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Issuer: Raffles Education Corporation Limited

Stock code: NR7

Meeting details:

Date: 30 October 2020

Time: 11.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. As shown in the financial highlights (pages 20 and 21 of the annual report), revenue for the financial year was higher at \$100.5 million although the group reported a loss attributable to shareholders of \$(16.4) million.

In the table of earnings contribution by segments, it can be seen that the group's core education segment has reported 2 years of losses.

Revenue Contribution by Segments			Earnings Contribution by Segments		
(S\$'000)	2019	2020	(S\$'000)	2019	2020
Education	77,944	81,858	Education	(7,021)	(2,706)
Education Facilities			Education Facilities		
Rental Service	14,590	14,758	Rental Service	5,227	8,917
Corporate & Others	11	43	Corporate & Others	(16,494)	(22,158)
Real Estate Investment & Development	5,309	3,818	Real Estate Investment & Development	59,395	1,610
Total	97,854	100,477	Total	41,107	(14,337)

(Source: company annual report)

Further, as shown in Note 32 (pages 161 & 162 – Report by segments), the group provided details on the segmental depreciation and amortisation costs, and finance costs. It can be seen that segment assets for education increased from \$405.7 million as at 30 June 2019 to \$486.5 million as at 30 June 2020.

Some of the key financial metrics of the education segment are shown in the table below:

Education segment	FY2019(\$'000)	FY2020(\$'000)
Revenue	77,944	81,858
Finance costs	(8,173)	(9,600)
Depreciation and amortisation	(9,652)	(12,821)
Impairment of goodwill	(6,140)	-
Net (loss)/profit for the financial year	(7,021)	(2,706)
Additions to property, plant and equipment	64,255	10,514
Segment assets	405,682	486,505

(Source: company annual report)

- (i) **Can management help shareholders understand if it remains competitive and has the right cost structure in its core business segment of education?**
From the table above, it would appear that once finance costs, depreciation and amortisation are appropriately allocated, the segment is not profitable.
- (ii) **What are the enrolment capacities of its physical campuses in the different cities/countries?**

In addition, management has stated the PRC has been the bright spot in its business as tension between China and the West has led to an increase in number of students remaining in China to further their education, thus benefitting the sector and the group. On the other hand, the outbreak of COVID-19 has added uncertainty to the group's operations throughout its network of 18 colleges and universities across 10 countries in Asia Pacific and Europe.

- (iii) **Can management help shareholders understand how much of its design education/curriculum can be carried out via e-learning?**
- (iv) **How ready was the group to switch to online learning when governments all over the world imposed lock-down and safety measures to stop the spread of COVID-19?**
- (v) **Can the group update shareholders on the current safe distancing measures that are still in place as a result of the precautions against COVID-19? How has it affected the efficiency of its operations and the capacity of the schools?**
- (vi) **Can management provide better visibility of its student enrolment, especially for its main campuses?**
- (vii) **Does management see any risks to its core business of design education being disrupted permanently by the proliferation of online learning platforms, such as Coursera, Khan Academy, Udemy, edX, Skillshare and many more?**

Q2. The company last paid a dividend of \$0.01 per share to shareholders in October/November 2015, approximately 5 years ago. The company does not have a fixed dividend policy.

In 2020, the company celebrated its 30th year and has built up a total equity attributable to shareholders amounting to \$618 million.

Cash and cash equivalents at the end of the year stood at \$8.20 million. The group has generated \$8.8 million and \$16.4 million from operating activities in FY2020 and FY2019 respectively although it has a net gearing ratio of 48%.

- (i) **Would the board elaborate further on the deliberations it has had in formalising a dividend policy?**
- (ii) **Has the board evaluated the optimal capital structure to support the group's strategic growth objectives? How much working capital is needed to support the group's operations?**

Typically, a well-managed education business receives stable and recurring income, and can be highly cash generative in nature. Similarly, an efficient property leasing business would generate stable rental income that can be used to support dividends to shareholders.

- (iii) **How does the board strike the fine balance between retaining capital for reinvesting into the business for profitable growth and realising returns to its capital providers (in the form of dividends for shareholders)?**

Q3. As disclosed in its corporate governance statement, the board of directors is committed to ***"excellence in corporate governance, transparency and accountability"*** which is seen as being essential for the long-term performance and sustainability of the group, and to protect and enhance the interests of shareholders and other stakeholders [emphasis added] (page 47).

Provisions 2.2 and 3.1 of the Code of Corporate Governance 2018 ("CG Code 2018") states the following:

Provision 2.2	Independent directors make up a majority of the board where the chairman is not independent.
Provision 3.1	The chairman and the chief executive officer ("CEO") are separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making.

The board comprises six directors, consisting of the executive chairman (also CEO), two non-executive non-independent directors and three independent directors. The profiles of the directors can be found on pages 24 and 25.

Listing Rule 710 of the SGX Listing Manual requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018, the provision from which it has varied, the reason for the variation, and the explanation(s) on how the practices it had adopted are consistent with the intent of the relevant principle.

- (i) **Would the company disclose the reason(s) for deviating from Provision 2.2 and elaborate further on how the current board has an appropriate level of independence and diversity of thought and background composition to enable it to make decisions in the best interests of the company?** On page 49, the company has stated that there is a “a strong and independent element on the board” without providing the underlying reason for its deviation.

In addition, the roles of the chairman and CEO are vested in Mr Chew Hua Seng who is also the founder of the group, and the controlling shareholder with an approximate interest of 34% of the company’s shares.

- (ii) **Similarly, pursuant to Rule 710, can the board help shareholders understand the reason(s) for the deviation from Provision 3.1 and explain with greater clarity how the current practice of having a chairman-cum-CEO results in a clear division of responsibilities between the leadership of the board and management?**
- (iii) **How does the board encourage constructive debate, draw out differing views and avoid groupthink?**
- (iv) Separately, in the disclosure of remuneration (page 57), it was stated that “*the Code and the Guidelines also recommend that the remuneration of at least the top five key management personnel (who are not Directors or the CEO) be disclosed in aggregate*”.

However, Provision 8.1 of the CG Code 2018 actually requires the company to disclose *the names, amounts and breakdown of remuneration* [emphasis added] of at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000 and *in aggregate the total remuneration paid* [emphasis added] to these key management personnel (on top of the other disclosure requirements for directors).

Would the board be re-evaluating how it could better meet the disclosure requirements or explain with greater clarity the reasons for its deviations from Provision 8.1?

How would the disclosure of the aggregate paid to the top key management compromise confidentiality when the company has provided no information on its key management personnel at all?

In addition, can the board help shareholders understand how is the intent of Principle 2 met with the current practices? In particular, the Code requires the company to be transparent on the relationships between remuneration, performance and value creation.

- (v) **Since the board is committed to “excellence in corporate governance, transparency and accountability”, would the board be reviewing how it could comply better and with more of the provisions of the 2018 CG Code, instead of deviating from the provisions?**

Separately, the company responded to questions by SGX on 20 October 2020 which had sought clarifications on the particularly rigorous review of a long tenured director, audit firm (Listing Rule 715) and information on directors seeking re-election. The company noted that, inter alia, it had made a “typing error” and had left out information required by the Listing Manual (appendix 7.4.1).

- (vi) **Would the board be reviewing how it could further improve the quality of its communications with shareholders and other stakeholders?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer’s website, through “live” webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can’t attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](#)

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[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)