (2017: \$7.0 million). Even after the rights issue in FY2018 which raised net proceeds of \$44.3 million, the group's gross borrowings of \$366 million remain high relative to the cashflows. More than \$195 million of its borrowings are repayable within one year, as at 30 June 2018. **Would the board, and in particular the independent directors, kindly advise shareholders how its current capital structure can remain viable vis-à-vis the performance of its business units? What are management's plans to achieve higher returns and to improve the cash generation? Would the group require additional equity from its current shareholders?**

3. In the Annual Report and in the Corporate Governance Statement, the company has not provided any information on its key management personnel. Although the “Chief Financial Officer” was quoted as giving his/her assurance to the board on the adequacy of the internal controls, there is no disclosure on his/her name and background. In fact, only Professor Graeme Britton was mentioned as the President of Raffles University System. Professor Britton probably is one of the key management personnel of the group.

- (i) Would the company consider providing shareholders with information on its key academic and operational staff?** The section on the board of directors is 4 pages long, with the directors’ profile and their pictures. There is no corresponding section on the key management personnel.

Separately, the company disclosed the remuneration of family members of the executive chairman and CEO who were employed by the group and who had received remuneration exceeding \$50,000 in the financial year. The table, as shown in the Corporate Governance Statement (page 56), is reproduced below:

Save as disclosed below, none of the Directors had family members who were employees of the Group and whose personal remuneration exceeded S\$50,000 for the year ended 30 June 2018:

Name	Relationship	Aggregate Remuneration
Ms Doris Chung Gim Lian	Spouse of CEO	Between S\$250,001 to S\$300,000
Mr Chew Han Wei	Eldest son of CEO	Between S\$200,001 to S\$250,000
Mr Chew Han Qiang	Second son of CEO	Between S\$50,001 to S\$100,000

(Source: Company annual report)

- (ii) Would the company disclose the roles and responsibilities of Ms Doris Chung Gim Lian and Mr Chew Han Wei?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Raffles%20Education%20Corporation%20Ltd>

The company’s response could be found here:

[https://sias.org.sg/media/qareport/1507771301\\_REC\\_Announcement\\_Reply-to-SIAS-Queries-on-AR2017-11Oct2017.pdf](https://sias.org.sg/media/qareport/1507771301_REC_Announcement_Reply-to-SIAS-Queries-on-AR2017-11Oct2017.pdf)