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Issuer: Overseas Education Limited

Stock code: RQ1

Meeting details:

Date: 27 April 2023

Time: 3.00 p.m.

Venue: 81 Pasir Ris Heights, Singapore 519292

Q1. For the first time in the past decade (or possibly longer), the group's total revenue increased, from \$74.6 million to \$76.4 million. The increase in revenue was attributed to an uptick in student enrolment in the second half of 2022 with expatriate families returning to Singapore as most international borders are now fully reopened post-COVID.

In the chairman's message to shareholders, he confirmed that enrolment has increased across all grades with the opening of borders.

- (i) **Can management provide more details on the enrolment and the growth rates across the schools, namely kindergarten, elementary school, middle school and high school? Are there any significant differences in the growth rates?**
- (ii) **Has management observed any changes in the profile of the student body over the past three years? If so, how have the demographics changed and have any adjustments in the management and operations of the schools been made accordingly?**
- (iii) **How has the competitive landscape in the foreign school sector in Singapore evolved over the past three years? Has the standing of OFS improved among the foreign school system in Singapore?**
- (iv) **Has management increased tuition fees in response to the high inflationary environment?**
- (v) **Is the group also benefitting from families who have shifted from Hong Kong, China and elsewhere to Singapore?**

Q2. As shown in Note 12 (page 105; Derivatives), the group has interest rate swaps with notional amounts of \$57.25 million as at 31 December 2022.

12. DERIVATIVES

	Group			
	2022		2021	
	Notional amount S\$	Carrying amount Asset S\$	Notional amount S\$	Carrying amount Asset S\$
Interest rate swaps	57,250,275	2,768,703	-	-
- Current		179,552		-
- Non-current		2,589,151		-
		2,768,703		-
Statement of comprehensive income				
Fair value gain on derivatives		2,768,703		-

During the financial year, the Group entered into interest rate swaps with a financial institution with notional amount of S\$60,000,000 (2021: S\$nil) to partially hedge its exposure to interest rate risk on its variable rate borrowings from the same financial institution. The interest rate swaps entitle the Group to receive, on a quarterly basis, floating interest equal to prevailing SORA and pay a fixed rate of interest at rates ranging from 1.74% to 1.86% (2021: nil) per annum. The interest rate swaps mature on 16 February 2027.

The carrying value of the derivatives their fair values at 31 December 2022 based on the methods and assumptions used to estimate their fair values as set out in Note 30. The notional amount of the derivatives outstanding as at 31 December 2022 is S\$57,250,275 (2021: S\$nil). The Group does not apply hedge accounting and records interest rate swaps at fair value with changes in value recorded in profit or loss.

(Source: company annual report)

- (i) **Can management help shareholders better understand why the notional amount of \$60 million decreased to \$57.25 million?**
- (ii) **Can management provide shareholders with an explanation for the decision to enter into interest rate swaps with a notional amount of \$60 million, given that the total borrowings at the beginning of the year exceeded \$101 million? What factors were considered by the board in making this decision?**
- (iii) **Why is a portion of the interest rate swap with carrying value of \$179,552 considered current when it is stated that the interest rate swaps mature on 16 February 2027? Can the company elaborate more on the swaps and their terms and structure?**
- (iv) **Is it the intention of management to hold these swaps to maturity?**

Q3. As noted in the key audit matter, the “ability to renew the land lease” is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. 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, the school buildings represent a significant proportion of the group’s assets. As at 31 December 2022, the net carrying value of the school buildings amounting to \$155,370,053 which comprise 70% of the Group’s total property, plant and equipment, and 54% of the Group’s total assets. The Group depreciates the school buildings over an estimated useful life of 50 years.

The current land lease of the school site is for 30 years and expires in 2043.

- (i) **Can the board, particularly the audit committee (AC), help shareholders better understand the deliberations it has had on the disparity between the land lease and the estimated useful life of 50 years for the school buildings?**
- (ii) **What is the fair value of the school (and the land that it sits on)?**
- (iii) **Would it be prudent for the AC to match the useful life of the building to the remaining land lease? When can management start to negotiate for a new lease of term or an extension for the land?**

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

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