CENTURION CORPORATION LIMITED
(Incorporated in the Republic of Singapore with limited liability)
(Co. Reg. No.: 198401088W)

FURTHER INFORMATION RELATING TO THE INCREASE IN VALUATION OF WESTLITE TOH GUAN

The Board of Directors (the "Board") of Centurion Corporation Limited (the "Company") refers to the below queries raised by the Singapore Exchange Securities Trading Limited on 24 April 2020 in relation to the increase in valuation of Westlite Toh Guan and would like to provide further information as follows:

SGX Query (1):

We refer to the Company's announcement released on 14 February 2020 for the reconstruction (the "Reconstruction") of an existing block at Westlite Toh Guan (the "Property") to an 8 storey workers dormitory and industrial training centre. It was stated that "the Board expects a positive impact on the valuation of the Property in view of the proposed extension of the use of the existing lease of the Property as a workers dormitory for an additional 25 years." It was also stated in the Company's 18 February 2020 announcement that "Accordingly, the use of the Property under the existing lease is being extended by an additional 25 years for worker dormitories from September 2032 to November 2057." Please disclose the duration of the original period of the lease and the additional lease period.

The Company's Response:

The land ("Site") of Westlite Toh Guan (the "Property") was originally granted by Singapore Land Authority ("SLA") with a 60-year lease from 1 December 1997 zoned for use as Clean and Light Industrial development ("Industrial Use").

In 2002, a supplemental lease dated 12 September 2002 was granted by SLA where the registered lessee may use the land for the purpose of workers' dormitory up to 11 September 2032 ("Term") and upon the expiry of the Term, continue to use the land for the purpose of Industrial Use until the lease expires on 30 November 2057.

In 2020, a Written Permission was obtained for the proposed reconstruction ("Reconstruction") of an existing 5-storey dormitory block at the Property to an 8-storey block comprising workers dormitory and industrial training centre. SLA has also extended the use of the Site as a workers' dormitory for an additional 25 years till the expiry of the original lease in November 2057.

SGX Query (2):

In the Company's announcement on 18 February 2020, the Company disclosed that "Based on the information currently available to the Board, Knight Frank Pte Ltd has valued the Property at S$284 million as at 31 December 2019 giving a valuation gain of approximately S$70 million." Please ***tabulate*** *the material assumptions used in the 2 valuation reports and highlight the differences in assumptions that resulted in the $70 million valuation gain. In your table, please include the methodology used, the land area, the gross floor area, the number of beds, occupancy rate, the purpose of the use of the Property, cap rate, average rental, highest and best use, property tax etc and other major assumptions. Please explain the specific reasons for any variance for each assumption between the 2 years to explain the $70 million increase in valuation in 2019. Please elaborate on any changes in cap rates used and provide the justification and basis for different cap rates used between the 2 valuations, if any.*

The Company's Response:

The Company engaged Knight Frank Pte Ltd (the "Valuer"), an independent valuer, to value the Property for both financial years ended 31 December 2018 ("FY2018") and 31 December 2019 ("FY2019").

The Company's announcement dated 14 February 2020 sets out the Reconstruction of an existing block at the Property to an 8-storey workers dormitory and industrial training centre. Except for a new training centre to be added after the Reconstruction, there is no additional beds capacity to be added to the Property. One of the key assumptions considered by the Valuer in the valuation was bed capacity of 7,820 beds will remain the same after the Reconstruction.

A table of the key assumptions used in the valuation reports as at 31 December 2019 and 31 December 2018 are summarized as follows:

Valuation Date / Market Value	Land Area (sqm)	Gross Floor Area ("GFA") (sqm)	Occupancy Rate	Average Rent Per Room Per Month	Lease & Use	Capitalisation Rate
31-Dec-19 **S$284 million**	11,685.3	37,370.5 (exclude the additional GFA for new training centre)	97.7%	S$3,312	60 years with remaining lease of 37.9 years Use: Workers' dormitory for 37.9 years	6.9%
Basis of Valuation Market value on existing use basis and subject to existing tenancies and occupational arrangements for the proposed Additions and Alterations ("A&A") works for workers' dormitory use, for a balance lease term of about 37.9 years and taking into account the estimated construction cost of the proposed A&A works, with no Differential Premium ("DP") payable. (*Refer to Note 1 for further detail information used for the valuation)*						
Valuation Date / Market Value	Land Area (sqm)	GFA (sqm)	Occupancy Rate	Average Rent Per Room Per Month	Lease and Use	Capitalisation Rate
31-Dec-18 **S$214 million**	11,685.3	37,370.5	95.8%	S$3,312	60 years with remaining lease of 38.9 years. Use: Workers' dormitory for 13.7 years and Industrial Use for 25.2 years	7.4%
Basis of Valuation Market value on existing use basis and subject to existing tenancies and occupational arrangements, based on a balance lease term of about 13.7 years for workers' dormitory use and about 25.2 years for Industrial Use.						

Note 1:

For the valuation as at 31 December 2019, additional information was provided and considered in the valuation:

- *Grant of Provisional Permission ("PP") was issued on 10 September 2019 for the proposed A&A works involving a new 8-storey block for ancillary training centre and workers' dormitory.*
- *DP is not payable for the proposed A&A works based on the Grant of PP.*
- *According to SLA correspondence dated 23 October 2019, the registered lessee is required to notify SLA when the Written Permission is issued for the development proposal. SLA will further assess if DP is payable at the Written Permission stage and to regularise the title restriction to reflect the approved use. Post valuation, on 14 February 2020, SLA confirmed with the Company that they have assessed that DP is not payable based on the proposal as approved in URA's Written Permission dated 10 February 2020.*
- *The estimated construction cost for the proposed A&A works is about S$17.1 million (including GST).*

The method of valuation adopted and key assumptions used, as illustrated in the table above, were consistent for both valuations as at 31 December 2018 and 31 December 2019, except that:

- the balance lease term of the Property as workers' dormitory use for the two valuations were different; and
- different capitalization rates were used by the Valuer.

In FY2018, the valuation was based on a lease of 13.7 years as workers' dormitory use and 25.2 years remaining lease as Industrial Use. In FY2019, the valuation was based on 37.9 years as workers' dormitory use due to the extension granted for the use of workers' dormitory by an additional 25.2 years till the expiry of the land lease. Hence, the key difference between the two years of valuation is the 25.2 years in the existing lease having its use changed from industrial to workers' dormitory use.

The Property is situated in an area designated for "Civic & Community Institution" in the 2019 Edition of the Master Plan. The existing use of the Property as a workers' dormitory conforms to the permitted use and reflects its highest and best use as determined by the Valuer. As workers' dormitory use is the highest and best use compared to Industrial Use, a lower capitalization rate of 6.9% was used in the FY2019 valuation versus 7.4% in the FY2018 valuation.

SGX Query (3):

Please elaborate how the value attributable to the extension of 25 years to the existing lease from September 2032 to November 2057 was measured.

The Company's Response:

The net income of the Property is capitalised for the balance lease term for use as workers' dormitory at a capitalisation rate which is appropriate for the type of use, tenure and reflective of the quality of the investment, based on analysis of yields reflected in the sales of comparable property types. Capital adjustments such as capital expenditure including the estimated construction cost of the proposed A&A works are then made to derive the capital value of the Property.

The increased value was mainly attributable to the extension of use as workers' dormitory by an additional 25 years to the existing lease from September 2032 to November 2057. This was primarily derived by adopting a lower capitalization / yield rate of 6.9% in the FY2019 valuation versus 7.4% in the FY2018 valuation due to the change of use in the remaining lease as explained in the Company's response to Query (2).

SGX Query (4):

Please quantify the effect of the Reconstruction of an existing block to an 8 storey workers dormitory and industrial training centre on the valuation. Please provide details of how the amount from this Reconstruction value is calculated, what is the cost of construction and how many beds will this add to the existing property. Please elaborate whether this increase in Reconstruction value has taken into account the cost that will be required to construct the 8 storey dormitory. Please also discuss whether this cost of Reconstruction has been accrued in the financial statements of the Company. Please quantify.

The Company's Response:

The estimated construction cost of S$17.1 million was based on cost per GFA using data points from other completed projects of similar built form and use. The estimated cost of construction takes into consideration demolition works, structural works, mechanical & electrical works, plumbing works, external works, finishes and fit out works, equipment, professional fees, taxes etc., and the cost of upgrading existing infrastructure and fixtures at the other dormitory blocks within the Site. The Reconstruction will not add any new bed count to the existing Property. The Reconstruction will instead provide new industrial training facilities within the Property.

The Company did not accrue any cost of Reconstruction work in the FY2019 financial statements of the Company as the Reconstruction work has not commenced. The estimated cost of construction of S$17.1 million has been considered by the Valuer in the valuation. The valuation of S$284 million was derived after deducting the cost of Reconstruction from the Gross Development Value of the Property of S$301 million upon completion of Reconstruction works.

By Order of the Board

Kong Chee Min
Chief Executive Officer

4 May 2020