RafflesEducation

(Incorporated in the Republic of Singapore)
Company Registration No. 199400712N

RESPONSE TO QUERIES BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

Q1. As disclosed in Note 32 (page 164 of the annual report – Report by segments), the group's four reportable segments (which are also the group's strategic business units) are Education, Education Facilities Rental Service, Real Estate Investment & Development and Corporate & Others.
Looking at the earnings contribution by segments, "Corporate & Others" accounted for $(25.2) million in 2016 and $(27.7) million in 2017 while generating negligible revenue. As described in the note, "Corporate & Others" includes *corporate headquarter and consolidation adjustments which are not directly attributable to a particular reportable segment*.

a) Has management considered how it can improve the clarity and the granularity of the financial reporting by apportioning the costs to the relevant segments? For instance, $10.0 million out of the $27.7 million under "Corporate & Others" losses was financing costs. Without further breakdown apportioning of costs, the reported segment earnings is difficult to be meaningfully interpreted by shareholders and analysts.

b) Would the audit committee look into how the group's financial reporting (especially segment reporting) could be further improved?

Company's response

a) Corporate & Others segment consist mainly costs of corporate headquarters, investing holding subsidiaries and certain entities that has not fully commenced operations.

The finance cost incurred were for working capital loans (including the MTN program) that was taken up (and refinanced, where appropriate) by Raffles Education Corporation Limited (the "Company") that were not specifically traced to a particular segment. Any allocation of such cost to the operating segments would thus be arbitrary and likely to cloud the operating results of the segments.

Management believes that by not allocating these corporate costs, the results of these operating segments would be more reflective of each business and appropriate decisions can then be made within these segments.

b) Excluding the Corporate & Others segment, the Group currently reports 3 operating segments, namely Education, Education Facilities Rental Service and Real Estate Investment & Development.

These 3 operating segments represent the Group's current strategy as discussed in the Annual Report page 22.

Q2. As shown in the Financial Highlights (page 12), the group reported revenue of $119.9 million in 2015, $111.0 million in 2016 and $96.2 million in 2017. Profit/(loss) attributable to shareholders dropped by $15.8 million in 2016 to a loss of $(5.5) million in 2017. Net asset value per share has dropped from 57.1 cents in 2015, to 54.71 cents in 2016 and to 54.6 cents in 2017.

a) Education: Revenue from the group's largest segment of Education dropped from $88.6 million in 2016 to $80.3 million in 2017. Can management help shareholders understand why revenue had decreased by nearly 10%? What is the impact of the discontinuation and teach-out of Raffles Shanghai joint venture college and what is the impact of the reduction in foreign student intake in Raffles Sydney (page 15)? In the face of "*increasing competition, higher manpower costs and a more stringent regulatory environment*" (page 15 – Financial highlights), what are management's plan to increase shareholder value? Already, the group reported a return on equity of (0.4)% and a net profit margin of (1.9)% in 2017.

b) Enrolment: The group is a premier education group with a network of 25 colleges/universities in 23 cities across 13 countries in Asia-Pacific and Europe (page 11). Can management consider publishing the enrolment of the group's various programmes in the annual report.

c) Australia: Can management provide clarity on the operating status of the group's Australian subsidiary, Raffles College Pty Ltd/Raffles College of Design and Commerce (RCDC)? As the group is trying to re-register to provide higher education courses to overseas students (page 142), does it mean that it currently does not have the accreditation with Tertiary Education Quality Standards Agency (TEQSA) since 2015? Can management highlight the main matters raised in TESQA's findings and how it has addressed them?

d) Goodwill: Revenue from Australasia was $12.7 million in 2014 and $12.1 million in 2015, and has since dropped to $5.7 million in 2016 and $5.0 million in 2017 (page 168). The carrying amount of goodwill that has been allocated to the cash-generating unit of Raffles College Pty Ltd/ Raffles College of Design and Commerce (RCDC) is $10.5 million (page 142). Given that RCDC appears to be unable to accept foreign students since 2015 and that the CRICOS re-registration is uncertain, how has management and the audit committee carried out the impairment testing of the goodwill allocated to RCDC?

<u>Company's response</u>

a) Profit/(loss) attributable to shareholders for FY2017 should be $(1.8)m instead of $(5.5) as stated above.

Decrease in the Education segment group revenue from $88.6 million for FY2016 to $80.3 million for FY2017 was mainly due to:

i) Discontinuation and teach-out of Raffles Shanghai joint venture college has resulted in the decrease of revenue by $5.8 million in FY2017 from FY2016; and
ii) Reduction in foreign student intake in Raffles Sydney has resulted in the decrease of revenue by $1.5 million in FY2017 from FY2016.

The Group will continue to focus on achieving sustainable growth through improvement in operations and the initiatives to extend the Group's global reach into key markets of education will enhance our educational offerings, increase student numbers and improve profitability.

b) Management will not be publishing the enrolments as this information is confidential and of a competitive nature. It would not be in the interest of shareholders to reveal this.

c) Referring to page 142 of the annual report –
& RCDC has been and is currently registered as a higher education provider
d) with TEQSA which accredits its courses.
The matters raised by TEQSA are confidential but RCDC has endeavoured to address the matters raised by TEQSA and has in fact strengthened its management, compliance monitoring, quality standards and governance. In this regard, RCDC has considered that it has met the standards and is in compliance with the regulations. Therefore, in June 2017, applied to re-register with Commonwealth Register of Institutions and Courses for Overseas Students ("CRICOS") to provide its higher education courses to overseas students.
RCDC is confident that the CRICOS re-registration will be obtained in 2018 and as such has provided a forecast of 5 years on this basis. Applying a pre-tax discount rate of 7% to the cash flow projections, showed no impairment for the testing of impairment of goodwill amounting to $10.5 million.

Q3. As disclosed in the Corporate Governance Statement (page 56), Mr Henry Tan Song Kok was first appointed to the board on 1 September 2000 and has since served as a director of the company for over 16 years. Mr Tan is the Lead Independent Director and the Chairman of the Audit Committee.
In addition, all the other 3 independent directors, namely Dr Tan Chin Nam, Mr Lim Tien Lock, Christopher and Mr Teo Cheng Lok John, were appointed to the board in the period of October-November 2008 and have each served on the board for a term of slightly under nine years.
While the board has considered continuity and stability as important, it has stated that it will, on a continual basis, review the need for progressive refreshing of its board (page 56).

a) Can shareholders understand the near-term plans of the company to refresh its board?

b) Please also disclose the company's search and nomination process for new independent directors.

Company's response

The Nomination Committee is committed to the renewal of the board for fresh ideas, diversity and strong stewardship. In this regard, it reviews the composition and performance of the board at every Nomination Committee meeting to examine if an orderly renewal will enhance the strength of the board. It values the expertise and experience of the current board but it is also on the constant lookout for potential candidates as independent director. Only if suitable candidates are found which will enhance the effectiveness of the board, they will be added to the renewal process.

On behalf of the Board

Chew Hua Seng
Chairman and Chief Executive Officer

11 October 2017