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Informatix: THE COMEBACK

Can turnaround CEO Michael Teng bring Informatix back to the black? And can he and his team do it before it runs out of cash, and as competition in the global schoolhouse grows keener? Find out in our Cover Story on Pages 18 to 22.

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INFORMATICS



'WE'RE COMING BACK'

Informatics' deep, cost-cutting moves were necessary. Now, it needs cash to reap the potential of its new product strategies and revenue streams.

BY FRANCIS TAN |

Turnaround specialist Michael Teng is getting the challenge of his life since he became CEO of ailing Informatics Holdings Ltd in July last year. In 2002, he wrote *Corporate Turnaround: Nursing a Sick Company Back to Health*, which became a top-selling business publication. Today, he's had to make sure his advice will deliver.

Consider this: In May 2002, the education provider commanded a market capitalisation of \$520 million. Now, it's only \$35 million. At the current price of nine cents, the stock is down 93% from its peak in May 2002 and 85% down from April 2004 — just before the company shocked the market with its profit warning, which led to a maelstrom involving accounting misstatement, and the overhaul of its board of directors and management team.

Stem the bleeding

For the first fiscal quarter ended June 30, 2005, Informatics incurred a pre-tax loss of \$4.6 million before exceptional items, down 70% year-on-year. Management attributed the much lower losses to cuts in operating expenses and staff costs. At the bottom line, including exceptional items, the loss was \$3.9 million, compared with a whopping loss of \$26.3 million a year ago. Turnover fell a third to \$14.1 million, on account of the divestment of a subsidiary in Sweden and the closure of centres in Malaysia and offset somewhat by higher revenue mainly from Hong Kong and Europe.

Informatics has negative shareholders' funds of \$15.3 million as at June 30. Most of its new programmes were only launched in the January to April period this year. Although exceptional items had dwindled in the first fiscal quarter, it may be too soon to rule out their disappearance totally in the results ahead. Still, following the group's substantial cost-cutting measures and barring exceptional items, Informatics could be in line to break even soon.

The company will announce its second-quarter results this month. What next?

Corporate moves

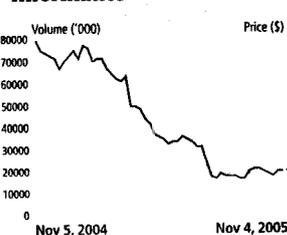
First is the need for cash. In the driver's seat is Malaysian-owned Berjaya Land Bhd, which became a major shareholder when it bought a 28.7% stake in July last year. This has since increased to 29.1%. The head of the Berjaya group of companies, Vincent Tan, was appointed the non-executive chairman of Informatics in August 2004.

Berjaya's stake could shoot up to 64.5% if no one else subscribes to the latest rights issue that the company is proposing and which Berjaya is effectively underwriting, after having pledged that it will subscribe for excess shares not taken up. Given the near certainty that Berjaya's support for the rights

issue will raise its stake above the 30% mandatory general offer level, Informatics has received in-principle approval from the Singapore Exchange for an exemption from the need to make such an offer. Berjaya is said to be keen to rope in other parties to support the rights issue.

This rights issue is the second in a year. It seeks a minimum of \$19.6 million and was announced in March, just five months after the first rights issue in October last year, which raised \$18.6 million, suggesting that the financial position of Informatics was worse than the management had thought. Informatics plans to use part of the rights issue proceeds this time to repay an interest-free loan from the chairman, which amounted to \$2.8 million as at June 30. Nine hundred thousand dollars of the loan was supposed to have been paid by July 31 and the balance of \$1.9 million by Sept 30, 2005.

Informatics



Revenue strategies

Second, Informatics' Teng has eased the pressure on cost-cutting moves and is focusing on growing the top line through a few business segments to help turn the company around.

In particular, he is banking on the continuing growth of some overseas operations, the recovery of the key Singapore and Malaysia markets and new product development.

Teng explains Informatics employs two modes to deliver its education systems. The traditional one is the taught mode, where a student attends

classes. Informatics has its own centres, numbering about 300, in more than 50 countries. As its programmes are designed modularly, a student can complete one module here and when he is posted to, say, China, by his employer, he can continue the next module in an Informatics centre there.

To exploit opportunities not available to the traditional mode, Informatics has developed another mode, a flexible or blended one called "Capstone". It is a "completely modular curriculum" offered through e-learning as well as face-to-face tutorials in some of its centres.

A student can study through e-learning via the Internet but if the individual has difficulties following a lesson, he or she can attend a face-to-face tutorial. Capstone caters to a different

Recent corporate developments

ANNOUNCEMENTS/EVENTS	
Sept 6, 2005	Announced further update on the proposed rights issue
Aug 31	Founder Wong Tai sold a 2.9% stake over a two-day period, lowering his stake to 15.6%
Aug 24	Chief financial officer Raymond Quek announced his resignation with effect from Sept 15, 2005. He will be replaced by group financial controller, Cecilia Tong, who has been with Informatics since 2001.
July 29	All resolutions at annual general meeting (AGM) passed, except for the resolutions relating to the re-election of Wong and the grant of share options to both Wong and chairman Tan, all of which were withdrawn.
July 22	Informatics completed the sale of Informatics Building to CWA Investments Pte Ltd for \$4.3 million
July 15	Oei Hong Leong announced he had sold off his entire 13.7% stake on the open market on July 14 and 15, mostly on the second day. Neo Boon Siong resigned as independent director with effect from July 13, 2005. Wong announced he would not be seeking re-election as a director in the AGM scheduled for July 29, 2005.
October 2004	Raised \$18.6 million from a 4:1 rights-cum-warrants issue. Issued 78.4 million new rights shares at 25 cents each with 78.4 million free detachable warrants (exercise price: \$0.25, expiring Sept 30, 2009).
Aug 5	Wong gave up his post as executive chairman, replaced by Vincent Tan as non-executive chairman. Wong remained as non-executive director.
July 12	Michael Teng appointed CEO, replacing Ong Boon Kheng who resigned
June 3	Informatics proposed a share placement exercise in which Oei would pay \$15.7 million to subscribe for 62.7 million new shares at 25 cents apiece. Berjaya opposed the plan, which was eventually scrapped.
June 28	Announced that its loss for financial year 2004 was two times wider than what was initially reported in April because of additional provisions for bad debts
May 20	Announced it was being investigated by the Commercial Affairs Department
March 12	Cedric Chan Chee Meng announced his resignation as director and president with effect from May 1, 2004

segment of the market, especially those with difficulties in attending classes. Teng says many people want to upgrade their educational standard but have no time to attend classes or lack access to a learning centre. Through Capstone, a student can gain a Bachelor's degree in IT or business, a Master's in International Business from Macquarie University or a Master's in Business Administration from the University of Wales.

Teng says response to Capstone has been very good since its launch in April. Student intake commenced in June and the enrolment now stands at about 1,000. "Demand came from segments that we did not expect, such as students from colleges in the region, including Vietnam and Myanmar. Many graduates from these countries seek overseas degrees as a passport to work overseas. Another segment comprises those who cannot attend classes, such as employees working on oil rigs, in which case it would be pure e-learning. In the Middle East, we have housewives taking up MBA programmes to upgrade themselves over the years they have to take care of their children," he adds.

Through Capstone, Informatics is also trying to squeeze more returns from its investment in its e-learning platform under PurpleTrain.com, which started in 1999 and is still loss-making.

Can competitors offer a similar flexible learning mode? It appears that it won't be easy for them to copy, particularly on the scale that Informatics offers through its 300 centres worldwide. The partnering universities need to ensure that qualified staff are employed by the centres offering the tutorials in order to safeguard the academic standards and reputation of the university.

Additionally, even though a rival may want to put its education platform on e-learning, the partnering university will also want to validate and check to ensure the rival can do a proper job, a process which again could be time-consuming. With Capstone, Teng declares: "We can bring our programme, the same programme, across the whole world."

Currently, most of Informatics' Singapore students take up its IT courses whereas foreign students prefer business-related programmes. IT programmes account for about 60% of group turnover, with business accounting for the bulk of the balance.

Banking on new campus

Despite the tough competitive landscape in Singapore, the country remains an important base for Informatics. Its strategy here is to have a campus in order to draw overseas students and to differentiate itself from other local private institutions.

Teng says part of the learning process is not just about getting an academic qualification, but to enjoy and experience campus life. However, he readily concedes Informatics



At the launch of Informatics' new campus: (from left) Teng, Ung Gim Sei, Prof Tommy Koh (Ambassador-at-Large, Minister of Foreign Affairs), Freddie Pang and Anderson Tang. All are directors of Informatics, except Koh.

cannot compete against the National University of Singapore and Nanyang Technological University of Singapore on this score. In January, Informatics moved to its new 600,000 sq ft campus on Science Centre Road, which can accommodate up to 15,000 students.

Informatics has 4,200 students on the leased campus, including part-timers. About half come from more than a dozen countries, including Nigeria, China, Myanmar, Vietnam, Indonesia, Singapore, Malaysia, India, Bangladesh, Pakistan and South Korea. Informatics will add a dormitory to the campus by the middle of next year. It also plans to establish a campus in Malaysia eventually.

New products and job placement

A new product it has identified in the IT field is cybersecurity. Informatics is partnering US-based EC Council, which has the expertise in cybersecurity and offers professional certification in the field in 60 countries. Informatics will offer a diploma in cybersecurity, the first of its kind, which will come with practical modules.

Other offerings to help boost Informatics' academic programmes are courses on gaming and animation technology as well as applied nursing. Informatics is also offering tourism courses that come with preferential treatment by Malaysia's Berjaya Group for job applicants. There is no job guarantee, but Berjaya operates many leisure-related businesses in Malaysia, including hotel operations. Job opportunities in the local tourism sector should also be enhanced by the establishment of the integrated resorts in Singapore over the next few years.

Job connection is another differentiating edge that Informatics is pursuing to attract students. Besides offering students recognised, quality education, Informatics also helps them get jobs. It operates a global job placement website exclusively for its students. The global reach comes from Informatics' opera-

Comparing the educators

	INFORMATICS	RAFFLES EDUCATION
No of learning centres	About 600 in more than 50 countries	Nineteen colleges in eight countries in Asia-Pacific
No of staff	900	557
Year-end	March	June
VALUATION		
Share price (\$)	0.09	1.15
FY2005 EPS (cents)	(19.9)	3.5
FY2006F EPS (cents)	NA	5.0
FY2005F PER (times)	NA	32.9
FY2006F PER (times)	NA	23.0
Book value/share (\$)	(0.039)	0.05
Price/book (times)	NA	22.94
SIZE		
No of shares (mil)	392.0	508.4
Market cap (\$ mil)	35.3	584.6
FY2004 turnover (\$ mil)	134.1	32.3
FY2005 turnover (\$ mil)	74.7	59.4
FY2004 net profit/loss (\$ mil)	(42.5)	10.2
FY2005 net profit/loss (\$ mil)	(70.3)	17.7
FY2003 net margin (%)	NA	31.4
FY2004 net margin (%)	NA	29.8
FY2005 shareholders' funds (\$ mil)	(11.1)	25.5
FY2005 ROE (%)	NA	84.6
GEARING AS AT JUNE 2005 (\$ MIL)		
Cash	7.5	12.5
Gross debts	(10)	0
Net cash/(debts)	(2.5)	12.5

tions in over 50 countries through its 300 centres and another 300 centres operated under its NCC Education division. NCC is a UK-qualification awarding body providing career-oriented programmes in business and IT.

With China being a major, and growing, source of students, Informatics is working to attract students for both its centres there and for its Singapore campus. Teng says, "We're doing a lot of programmes catering for the Chinese student market, such as tourism. Apart from job placement opportunities with Berjaya Group, we also offer industrial attachment programmes, which enable the students to work in Singapore. We have secured approvals from Singapore's Ministry of Education. The Chinese are also very keen on animation and we have developed courses to meet the demand."

Informatics is also looking into language programmes to attract more students from China for its "O" level programmes. It provides a preparatory study course in English before they go on to take the "O" level exams. To help develop this programme, it recruited Carmee Lim, a former principal of Raffles Girls' School, a year ago.

Teng says some of its franchisees in China are doing very well. Its Tianjin centre alone has 3,000 to 4,000 students. However, student intake has declined at its joint-venture (JV) operations in Shanghai over the years on account of competition. Informatics had to make a provision of \$10 million for the JV following losses in the past three years. It had been profitable over the earlier seven years but the earnings were reinvested as foreign-exchange controls barred their repatriation.

Specialised programmes

In the overseas market, Teng likens its business model to that of a middleman. Universities, particularly those in the UK and Australia, are getting fewer subsidies from governments and are pushed to undertake more marketing programmes to attract students. But the culture at some universities may make it difficult for them to handle the marketing role, both locally and overseas. On the other hand, students are looking for degrees, including those from emerging economies. Teng says, "At Informatics, we have the network, delivery system and the contacts to service the needs of universities as well as to reach out to potential students."

"Our strength is that we have major university offerings, all recognised qualifications, and global experience. We offer qualifications all the way to Ivy League types such as a Master in Finance degree from Macquarie University and an MBA from the University of Wales."

Informatics also claims to be experienced in developing and marketing products to meet market needs. For experienced IT professionals who want to gain a recognised degree quickly,

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Vital to keep shareholders posted

FROM PAGE 19

Informatics has a fast-track IT degree programme from the UK's University of Portsmouth that can be completed over six months. The minimum entry requirement is an advanced diploma. Teng says, "It is very intensive but very popular in Hong Kong."

He points to Informatics' franchise operations in Nigeria as a success story. "In Nigeria, Informatics is a known brand and I am proud of that. We started operations in the country in 2000 and have helped promote the brand name of Singapore education there. The Jigawa state government, Informatics' master franchisee for Nigeria, sent an initial batch of 170 scholarship students to study at our Singapore campus. Informatics' operations there are the group's fastest-growing franchisee and now have about 2,000 private students. Most of the funding comes from the state government."

Academic standards maintained

Teng is glad to note the group's accounting misstatements did not affect its academic governance. For example, Informatics' key university partner, the University of Wales, recently passed the educator during its Quinquennial Audit. It is an exercise carried out once every five years.

But what about the once strong franchise business of Informatics? Franchising was a major part of Informatics, but has since shrunk dramatically, with franchise revenue down 87% to only \$2 million in FY2005. Teng says the error was in the selection process. "We took in partners who were not really interested in the education business but were more keen to trade the franchise. We are now much stricter in terms of partner selection. And when we take on a franchisee, we also make sure we can support it."

Informatics faces legal suits amounting to an aggregate of \$9 million from franchisees in Nigeria and Malaysia. It has not made any provisions for the claims as its lawyers have advised that the alleged claims are unsubstantiated.

Brand affected by CAD investigation

In May last year, Informatics announced it was being investigated by the Commercial Affairs Department (CAD). Teng says the investigation is yet to be completed.

Informatics had earlier stated that, "The outcome of the investigation might uncover other information, which might require adjustments to be made to the financial statements."

In May this year, an employee of PurpleTrain.com was jailed three months and fined \$10,000 for forging licensing agreements totalling \$1.5 million, which helped boost sales in FY2004.

Is Teng confident that the accounting irregularities will not recur? He replies, "We have put whatever measures we can [into place] and have employed a risk manager to look into compliance issues and ensure that no further misstatements will happen."

Teng readily acknowledges that the past accounting misstatement has affected the branding of Informatics in the marketplace. "With all the publicity, you can't get away from it. Thankfully, though, the academic standard was not compro-

mised. We have been very fortunate, too, that the turnover rate among academic staff was the lowest vis-à-vis other departments in Singapore and Malaysia. Motivation among the academic staff is different — most would gain much satisfaction in seeing the students through the courses."

He adds, "We realised early that we made mistakes. That's why the board and management were changed. We emerged stronger and wiser. Our experience also enabled us to provide assistance to AIT Academy when it approached us in August. The problem that it had affected us a year ago. We took in 250 students. Of course, we hope to benefit when the students stay on."

Making a comeback

As a sign of the upheaval at Informatics, only six of the 13 names listed on its board in the 2005 annual report remain today. Among the six, Teng has the longest tenure, having been appointed on July 12, 2004 — the rest were appointed later in the month and in August.

How can a CEO manage amid such high turnover at the board? Teng replies, "The chairman is a very busy man but I'm in contact with him quite regularly. After all, Malaysia is close by. I am also in contact with Freddie Pang [a non-executive director with Berjaya] almost every day. I've learnt from my previous turnaround experience that it's vital to keep shareholders informed, to provide them a certain level of assurance. People won't give you the freedom to operate unless they have confidence in you. I've been very fortunate to have the support of the chairman."

The research community had dropped coverage of the company after the accounting misstatement and CAD investigation saga surfaced. Kim Eng Securities' final report is dated May 3, 2004.

But UOB KayHian had its suspicions on Informatics much earlier. Research director Yang Sy Jian says, "We were the first to drop coverage, well before the scandals erupted, because we were not getting the enrolment and other data we wanted from management, particularly on Informatics' overseas operations, where there were lots of gaps."

For the brokerage to resume coverage, Yang says the new management must be more forthcoming with key operating data and its plans to turn around the group.

Teng summarises the future: "We're very fortunate in that Berjaya has pledged it will support the rights issue — it will not walk out. It is in this for the long term. The branding is there and we have the management team in place to see through the reorganisation. While you're going through this process, a lot of things can pop up to confuse and discourage you. But one should be focused and look straight ahead."

The Informatics brand as a quality education service provider still commands some recognition. In July, it was certified as having achieved CaseTrust for Education, a scheme initiated by the Consumers Association of Singapore to certify companies that have a foundation of good-quality student welfare practices and standards.

Teng proudly notes that in September, Informatics won the Golden Brand Award. "We're coming back!" he enthuses. ■

One too many in Singapore global schoolhouse?

Singapore is in overdrive to become a "global schoolhouse", a study hub for higher education in the region. However, the competition may be too overwhelming for weaker institutions. Furthermore, the republic is also in competition with other regional study hubs like Malaysia and Hong Kong. Informatics CEO Michael Teng says there was only one MBA programme 15 years ago, compared with 200 to 300 programmes today.

The industry has also become very commercial-minded. Teng muses that while talks with university partners in the past would centre on academic governance and standards, the same potential partner today would be asking, "What is the minimum number of students you can bring to my university?"

In Singapore, competition is not just limited to local institutions, even though rivalry is already stiff with about 400 private education organisations (PEOs) here. Large foreign universities are joining the fray. For example, the University of New South Wales (UNSW) is setting up its first overseas university in Singapore, which will also be the city-state's first private university. From a modest initial intake of 500 to 600 students in 2007 for its campus in Changi, it plans to have a total of 15,000 in 15 to 20 years. The move by the UNSW represents a coup by the Singapore government, which is promoting the country as a regional education hub.

On the public side, the SIM University recently became Singapore's fourth university, after the National University of Singapore, Nanyang Technological University of Singapore and Singapore Management University. All are actively promoting themselves. Competition is also intensifying in the international arena. Teng says Informatics has many students from China, but "with foreign universities expanding to China, we see less Chinese students coming to Singapore. They don't have to come out". As an example, Teng pointed out the plight of AIT Academy exemplified the pains suffered by local PEOs. Teng says the main factors were the oversupply of PEOs and the shrinking pie in the private education segment as global competition intensifies, with students having lots more study destinations to choose from.

The Singapore government is also working to raise the standard of local education. The Singapore Higher Level Education Accreditation Council was supposed to be introduced in June, but has been delayed following the involvement of the Ministry of Education. The CaseTrust for Education certification (set up by the Consumers Association of Singapore) to protect foreign students represents the first stage in the move to upgrade the education standard in Singapore. The accreditation council is the next stage. It would involve checks on the university partners of the local PEOs, the quality of the academic programmes and academic staff. Teng thinks that, depending on the stringency of the standards to be imposed, up to 90% of current PEOs could fail to meet the requirements. AIT Academy, which had been operating for six years, cited its failure to achieve the CaseTrust for Education certification as one of the reasons for its decision to close down.

On the demand side, Teng believes the upside remains good. "This industry will be an evergreen industry," he says. "Many people want to upgrade... Every government recognises that a key way to raise the standard of living is through education."

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