



(Incorporated in the Republic of Singapore)  
Company Registration No. 196700511H

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**52<sup>ND</sup> ANNUAL GENERAL MEETING TO BE HELD ON 26 JUNE 2020  
RESPONSES TO SHAREHOLDERS ON SUBSTANTIAL AND RELEVANT QUESTIONS**

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1. The Board of Directors (the “**Board**”) of Far East Orchard Limited (the “**Company**”) would like to thank shareholders for submitting their questions in advance of the Company’s 52<sup>nd</sup> Annual General Meeting (“**AGM**”) to be held by electronic means on Friday, 26 June 2020 at 2.30pm (Singapore Time).
2. As there are areas of overlap in the questions received, the Company will not be providing responses to every question. Instead, substantial and relevant questions have been classified and responses set out in the following broad categories:
  - A. Financial Performance, Balance Sheet and Capital Management
  - B. COVID-19 Impact
  - C. Dividend
  - D. Business Operations, Strategy and Outlook
3. Please refer to the Company’s responses as set out in **Appendix 1**.
4. On 8 May 2020, the Company issued a Business Update for the quarter ended 31 March 2020 (“Q1 FY20”), and the impact of COVID-19 on its businesses. For additional information, shareholders may refer to the Business Update on SGXNet and the Company’s website at <https://fareastorchard.com.sg/newsroom.html>. These topics will also be addressed by Mr Alan Tang Yew Kuen, Group CEO of Far East Orchard Limited, during the AGM. The slides from Mr Tang’s presentation will be made available on SGXNet and the Company’s website at <https://www.fareastorchard.com.sg/agm.html> after the AGM.

By Order of the Board

Phua Siyu Audrey  
Company Secretary  
26 June 2020

## Appendix 1

### A. FINANCIAL PERFORMANCE, BALANCE SHEET AND CAPITAL MANAGEMENT

| No. | Question  | Response  |
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| 1   | What was the level of performance achieved by the Group in the past 5 years, in terms of return on equity, return on assets, return on invested capital, etc? | The Group's return on equity ("ROE") and return on assets ("ROA") for the past 5 years was between 1.7% and 5.3% and 1.0% and 3.1%, respectively.   |
| 2   | What is the approximate net asset value ("NAV") of the Company?   | NAV of the Group stood at S\$1,271 million or S\$2.85 per share as at 31 December 2019.   |
| 3   | What is the cost of capital of the Company?   | Cost of capital for the Group is between 4.0% to 5.0%.  |
| 4   | The gearing ratio has increased from 0.23x to 0.44x as at 31 December 2019. Does the Company has an internal limit to the Group's gearing ratio?              | <p>The increase in borrowings as at 31 December 2019 were mainly due to the financing of the Group's acquisition of the five PBSA properties in the UK during the year. As a result, the gearing ratio increased from 0.23x in FY18 to 0.44x in FY19.</p> <p>The Group will actively monitor its gearing ratio as well as review and adjust its strategy as required to manage its balance sheet prudently.</p> |

### B. COVID-19 IMPACT

| No. | Question  | Response   |
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| 5   | <p>How is the performance of the Group's hospitality assets in Singapore now compared to pre-COVID-19 crisis? How soon can we expect business to recover to the pre-COVID-19 level? How about other hospitality assets that are outside of Singapore?</p> <p>Has the effect on PBSA been more muted compared to the hospitality business of Far East Orchard, or equally severe, since the UK universities ceased physical classes in response to COVID-19, and many students would presumably have vacated their accommodation?</p> <p>What are the plans to alleviate the impact?</p> | <p>The impact of COVID-19 on the global economy including Singapore, has been significant. The national lockdowns, tightened border controls and closures had effectively grounded the tourism and travel industry to a halt, and inevitably impacting the demand for accommodations in the hospitality industry worldwide. Our hospitality business across the major markets of Singapore, Australia and Germany has experienced significant drop in demand. In addition, our purpose-built student accommodation ("PBSA") business in the UK has been affected by early tenancy cancellations of our PBSA business for the last semester of the Academic Year 19/20 as a result of universities closures. The early cancellations are estimated to impact the Group's revenue by approximately £3 million. COVID-19 has also impacted the Group's medical and office tenants at its commercial properties.</p> <p>Several cost-containment measures have been implemented to manage the operating expenses and to conserve cash flow to mitigate the negative financial impact.</p> <p>In our update on the group's business for Q1 FY20, published on SGXNet and on our corporate website on 8 May 2020 ("<b>Business Update</b>"), we have provided some details on the impact of the COVID-19 pandemic on our business operations and the</p> |

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|  |  | <p>mitigation measures taken. Please refer to the Business Update for more information on the impact of the COVID-19 pandemic on our businesses.</p> <p>Given the impact of the global pandemic to date, the uncertainty of how the COVID-19 situation could evolve (including risk of subsequent waves of infections) and the timing of the eventual recovery of the international economy, it is difficult to put a time frame as to how long it will take for the performance of the hospitality business to recover to pre-COVID-19 level.</p> <p>We will continue to monitor the rapidly evolving COVID-19 pandemic situation and stand ready to make adjustment together with management and other stakeholders to mitigate the impact to our business and will ensure that we are resilient enough to take advantage of opportunities for post COVID-19 recovery.</p> |
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### C. DIVIDEND

| No. | Question   | Response  |
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| 6   | Given the high retained earnings, will the Company guide for the dividend policy for this for 2020?  | The Group's dividend policy is published on our corporate website. We strive to provide consistent and sustainable ordinary dividend payments to our shareholders on an annual basis. Payout is assessed in consideration of various factors including but not limited to our level of cash, gearing, retained earnings, actual and projected financial performance, capital requirements, strategic plans, general economic conditions and outlook. We will continue to balance meeting shareholders' expectations with capital requirements for expansion and diversification to ensure sustainable growth as we seek to deliver sustainable returns to shareholders through augmenting our recurring income streams. |
| 7   | Will the Company continue to pay out a decent annual dividend, especially since the bulk of dividends can be paid in scrip form, so much lesser actual cash is needed? | <p>Please refer to our response to question 7 above.</p> <p>Given the uncertainty of the pace of recovery of the various business units and the investment opportunities that may surface in the next 12 to 24 months, the cash reserves would serve a strategic purpose. If scrip dividend is applied to any dividend, payment will be made in compliance with the Listing Rules.</p>  |

#### D. BUSINESS OPERATIONS, STRATEGY AND OUTLOOK

| No. | Question  | Response  |
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| 8   | <p>Debt of the company is increasing, while the Return on Equity (“ROE”) is decreasing. Please advise the strategies to improve business and ROE.</p>   | <p>As part of the long-term strategy to deliver sustainable returns to shareholders, the Group has been taking steps to augment recurring income streams.</p> <p>In FY2019, we invested in growing our property investment segment with the acquisition of five PBSA properties in the UK.</p> <p>The Group is transitioning to building its recurring income, and improvement in results will take time. The Group remains committed to build recurring income streams through growing our hospitality business and property investment such as PBSA, while actively looking for capital recycling into higher yielding growth assets or assets that are more strategically aligned to our core business.</p> <p>As we work through the life cycle of each asset, we will continue to focus our efforts on asset management to enhance the performance of each asset to prepare them for exit at the right time. We are seeking divestment opportunities where assets can be sold for a good value but would not conduct a fire sale. When considering a disposal of assets, we also assess if we can re-invest quickly.</p> <p>We will continue to stay nimble and make suitable investment and development projects, seek new growth platforms and geographies as we navigate towards the new normal of the post-COVID-19 operating environment.</p> |
| 9   | <p>What is the impact of COVID-19 on the student accommodation sector?</p> <p>What is the plan for PBSA investment going forward?</p> <p>Are there any plans to pivot and re-purpose these assets if the foreign student education sector transforms after this crisis? Would the Company consider spinning off these assets into a REIT when it is of sufficient size?</p> | <p>Please refer to the Business Update published on SGXNet and on our corporate website on 8 May 2020 for more information on the impact of the COVID-19 pandemic on our businesses.</p> <p>We remain confident of the long-term resilience of the PBSA sector in the UK as students’ desire for an enriching experiential learning remains strong and provides sustainable demand for the UK’s premium higher education sector. Our PBSA investment has performed well with counter-cyclical fundamentals that helps to diversify the Group’s earnings profile and is a good resilient asset class held for recurring income.</p> <p>As we work through the life cycle of each asset, we will continue to enhance the performance of each asset to prepare them for exit at the right time for a good value. We will capitalise on opportunities to deliver higher return on divestment and recycle capital as they arise, and will make the relevant announcements in accordance with listing regulations.</p>  |

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| 10 | <p>What is the current occupancy rate for the 3,260 PBSA beds? What levers are available to management to improve the occupancy rates of its PBSA properties?</p> <p>What is the estimated recurring income we expected from the 3,260 beds in FY2020?</p>  | <p>Our PBSA properties have achieved healthy occupancy for academic year (AY2019/20). To drive occupancy, we work with local universities to obtain nominations or referral agreements. There is also a dedicated sales and marketing team working actively to promote our PBSA properties with differentiated product offerings through both online and offline channels and offering incentives to attract student to make early bookings.</p> <p>In FY2019, revenue from our property investment segment grew by S\$11.8 million following the acquisition of 5 PBSA properties during the year, contributing to the increasing component of recurring income.</p> <p>In our Business Update published on SGXNet on 8 May 2020, we have updated that the impact to the Group's revenue from the early cancellations of tenancy arising from the COVID-19 pandemic is estimated to be approximately £3 million.</p> |
| 11 | <p>Since the counter-cyclical fundamentals of the PBSA portfolio in the UK has benefited the Group (as per reported in page 6 of Annual Report 2019), when is the PBSA expected to re-assert this quality? Will the management be pivoting away from PBSA since the diversification benefit in the Group's portfolio is reduced due to the high correlation with the hospitality business' performance?</p> | <p>Both our hospitality and PBSA businesses are impacted to a varying degree by COVID-19 as the unprecedented COVID-19 pandemic is a systemic risk event that has impacted businesses across a wide variety of industries globally.</p> <p>Despite the onslaught caused by the impact of COVID-19, we remain confident of the long-term resiliency of the UK PBSA sector with its counter-cyclical characteristics as security confidence returns to the premium higher education hub of the UK offering enriching quality experiential learning for the aspiring.</p>  |
| 12 | <p>How do you plan to further monetise your assets? Is there plan to sell hotels individually to Far East Hospitality Trust?</p>  | <p>The Group adopts a disciplined approach to realise its assets at the best value at the right time, to the appropriate party. Meanwhile, we continue to focus our efforts on asset management to enhance their value before seeking an exit at the right time.</p>  |
| 13 | <p>How is the Board coping with the current business environment and in what way has the Board taken the opportunity to do renovation or upgrade during this lull period?</p>   | <p>The Board has been actively consulted for their advice, expertise and knowledge amidst the uncertainty brought about by the unprecedented COVID-19 pandemic that had severely impacted the current business environment. The Board has been forthcoming in contributing to the management decision process during this period where business activity has taken a significant hit.</p> <p>The Group adopts a disciplined asset management approach to all its assets to determine the value and timing of asset enhancement. We have fast tracked some of the works that we had planned to be carried out in 2020 wherever possible to take advantage of the low occupancies.</p>  |

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| 14 | <p>Has the Board evaluated if the company's strategies can lead to long-term value creation and if the management has executed well to deliver value to shareholders?</p>  | <p>The Board has been playing a key instrumental role in evaluation of the company's strategies of building recurring income streams to create and accumulate long-term value for the shareholders. Similarly, the management remains committed and disciplined in growing the company's asset portfolio that aligned with the long-term value creation strategy that seeks to deliver sustainable value to shareholders.</p> <p>As part of the Group's long-term strategy to deliver sustainable returns to shareholders, we have taken steps to augment our recurring income streams. These initiatives will take time before we see a meaningful contribution to our business performance.</p>  |
| 15 | <p>What is the plan for Woods Square and the latest sale and leasing status?</p> <p>What is the revenue and profit recognition method use by Woods Square development project? If it is upon completion, may we know how much revenue and profit will be recognized by Far East Orchard in FY2020?</p> | <p>Woods Square, a joint development with Far East Organization and Sekisui House, Ltd, in Singapore obtained TOP in February 2020. All the office units at Tower 1 of the development are for sale, while office units at Tower 2 and retail units are for lease. The development has achieved healthy leasing for its retail units.</p> <p>As announced and published on SGXNet on 23 August 2019, Far East Management (Private) Limited, a member of Far East Organization, purchased 3 office units (aggregate area of approximately 6,796 square metres) located at Tower 2.</p> <p>As at 31 March 2020, 62% of the 208 units for sale launched were sold.</p> <p>Revenue and cost of sales for units sold are recognised upon TOP. As at 31 March 2020, we have recognised S\$4.3 million in our share of profit of joint ventures, being our share of profit from Woods Square development project.</p> |
| 16 | <p>What is the new expected date of completion for Westminster Fire Station? Has the property launched for sale?</p>   | <p>The development of Westminster Fire Station in London, UK is ongoing. The development is expected to complete in 2021. The project team is working towards the revised deliverables for completion.</p> <p>We are closely monitoring the pandemic and political situation before considering the sale launch. We will consider delaying the launch of Westminster Fire Station until confidence in the market returns.</p>  |