Issuer & Securities

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RAFFLES EDUCATION CORPORATION LIMITED

Securities

RAFFLES EDUCATION CORP LTD - SG2C97968151 - NR7

Stapled Security

No

Announcement Details

GENERAL ANNOUNCEMENT::COMPANY'S RESPONSE TO SIAS QUERIES

General Announcement

Date &Time of Broadcast

28-Oct-2018 17:06:35

Status

New

Announcement Sub Title

Company's Response to SIAS Queries

Announcement Reference

SG181028OTHROEV5

Submitted By (Co./ Ind. Name)

Chew Hua Seng

Designation

Chairman & CEO

Description (Please provide a detailed description of the event in the box below)

Company's answers to questions raised by SIAS regarding contents within Company's Annual Report 2018

Attachments

Reply to SIAS Queries 27 Oct 2018.pdf

Total size =427K MB

Question 1:

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.

Answer:

Please note that information pertaining to business operations and strategies is confidential, proprietary and highly sensitive. It is not in the interests of the Company to disclose such information. Be that as it may, our general business strategy is set out from pages 20 to 23 within the Annual Report. As for comments that the financial review does not meaningfully improve understanding of the group's performance, we are pleased, for purposes of further clarification, to expand on our financial review as follows:

"Group revenue was flat between FY2017 and FY2018.

Decrease in other operating income from $11.3 million in FY2017 to $4.4 million in FY2018 was mainly due to the absence of gain on sale of investment properties of $4.5 million in Oriental University City Limited (''OUCL'') in FY2017 and decrease in foreign exchange gain of $1.7 million.

Increase in depreciation and amortisation expenses from $10.9 million in FY2017 to $12.4 million in FY2018 was mainly due to the commencement of depreciation by Raffles American School (''RASJB'') in Iskandar, Malaysia, upon completion of its campus construction during the year.

Net fair value gain on investment properties of $64.9 million was recognized in FY2018 and mainly includes:

a) $53.0 million gain from the investment properties in OUCL and Oriental University of City Holdings (H.K) (Collectively ''OUC'');
b) $7.7 million gain from the investment properties in Parramatta, Australia; and
c) $1.7 million gain from the investment properties in Bangkok, Thailand.

In FY2012 and FY2013, certain land titles were rationalized by OUC's subsidiaries in a land restructuring exercise which gave rise to:

a) provisions for estimated taxes payable in relation to land restructuring, and
b) the corresponding government grant receivable.

During FY2017, the statutory period of these tax provisions expired and reversals were made to:

(i) the provision for land restructuring costs and tax payable, and
(ii) the corresponding government grant receivables.

Increase in finance costs from $12.7 million in FY2017 to $15.5 million in FY2018 was mainly due to RAS's completion of its campus construction and ceased capitalising the interest relating to the construction.
Increase in income tax expense from $3.5 million in FY2017 to $19.8 million in FY2018 was mainly due to provision for deferred tax expense on the net fair value gain on investment properties."

In regard to the suggestion for provision of "a detailed CEO/Executive management report", please note that such report is meant for the Board. As for "Operational and financial review which includes market developments and trends, key performance indicators, challenges and prospects and outlook" (sic), such reviews would invariably contain highly sensitive information which would pose risks to the Company if made known to or discovered by competitors.

Question 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?

Answer:

Besides the slight decrease in revenue, one-off non-cash impairment of goodwill for RCDC and lower net fair value gains on investment properties, Education segment profit decreased due to the following:
Increase in finance costs from $0.6 million to $3.0 million mainly due to RASJB's completion of its campus construction and ceased capitalising the interest relating to the construction.
Increase in depreciation from $6.6 million to $8.0 million due to the commencement of depreciation by RASJB upon completion of its campus construction during the year.

(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.

Answer:

The application for CRICOS re-registration is still pending.

(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%?

Answer:

The main assumption for impairment testing of RCDC's goodwill is the CRICOS permit to admit foreign students which is still pending.

The revenue growth rate of 65% is assumed as RCDC has a low base to start with, and historical trends indicate that it is achievable with admission of foreign students under CRICOS.
Terminal rate of 2.5% is within the long term target range of inflation rate for the Reserve Bank of Australia.

(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?

Answer:

The Company has a department, known as Raffles University Systems, directly responsible for academic quality assurance, including accreditation. This department advises senior management and the Audit Committee of risks, if any, that would affect the accreditation or continuing accreditation of our colleges and University.

(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 cash flows. 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?

Answer:

The board recognises that the total borrowings of $366 million, relative to cash flows, is a concern.
As the generation of revenue is primarily from student numbers, the Group is working to increase these numbers.
It should be noted that the majority of the Group's borrowings are property mortgages, secured by valuable real estate.
Currently, there is no requirement for additional equity from its shareholders and the Group has the intention to monetize some of its assets.

Question 3:

(i) Would the company consider providing shareholders with information on its key academic and operational staff?

Answer:

The Board is of the view that such disclosure would compromise confidentiality and would likely affect the retention of competent personnel.

RafflesEducation

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

Answer:

Ms. Doris Chung is an executive director. She is in charge of and manages all of the day-to-day responsibilities of Raffles University in Johor, Malaysia and the Raffles American School in Johor and Bangkok respectively.

Mr. Chew Han Wei is a vice president. He is in charge of the operations of the colleges in Milan, Italy and Mumbai, India. Mr. Chew is also the IT director of the Company.

Regards,

Chew Hua Seng
Chairman & CEO

27 Oct 2018