

Singapore eDevelopment, formerly CCM, gunning to be next Tencent and Alibaba

| BY FRANKIE HO |

Former Wall Street investment banker Chan Heng Fai is taking another stab at making money from a sector that cost him millions of dollars in losses more than a decade ago. For a start, the self-styled corporate restructuring expert wants to raise the profile of two Singapore-incorporated technology start-ups he claims are modelled after some of the biggest and most successful instant messaging and e-commerce companies in the world.

Chan, 69, is in the process of selling HotApps International and CloudTel to Catalyst-quoted Singapore eDevelopment (SeD), the company formerly known as CCM Group. The sale is considered an interested-party transaction, as Chan owns both start-ups, which were set up a few months ago, and is the CEO and biggest shareholder of SeD, with a stake of 7.7%.

HotApps, a software developer wholly owned by Chan, will launch a mobile instant messaging service in Singapore this year. The application is being developed by a team of software developers he put together and funded personally. SeD will pay Chan \$98,000, which is about 80% of the cost of developing HotApps' instant messaging service. Given the small price tag, the acquisition does not require the approval of SeD's shareholders.

In the meantime, SeD has signed a memorandum of understanding to buy CloudTel, which is 50% owned by Chan. The remaining stake is held by Jacky Zhuang, 44, a Guangzhou-based executive with more than 15 years' experience in the telecommunications and technology sectors in the US and China, and his team.

CloudTel, currently headed by Zhuang, has developed what it claims is the world's first 10in high-definition video phone that runs on the Android operating system. Using cloud technology, the video phone enables users to make low-cost, high-quality international calls and is intended to replace traditional desktop phones in homes and offices.

SeD will appoint an independent valuation firm to determine an offer price for CloudTel. The acquisition is subject to, among other things, shareholders' approval and the assessment of an independent financial adviser, which SeD will hire.

The HotApps and CloudTel transactions, if completed, mark SeD's maiden foray into the IT business, one of two growth engines that Chan has identified to turn around the loss-making company, which took its current name early this month.

Chan, a Hong Kong-born Singapore citizen early this month.

Chan, a Hong Kong-born Singapore citizen known for restructuring distressed assets, first invested in CCM in April last year, taking a 27.5% stake through a share placement by the construction firm, which has been in the red for several years. His stake went down to 7.7%, following a massive warrants issue that he put together for CCM after coming on board. Proceeds from the exercise are being used to fund its venture into property development, the other growth engine that he has identified.

CCM's construction business was sold in May this year to CCM founder Joseph Liew for a nominal sum of \$1. The group has since formed a new subsidiary to start afresh in the construction trade. Liew was ousted as chairman and CEO at the company's AGM in April, an outcome that Chan, who abstained from voting for the former's re-election during the meeting, has no qualms about.

"I have not been as happy as I am now with



Chan (left, with Zhuang) is known for buying distressed assets, turning them around and selling them for a hefty profit

this company," says Chan, who was named the new CEO at the end of April. "We sold the construction company very happily for \$1 to the old owner. That was a very happy sale."

SeD's focus now is to build up its IT arm. Its property development business has already made some headway in the US and Australia. "I am a little addicted to the technology business because in 2000, I lost a lot of money in technology, particularly in e-commerce, e-banking and communication technologies," says Chan, recalling his experience during the dotcom crash.

Zhuang will be tasked with leading SeD's IT division. He and Chan were introduced to each other about five years ago by a mutual friend. It was only in the last two years that they started talking about doing business together.

"The dotcom days came and everything failed because the infrastructure at that time was not mature," says Chan. But with the emergence of new technologies, now is the ideal time for SeD to get involved, especially in fast-growing areas such as mobile instant messaging and e-commerce, he reasons.

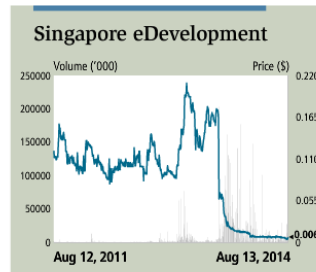
Learning from Tencent, Alibaba

To succeed, the company has to learn from the best, says Chan, who draws inspiration for HotApps and CloudTel from Hong Kong-listed Tencent Holdings, the Chinese company behind the hugely popular WeChat and QQ instant messaging platforms, as well as e-commerce giant Alibaba Group. "This company stant messaging platforms, as well as e-commerce giant Alibaba Group. "This company is modelled along a combination of Tencent and Alibaba."

HotApps' mobile instant messaging service will come with more features than WeChat and WhatsApp, and will eventually be launched in 24 countries, including Japan, the US, China, Indonesia and Latin American nations, Chan says. "I think 20% of our market will be in China, versus 95% in China for WeChat."

A recent move by China to restrict the use of mobile instant messaging services, which are becoming increasingly influential in shaping public opinion, is unlikely to hinder HotApps' plans for the Chinese market, according to Zhuang. Among other things, the new regulations, unveiled early this month, curb the types of accounts that can broadcast political news and require users to register their real names.

"That is a good thing for us. In China, a



mass communication platform like WeChat will draw a lot of attention from the government. But I think as an app launched outside China, we will have better access [to the Chinese market]," says Zhuang.

CloudTel's Android-based video phones, meanwhile, could well become the preferred desktop communication device for homes and multiple industries, displacing analogue and digital desktop phones, he says. Online shopping, hotel bookings, direct sales, distance learning and even healthcare access are among the things that these video phones, or smart terminals as he calls them, can be used for. CloudTel is in talks with various companies in China to get them to offer their products and services for sale through its e-commerce platform.

"It's like your Android phone, but it is sitting on your desk, has a bigger screen and is easier to access. All the inconveniences that you think your cell phone has, the 10in IP video phone will fix," Zhuang says, adding that calls between users will be free.

Targeting telcos, hotels

CloudTel is in talks with China Unicom and China Telecom to offer the terminals to the Chinese market. Its video phones will come with advertising applications that telcos can generate revenue from. "Desktop phones are mostly owned by telephone companies. They have a line into every family. They will upgrade traditional desktop telephones to smart-phones," Zhuang figures.

Telcos are open to such phones, he adds, following the success of the rollout of smart terminals by Hong Kong's PCCW three years

ago. That enabled PCCW to double its average revenue per user, even though its video phone is not "truly smart", he notes. "We think most of the telcos would welcome our smart Android terminal because they have already seen the craze in Hong Kong."

Besides telcos, CloudTel is also targeting hotels, which, Zhuang says, are keen to make better use of their existing phones. "No one uses hotel phones because people think it's expensive to use them. Telephones are a burden to hotels. By using our smart terminals, they can make money from value-added services like e-commerce, advertising and gaming."

Rights issue

Funding for SeD's IT business will come from a rights issue that the company is carrying out. Investors have been offered 12 rights shares at 0.3 cent each for every ordinary share they own. A total of 43.1 billion rights shares will be issued.

If all shareholders subscribe for the rights shares, and fully exercise the warrants made available to them last year when the company sought funds to venture into property development, SeD will raise a total of \$129 million in net proceeds. Chan has pledged to fully subscribe for the rights shares. At the very least, the company will raise \$3.3 million from the rights issue, based on Chan's subscription alone.

The maximum amount of \$129 million will be used for property development, working capital and the settlement of project costs and other financial obligations related to the company's former construction business. While the construction arm was sold in May, the company still has \$12.3 million of outstanding corporate indemnities tied to its legacy trade.

For property development, Chan is particularly pleased with SeD's progress in the US. In February, the group paid US\$9.3 million (\$11.6 million) for 60% of a 136-acre land parcel in Houston, Texas. The site has been divided into 585 residential lots, half of which have received expressions of interest from local developers.

"We don't build [the homes] ourselves. We just prepare the land, [set up the] infrastructure, divide up the legal lots and sell them to builders to build," says Chan. The project is expected to contribute to SeD's top line from next year. "Houston is the fastest-growing city in the US right now because of the oil boom," Chan notes. Plans are afoot for more projects in the US, where the residential property cycle is on an upswing, he says. "It's good for the next five years. It could possibly run for eight years."

SeD is also working on seven waterfront bungalows and good-class townhouses in Western Australia. Marketing and construction of these galows and good-class townhouses in Western Australia. Marketing and construction of these properties, which are expected to be completed in 2016, will start later this year.

Of all the shareholders of SeD, Chan clearly has the most skin in the game and will want to make sure that his efforts to get the company back on its feet pay off. While some shareholders may not take kindly to his heavily dilutive fundraising exercises, the former banker believes turning the company around is what matters ultimately.

"The key is building a sustainable, fast-growing company. I know a lot of people say, 'Mr Chan, you own so little [of the company]! It doesn't matter how much I own. It's about what I do. It's about where you want the company to be in the end.' The company booked a net loss of \$5.7 million in 1H2014. It lost \$22.4 million in 2013 as a result of higher operating costs and a settlement of a legal dispute with a subcontractor. ■