BUKIT SEMBAWANG ESTATES LIMITED
(Incorporated in the Republic of Singapore)
Company Registration No. 196700177M

RESPONSE TO SGX-ST QUERIES IN RELATION TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE FOURTH QUARTER AND TWELVE MONTHS ENDED 31 MARCH 2020

The Board of Directors (the "Board") of Bukit Sembawang Estates Limited (the "Company") would like to provide the following information in response to queries from the SGX-ST in relation to the unaudited financial statements announcement for the fourth quarter and twelve months ended 31 March 2020, which was announced on 28 May 2020.

Unless otherwise stated, all capitalised terms used herein shall have the same meaning ascribed to them in the Company's announcement dated 28 May 2020.

SGX Query 1:

Please explain reason for the 17% decrease in cost of sales for 4Q FY2019 from $34m to $28.4m when the Revenue had increased by 29% for the same period. To provide a breakdown of the cost of sales incurred for the quarter against the corresponding reporting period.

Company's Response:

The following Table A provides a breakdown of the cost of sales incurred for the quarter against the corresponding reporting period.

Table A

Cost of sales	4Q FY2019/20	4Q FY2018/19	Variance	Note
	S$'000	S$'000	S$'000	
Development properties	36,110	34,344	1,766	A
Adjustments	(8,827)	0	(8,827)	B
Hospitality	515	0	515	C
Others	556	(324)	880	
TOTAL	**28,354**	**34,020**	**(5,666)**	

Note A
Included in development properties for 4Q FY2018/19 is cost of development properties of S$1.0 m relating to units sold under projects which did not recur in 4Q FY2019/20.

Note B
These adjustments comprised S$6.7m relating to the sales commissions on units sold under deferred payment schemes and S$2.1m relating to enhancement works for unsold units, which were reclassified from the income statement to contract costs and development properties in the statement of financial position, respectively, as part of the year-end process.

Note C
This relates to the cost incurred on the hospitality business.

Explanation for the Revenue and Cost of Sales performance.

Reference is made to Table B, below. Excluding the impact of the adjustments under Note B, the Cost of sales was S$37.2m in 4Q FY2019/20 compared to S$34.0m incurred in 4Q FY2018/19, resulting in an increase of 9% which was in tandem with the increase in revenue by 29%. The corresponding gross margin was 49% compared to 40%. The higher gross margin on sales for 4Q FY2019/20 compared to same period last year, was mainly due to the higher contribution from high gross margin projects, namely Luxus Hills Phase 8 and 9 (as mentioned in page 12 of the Announcement). There was no such revenue and gross margin on Luxus Hills Phase 8 and 9 in 4Q FY2018/19.

Table B

	4Q FY2019/20 Excluding adjustments under Note B	**4Q FY2019/20 Per Announcement**	**4Q FY2018/19 Per Announcement**
	(S$'000)	**(S$'000)**	**(S$'000)**
Revenue	72,612	72,612	56,483
Cost of Sales	(37,181)	(28,354)	(34,020)
Gross Profit	35,431	44,258	22,463
Gross Margin	49%	61%	40%

SGX Query 2:

The material increase in Other operating expenses by 117% was mainly due to additional impairment loss on property, plant and equipment relating to Fraser Residence Orchard, Singapore of $44.1 m. To explain the reason for additional impairment loss of Fraser Residence Orchard and how much impairment has been booked for the property thus far. Please disclose who was the independent valuer commissioned, what was the valuation methodology and material assumptions used in determining the value of the property.

Company's Response:

The reason for additional impairment loss of Fraser Residence Orchard, Singapore ("FROS") was due to the market for serviced apartments was impacted by the uncertainty that the COVID-19 pandemic outbreak has caused.

Thus far, the total impairment loss that has been booked for the serviced apartment units was S$53.8m, comprising $44.1m recognised in FY2020/19 and S$9.7m recognised in FY2019/18.

The group has commissioned an independent valuer, Edmund Tie and Company (SEA) Pte Ltd, to value Fraser Residence Orchard, Singapore ("FROS").

The valuation methodology for the serviced apartment units which were impaired was based on the Discounted Cash Flow ("DCF") method. The DCF analysis allows an investor to make an assessment of the long-term return that is likely to be derived from a property with a combination of both income and capital growth over an assumed investment horizon. In undertaking this analysis, the key assumptions applied include discount rate, terminal yield rate, average room rate, average room rate growth rate and occupancy rate.

The material assumptions used in determining the value of the property are:

Material assumptions	FY 2019/20
1. Discount rate	4.50%
2. Terminal yield rate	3.00%
3. Average room rate (ARR)	$284 in Year 1
4. ARR growth rate	Year 1 and Year 2 = 0% growth Year 3 to Year 6 = 5.0% growth Year 7 to Year 10 = 3.0% growth
5. Occupancy rate	Year 1 = 62% Year 2 = 70% Year 3 onwards = 88%
6. Valuation	$205.1 million
7. Impact of COVID-19	The outbreak of the Novel Coronavirus (COVID-19) was declared as a 'Global Pandemic' by the World Health Organisation on 11 March 2020. Like the financial market, the real estate market is being impacted by the uncertainty that the COVID-19 outbreak has caused. This valuation is current at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of general market movements or factors specific to the particular property).

By order of the Board

Ooi Chee Eng
Company Secretary

16 June 2020
Singapore