

RAFFLES EDUCATION CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 199400712N)

(the "Company")

RESPONSE TO SGX REGCO QUERIES DATED 16 FEBRUARY 2022

The Board of Directors (the "Board") of Raffles Education Corporation Limited ("Company") refers to queries raised by SGX RegCo in respect of the Company's announcement dated 11 February 2022 on the Company's Results for the second quarter and half year ended 31 December 2021.

The Company wishes to respond to the queries as follows:

Question 1

We refer to the Company's second quarter and half yearly financial statements for the period ended 31 December 2021. We note that finance costs has increased 59% in the 3 months ended 31 December 2021 as compared to 31 December 2020.

Please provide a breakdown of the amount of default interest, bank interest charges of OUCHK as well as for the remaining Group.

Please include the comparative period amounts and elaborate on the material variances.

Company's Response

Finance Costs Entity	3 months ended 31 Dec 2021 (Q2 FY22) \$'m	3 months ended 31 Dec 2020 (Q2 FY21) \$'m	Variance \$'m	Notes
Boustead College	0.3	0.3	0.0	
OUCHK	1.1	0.3	0.8	N1
RU	0.6	0.2	0.4	N2
RK12	2.1	1.3	0.8	N2
RA	0.6	0.6	0.0	
RAA	0.5	-	0.5	N3
Raffles Assets Thailand	(0.4)	0.1	(0.5)	N4
Others	0.2	0.4	(0.2)	
Total	5.0	3.2	1.8	

N1: Drawdown of new borrowings in Q3 FY21

N2: Affin Bank loans' default interest vs normal interest recorded in Q2 FY22 and Q2 Y21 respectively

N3: Interest charged on outstanding tax liabilities

N4: Reversal of accrued interest

Question 2

Excluding other operating income and fair value gain, the Group would have incurred an operating loss before tax for Q2 FY22 and 1H FY22 of (\$1.5) million and (\$6.7) million respectively compared to an operating profit before tax for Q2 FY21 and 1H FY21 of \$4.1 million and \$1,7 million respectively.

Please provide the operating profit/loss before tax for each of the periods (i.e. Q2 and 1H of FY22 and FY21) broken down by material subsidiaries.

Please provide a commentary on the performance of the schools for each of the material subsidiaries which form the core business of the Group.

Company's Response

Operating Profit (Loss) Before Tax (excluding other operating income and fair value gain)

Material subsidiaries	Q2 FY22	Q2 FY21	1H FY22	1H FY21	Commentaries
	\$'m	\$'m	\$'m	\$'m	
Wanbo	2.3	1.5	3.3	1.3	C1
Boustead College	2.1	2.4	5.0	4.8	C2
OUCCY	(2.4)	(1.6)	(4.9)	(1.8)	C3
OUCHK	0.3	2.0	(0.5)	2.5	C4
Raffles College Kuala Lumpur	-	0.1	0.3	0.4	C5
RK12	(2.4)	(0.8)	(5.7)	(2.9)	C6
RU	(0.7)	(0.4)	(1.2)	(0.5)	C7
Raffles College Singapore	1.6	1.3	3.2	2.5	C8
RA	(1.4)	(1.3)	(2.8)	(2.6)	C9
Raffles College Jarkarta	0.4	0.2	0.6	0.5	C10
Raffles Assets Thailand	0.2	(0.5)	(0.4)	(1.3)	C11
4 Vallees	-	(0.3)	-	(0.2)	C12
Others	(1.3)	1.6	(3.6)	(1.0)	
	(1.3)	4.2	(6.7)	1.7	

C1: Increase in operating profit mainly due to significantly higher student enrolment

C2: Stable operating profit

C3: Increase in operating loss mainly due to business tax in PRC upon receipt of RMB200 million from Mr Liu Yan Wen in 1H FY22 and increase in depreciation from additions to fixed assets arising from the acquisition of Hezhong since the beginning of Q2 FY21

C4: Decrease in operating profit mainly due to the reduced leasing space of education facilities taken up by a few education institutions in Langfang City, the PRC

C5: Decrease in operating profit mainly due to lower student enrolment

C6: Increase in operating loss mainly due to the lockdown and restricted border movements that continued to impact recruitment and retention of foreign students and default interest for Affin Bank loans

C7: Increase in operating loss mainly due to the lockdown and restricted border movements that continued to impact recruitment and retention of local and foreign students and default interest for Affin Bank loans

C8: Increase operating profit mainly due to higher student enrolment

C9: Increase in operating loss mainly due to property tax rebate in FY21

C10: Increase operating profit mainly due to higher student enrolment

C11: Increase operating profit mainly due to higher student enrolment

C12: Decrease operating loss mainly due to higher operating expenses

Question 3

We note that the Group is in discussions with a few banks to re-finance Affin bank's loans.

Please disclose if Affin Bank has indicated that they are unlikely to be extending the repayment period of its loans.

What is the amount of the Affin Bank loan that will be due within the next 12 months?

Company's Response

The Group is in discussions with Affin Bank on the continuing facility for the balance outstanding debts owed to Affin Bank after 31 March 2022. While the Group waits for Affin Bank's decision, the Group is also in discussion with other banks.

The Affin Bank loans have been classified as current since 30 June 2021 after the default and the amount of loans was SGD 93.2million (RM 287.6million) as at 31 December 2021. However, the amount of loans due is subject to outcome of discussions referred to in the above paragraph.

Question 4

Why is the gain on disposal of non-current asset held for sale, which relates to the disposal of Wanbo, included under the "Education" segment instead of "Education Real Estate Investment & Development"?

How is it differentiated from the gains on disposal from the "Education Real Estate Investment & Development" segment?

Company's Response

Wanbo is a college classified under "Education" segment. The disposal of non-current asset was the land of Wanbo's old campus. Therefore, the gain on disposal of non-current asset was included under the "Education" segment.

Question 5

In the Company's interview with Business Times published on 20 January 2022, it was reported that "the K-12 school in Iskandar, Johor had been doing well before the pandemic hit" and that "Chew Hua Seng believes the group's business is on the cusp of "rejuvenation" as it looks to expand its footprint in the region, with a focus on the K-12 (kindergarten to 12th grade) segment".

Taking into account the segmental performance disclosed on page 13 and 14 of the results announcement, please elaborate on the performance of the K-12 segment and its prospects for the next reporting period and the next 12 months.

Company's Response

Revenue of the K-12 segment had been growing before Covid-19 pandemic struck.

The Group's Raffles American Schools are located in Iskandar, Malaysia and Bangkok, Thailand. The Covid-19 pandemic with the lockdown and restricted border movements continued to impact our recruitment and retention of local and foreign students, boarding and canteen revenue in these schools.

The Group is cautiously optimistic that the K-12 segment is expected to recover.

Question 6

We note that the Group recorded higher deferred tax in 1H FY22 due to business tax in PRC upon receipt of RMB200 million from Mr Liu Yan Wen.

Please elaborate on the nature of the business tax and why the payments received for a disposal would be subject to business tax.

Company's Response

Estimated provision for business tax pertains to the disposal of LOIT. Business tax, in the form of value added tax and surcharge taxes (city construction and educational surcharge) is payable.

Question 7

We note an increase in non-current receivables to S\$4.9 million.

Please elaborate on what investment properties are being acquired by OUCHK in Mongolia and how OUCHK's progress payments will result in non-current other receivables.

When does the Group expect to recover these receivables?

Company's Response

The investment properties being acquired by OUCHK are 5 floors of a commercial building (Tower 2) located at Misheel City Complex, Chinggis Avenue, Khan Uul District, in Ulan Baatar, Mongolia, with an estimated net floor area of 4,000 square metres and outdoor podium with no less than 400 square metres. Upon completion of sale and purchase agreement for the said investment properties, the progress payments paid (recorded as non-current other receivables) will be classified as investment properties by OUCHK.

Question 8

We refer to the trade receivables as at 31 December 2021 of S\$14.9 million. As disclosed previously in the Company's response to SGX queries announced on 25 November 2021, trade receivables comprised of a long overdue receivable from the Ministry of Finance of Anhui Province of \$5.1 million which was expected to be collected in Q2 FY22.

Please provide an update of this receivable.

Company's Response

Wanbo college has received \$5.0 million from the Ministry of Finance of Anhui Province. The balance of \$0.1 million is receivable from current students.

Shareholders are advised to exercise caution when dealing in the shares of the Company and to refrain from taking any action in respect of their investment, which may be prejudicial to their interests. In the event that shareholders wish to deal in the shares of the Company, they should seek their own professional advice and consult with their own stockbrokers.

BY ORDER OF THE BOARD
Raffles Education Corporation Limited
18 February 2022