

RAFFLES EDUCATION CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 199400712N)

(the "Company")

RESPONSES TO SGX REGCO QUERIES DATED 26 AUGUST 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 23 August 2022 on the Company's Results for the fourth quarter and full year ended 30 June 2022.

The Company wishes to respond to the queries as follows:

Question 1

We refer to the Company's financial statements for the year ended 30 June 2022 ("FY2022"). We note that the Group incurred a 43% increase in "Other operating expenses" of \$47.8 million in FY2022. The Company explained that the 43% increase in FY2022 is due, inter alia, to higher loss on disposal of investment properties and higher provision of estimated expenses payable upon receipt of the sale proceeds of LOIT in FY2022.

a) Please provide a breakdown of the significant items that contributed to the \$47.8 million of "Other operating expenses" and elaborate on the material items which contributed to the \$14.5 million (43%) increase.

Company's Response

Other operating expenses	FY2022	FY2021	Notes
	S\$' million	S\$' million	
Estimated expenses payable	8.4	-	A
Royalty, registration & examination fees	3.7	3.4	B
Professional fees	5.0	4.5	C
Property & land use taxes	3.6	3.4	
Marketing & advertisement	8.3	5.1	D
Utilities	3.4	3.4	
Repairs & maintenance	1.4	1.2	
Property management fees	2.1	2.0	
Class & office supplies	1.1	1.1	
Bad debts	0.2	0.5	
Loss on disposal of investments properties	1.7	0.1	E
Transport & communication	0.8	0.7	
Audit fees	0.9	0.9	
Disinfectant expenses	0.7	0.7	
Non-governmental scholarship	0.8	0.6	F
Security service fees	0.7	0.8	
Directors' fees	0.5	0.4	

Entertainment	0.4	0.6	
Others (< \$0.4 million individually)	4.1	3.9	
Total	47.8	33.3	

Notes:

- A. Estimated expenses payable upon receipt of the sale proceeds of LOIT were business taxes comprising of value added taxes, tax surcharges and income tax that were payable upon receipt, in FY2022, of sale proceeds from disposal of LOIT. See Company Response to Question 1) b) below for more breakdown.
- B. Royalty, registration & examination fee fees incurred as a result of joint venture arrangements with other universities. Increase in these fees was due to higher student numbers.
- C. Professional fees were mainly fees for legal, secretarial, tax, valuation fee and other services for the Group.
- D. Increase in marketing expenses was mainly attributable to the increase in marketing commission for third parties as a result of higher student enrolments in PRC.
- E. See Company Response to Question 1) c) below for more details.
- F. Increase in higher student scholarships and bursaries given in FY2022.

b) Please quantify and elaborate on the nature of the expenses that will be payable upon the receipt of the sale proceeds of LOIT in FY2022.

Company's Response

Description	FY2022 S\$' million
Value added taxes	1.8
Tax surcharges	0.2
Income tax	6.4
Total	8.4

c) We note that the loss on disposal of investment properties amounted to \$1.7 million in FY2022. Noting that the disposal of investment properties recognised in the movement table in Note 10 to the financial statements is \$3.3 million, the loss of \$1.7 million amounts to almost 52% of the carrying value of the investment property disposed. Please clarify which investment property this relates to, the reason for the disposal at a significant loss and whether the disposal was undertaken at market valuation. Please quantify the market value, the book value and the sale consideration to substantiate your response.

Company's Response

The disposals of investment properties were in relation to the land and buildings, which housed the water and heating facilities assets, located at Oriental University City campus, Langfang City, PRC ("OUC Langfang").

The disposals of investment properties were negotiated in good faith and disposed of as part of the effort by the local authorities to streamline the management of public utilities and at the same time allowing the Company's subsidiaries in Langfang City, to hand over non-core assets to the local authorities. These non-core assets which provide essential utility services to the township where OUC campus is located, came as part and parcel of the investment properties when the Group bought over OUC Langfang in 2008.

The sales price of S\$1.6 million offered by the local authorities for the land and building which housed the water and heating facilities. The market price, based on valuation of previous year 2021 (which was also the book value) was S\$3.3 million. Upon completion of disposals on 22nd June 2022, it resulted in the S\$1.7 million loss on disposal of investment properties. These disposals would free up management time from having to manage the water and heating service public utilities which is not our core business.

Question 2

We also note that the Group has recognised a net fair value gain on investment property of \$11.6 million in FY2022. This is attributable to the general increase in the range of key unobservable inputs used to determine the fair value of the investment properties under Note 10 to the financial statements.

a) In particular, we note that the upper limit of the monthly rental rate used for valuing investment properties under the income approach has increased by more than 250% from \$20.1 per sqm in 2021 to \$71.4 per sqm in 2022. Please clarify which investment property this relates to and substantiate why there has been such a significant increase in the monthly rental rate.

Company's Response

The investment property with the upper limit of monthly rental rate of \$71.4 per sqm is Hotel Nendaz 4 Valles & Spa in Switzerland. This monthly rental rate is estimated to increase gradually over a 10 year period to this maximum rate of \$71.4 per sqm in Year 10.

The rental contract with the hotel operator started from December 2011 with the Group taking over this contract when it acquired this property in December 2014 and the rental will expire in December 2023. As the market rental rates have increased since 2014, the pending expiry of the rental contract as well as the improvement of Covid-19 situation, the independent professional valuer estimated that the potential earnings will increase over the next 10 years and used the discounted cash flow method to

derive the value of the property by factoring the gradual increase in monthly rental rate to the maximum rate of \$71.4 per sqm in Year 10.

Even though there is potential increase in monthly rental rate over the 10 years, a higher discount rate was applied to the discounted cash flow and hence, the value of this property has increased by 3.5% from FY2021 to FY2022.

b) Please also substantiate why the Group is able to recognise a net fair value gain on investment properties of \$11.6 million when the latest sale of investment property was made at a 52% loss

Company's Response

Fair value gain on investment properties was recognised based on market valuation by independent professional valuers for financial year ended 30 June 2022 which reflected an increase in value of these investment properties.

However, the disposals of investment properties in relation to land and buildings, which housed the water and heating facilities assets, mentioned above in Question 1 c), were part of the effort by the local authorities to streamline the management of public utilities. The sales price offered by the local authorities was SGD1.6 million. As these land and building had been disposed on the 22nd June 2022, they were no longer an Investment Property as at June 30th 2022.

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
30 August 2022