NEWS RELEASE

COURTS ASIA DELIVERS 10.1% REVENUE INCREASE IN Q1 FY18/19 OVER PREVIOUS QUARTER, NARROWING QUARTER-ON-QUARTER LOSS

- ***Singapore continues to maintain strong performance, with 7.5% sequential quarter-on-quarter revenue growth, holding PBT (profit before tax) at S$7.2m***
- ***Transformation work continues in Malaysia, LBT (loss before tax) reduces to S$6.1m in Q1 FY18/19, from a loss of S$9.6m in Q4 FY17/18***
- ***Indonesia focuses on managing credit collection cost; no new stores opened in the last two quarters***

Singapore, 13 August 2018 – Mainboard-listed COURTS Asia Limited ("COURTS Asia" and together with its subsidiaries, "the Group") (阁室亚洲有限公司), one of Southeast Asia's leading electrical, IT and furniture retailers, today reported a 3.6% year-on-year dip in revenue to S$179.8 million for the first quarter ended 30 June 2018 ("Q1 FY18/19"), mainly attributable to revenue decline for Malaysia. Correspondingly, a net loss of S$2.2 million for Q1 FY18/19 was reported.

The Group's profitability was impacted by the introduction of the Consumer Protection (Credit Sale) Regulations 2017 ("CPAA"), which came into operation on 1 January 2018. This, coupled with a more prudent approach towards sanctioning credit sales, a challenging collections environment in Malaysia, the impact to the Indonesia business by higher impairment levels as well as the adoption of the Singapore Financial Reporting Standards (International) 9 ("SFRS(I) 9") on a Group level, effective from 1 April 2018, affected the performance for the quarter.

COURTS Asia’s Executive Director and Group Chief Executive Officer, Dr Terence Donald O’Connor (泰利, 欧康纳), said, “Our Group’s business performance continues to be impacted by the interest rate cap imposed by CPAA in Malaysia. However, there are early indicators to suggest that the business transformation work in Malaysia is delivering green shoots. Revenue in Malaysia improved by 16.8% and loss before tax reduced by 36.5%, to S$6.1m from S$9.6m in Q1 FY18/19 compared to Q4 FY17/18.”

“Singapore continued on its growth trajectory and delivered a strong set of results, following the transformation of its flagship Tampines Megastore into an experiential retail hub and the online store relaunch which both saw a double-digit year-on-year growth. The positive performance we see from offline and online channels is a sign that our investment into introducing a strong omni-channel approach is bearing fruit. We will continue to use Singapore to set the benchmark for omni-channel best practices that can be implemented across other markets over time.”

As previously announced, the Group is in the midst of an ongoing business review and transformation in the face of regulatory changes in Malaysia. The interest rate cap of 15% per annum along with new compliance processes, which took effect from 1 January 2018, is largely the key change that impacted the Malaysian business. For Q1 FY18/19, Malaysia saw a double-digit percentage decline in revenue, a result of a lower credit yield, which correspondingly led to lower gross margins. This was further exacerbated by merchandise margins taking a hit from the absorption of GST in Malaysia since 18 May 2018, ahead of the zero-rating of GST on 1 June 2018, to maintain the festive sales momentum. As part of the Group’s ongoing store optimisation efforts in a post-CPAA environment, five underperforming stores have been closed from April to July 2018, landing at a total of 58 stores in Malaysia. The Group is redefining its store strategy in Malaysia and will be downsizing its current Megastore at Sri Damansara to make way for an incoming tenant. Marketing spend has also been correspondingly reduced in alignment with a smaller store footprint.

Added Dr O'Connor, "The team recognises the urgency and is in overdrive mode to deliver the transformation work in Malaysia. It is a significant undertaking that will take time to execute and finetune. That said, we have reason to believe that the results are trending in the right direction – like-for-like quarterly store sales improved sequentially from Q4 FY17/18 to Q1 FY18/19 and sales per sq ft improved from RM136,000 to RM159,000 per sq ft in the same period."

"Due to the tightening of credit sanctioning and the profile of new customers we are attracting, we are seeing new credit sales of better quality. Work is underway to enhance the credit scorecard, which will contribute to better credit scoring. The priority will be to make changes required swiftly and stabilise the Malaysia business in the medium term."

In Indonesia, the Group is paying close attention to the higher impairment levels the business is seeing. At present, the Group has taken the decision to consolidate its position in the market, focusing management's efforts to bring impairment costs down, and to establish a firm footing for sustained growth moving ahead. Furthermore with the business impacted by the adoption of SFRS(I) 9 and an increasingly challenging collections environment, the Group has taken immediate steps to tighten credit sanctioning and is exploring fintech solutions to give an added dimension to credit scoring and improve the credit approval decision-making process.

"Tenacity and persistence are required in our transformation effort given the current state of play in our operating markets. Singapore, which contributes to over 70% of the Group's revenue will lead the way and maintain the growth trajectory whilst we work on the business challenges in Malaysia and Indonesia."

As at 2 August 2018, the Group has completed a full early redemption of its S$75 million bond programme, as part of its continuing capital and liability management initiatives. The Group's cash position continues to be healthy.

Review of Performance

Revenue was S$179.8 million in Q1 FY18/19, a marginal decrease of 3.6% from S$186.6 million in Q1 FY17/18 amidst continued subdued spending. Compared to Q4 FY17/18, revenue was up by 10.1% in Q1 FY18/19.

Revenue from Singapore, which contributed to 70.1% of the Group's revenue, increased by 3.9% year-on-year ("y-o-y") and 7.5% sequentially quarter-on-quarter. Revenue from Malaysia, which made up 25.6% of COURTS Asia's topline, fell 24.4% in RM currency as compared to Q1 FY17/18 but improved by 16.8% in RM currency as compared to Q4 FY17/18. The y-o-y revenue dip in Malaysia was mainly due to lower earned service charge income. Revenue in Indonesia grew 15.8% in Rupiah currency y-o-y, boosted mainly by higher earned service charge income, and increased by 15.1% in Rupiah currency on a sequential quarter-on-quarter basis.

Gross profit for Q1 FY18/19 decreased by S$10.3 million as a result of lower gross profit margins and revenue compared to Q1 FY17/18. Gross profit margins decreased by 4.2 percentage points y-o-y to 34.0% in Q1 FY18/19, mainly due to lower earned service charge income in Singapore and Malaysia, offset by higher earned service charge income in Indonesia.

Distribution and marketing expenses decreased to S$14.5 million in Q1 FY18/19 from S$16.2 million in Q1 FY17/18, mainly due to lower distribution and marketing expenses in Malaysia. As a percentage of revenue, distribution and marketing expenses decreased to 8.1% in Q1 FY18/19 from 8.7% in Q1 FY17/18.

In Q1 FY18/19, administrative expenses remained relatively stable at S$43.7 million. Whilst cost optimisation initiatives resulted in lower head office and branch occupancy costs in Singapore and Malaysia, they were offset by higher allowance for impairment of trade receivables.

Finance expenses decreased by S$0.4 million y-o-y to S$4.7 million in Q1 FY18/19, mainly due to lower interest expenses in Malaysia and Indonesia.

Consequently, COURTS Asia registered a net loss of S$2.2 million in Q1 FY18/19, as compared to a net profit of S$6.1 million in the corresponding quarter last year. Q1 FY18/19 performance improved S$0.8 million from the net loss of S$3.0 million in Q4 FY17/18.

Balance Sheet

COURTS Asia's trade and other receivables decreased by S$40.3 million to S$428.7 million as at 30 June 2018 from S$469.0 million as at 31 March 2018 mainly due to an increase in allowance for impairment of trade receivables as a result of the adoption of SFRS(I) 9, repayment of receivables and lower credit sales in Q1 FY18/19. Allowance for impairment of trade receivables as at 30 June 2018 was S$69.8 million, representing 12.2% of gross trade receivables, as compared with S$31.0 million as at 31 March 2018 representing 5.4% of gross trade receivables.

There was also a corresponding decrease of the opening retained earnings of S$29.3 million as a result of the recognition of credit losses under the expected credit losses model on the opening balance as of 1 April 2018, in accordance with the adoption of SFRS(I) 9.

Against the same as at 31 March 2018, COURTS Asia's cash and bank balances decreased by S$25.0 million to S$83.6 million as at 30 June 2018. This was mainly due to the repayment of borrowings and cash flow used in operating activities.

Outlook

Commenting on the Group's outlook, Dr O'Connor added, "To equip the business to better manage changes in the regulatory and macroeconomic environments in our respective markets, we have set in motion varying degrees of transformation tailored to each country and its operating landscape. We continue to closely execute and monitor this process, refining our approach along the way, to drive a successful renewal of our business."

"To reiterate, our Malaysia business will continue to face pressure in the short term and we expect to reap the results of the transformation work only in the medium to long term. That said, we remain confident in our long-term prospects, investing in key strategic pillars as well as a solid omni-channel proposition for sustainable business growth. Our focus remains on delivering and optimising value for all our stakeholders."

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About COURTS Asia Limited (Bloomberg Stock Code: COURTS SP)

COURTS Asia Limited, the holding company for COURTS (Singapore) Pte Ltd, COURTS (Malaysia) Sdn Bhd and PT COURTS Retail Indonesia, has been listed on the Mainboard of the Singapore Exchange since October 2012.

With its roots as a furniture retailer from the UK, the COURTS brand was established in Singapore and Malaysia in 1974 and 1987 respectively, and it entered Indonesia in 2014. Today, COURTS is a leading retailer in Southeast Asia and has expanded its range to include electrical, IT and furniture products, introducing various store concepts such as Market Hall, Design Studio and GURU by COURTS. Constantly innovating to improve the shopping experience, the retailer continuously refreshes its stores to optimise the format, layout and merchandise mix.

In line with COURTS' mission to 'make aspirational home products easily affordable', the retailer abides by the COURTS Price Promise and is committed to offering competitive prices across its product range. In addition, COURTS Flexi-Scheme, its in-house credit, is available as one of the payment options.

Currently, COURTS operates more than 80 stores across three markets, spanning over 1.5 million sq. ft. of retail space. This includes the first Megastore pioneered in Singapore in 2006 as part of the Economic Development Board's 'Warehouse Retail Scheme' to convert industrial land for commercial use.

In Indonesia, COURTS opened its first Megastore in Kota Harapan Indah, Bekasi in October 2014, and its second Megastore in BSD City, Tangerang in January 2016.

For more information, please visit www.courts.com.sg.

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