

OVERSEAS EDUCATION LIMITED
(Company Registration No. 201131905D)
(Incorporated in Republic of Singapore)
(the "Company")

**RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FOR
ANNUAL GENERAL MEETING**

The Board of Directors of Overseas Education Limited (the "Company" or "OEL") refers to the publishing of its annual general meeting related documents on the SGXNET on 7 April 2020 and 26 May 2020. As at 10.00 a.m. on 8 June 2020, the Company has received the following questions from shareholders and Securities Investors (Association) Singapore ("SIAS") and the Company wishes to provide its responses:

Questions Received from SIAS and Shareholders

Q1. In the chairman's message (published in early April 2020 and probably prepared weeks earlier), it was disclosed that the student enrolment for the semester up to June 2020 has "remained relatively unscathed" despite the COVID-19 outbreak.

Management also added that student enrolment for the next new school year, starting August 2020, may be impacted by the lingering economic uncertainty, especially if the COVID-19 outbreak persists longer.

On 3 April 2020, it was announced that a circuit breaker would be put in place starting from 7 Apr 2020 to 4 May 2020. The circuit breaker was later extended to 1 June 2020, with even tighter restrictions in place. Schools were moved to full home-based learning since the beginning of the circuit breaker.

(i) Would management help shareholders understand the measures it has put in place during the circuit breaker? Specifically, how ready was the school to adopt full home-based learning? Were additional investments needed to allow the school to go into full home-based learning?

(A) Our school, Overseas Family School ("OFS") is required to implement all the measures and guidelines issued by the respective Singapore government health and education ministries, right from the first Public Health Advisory announced by Ministry of Education on 27 January 2020 requiring all schools to take stipulated measures to protect school students against the COVID-19. For more information on and details of the COVID-19 measures all schools are required to put in place during the circuit breaker, please refer to the Ministry of Health website: www.moh.gov.sg.

OFS trialled home-based learning from 26 March 2020, and our students and teaching faculty were adept at home-based learning when the circuit breaker measures for schools commenced from 8 April 2020.

OFS has had to commit to more resources (both hardware and software) as needed. Our teachers also have had to adjust learning instructions along the way to cater to the varying needs, requirements and expectations of students and parents, and to achieve the required learning outcomes and progression.

(ii) What is the feedback from parents and students on home-based learning?

- (A) Home-based learning has placed a lot of stress on parents and students. In particular families with younger children, parents have had to make great sacrifices and adjustments to support and assist their children with their online learning to gain the full experience.

Our teachers also have had to work harder to provide effective remote teaching and wide-ranging support for active online learning so that our students can achieve the required learning outcomes and progression.

(iii) Moving forward, how will its classroom instruction and the overall pedagogy be finetuned? What is the impact from COVID-19 (and from the measures put in place) on the group's business model?

- (A) Moving forward, our government's advice is to expect the virus to be around for some time, and thus will directly impact and challenge the school in delivering its education and support for its student body whether in school or at home. For education in this new normal to be effective and compelling, we believe further training of our teaching faculty would be needed; teaching and learning instructions would need redesigning. Existing infrastructure (be it hardware or software) and associated equipment would also need to be reviewed, enhanced or upgraded.

We will start reviewing the above-mentioned opportunities for improvement during this school break.

(iv) Does management have an update on the enrolment numbers for the new school year?

- (A) The average student enrolment for our school year 2019-2020 which just ended on 5 June 2020 was 2,500 students.

We are not able to comment on the student enrolment for the new school year 2020-2021 starting on 11 August 2020, as we are still reviewing and compiling notices of withdrawals as well as enquiries and new applications.

Q2. The 5-year financial summary is shown on page 18 of the annual report and reproduced below:

FINANCIAL HIGHLIGHTS (S\$'000)	FY2015	FY2016	FY2017	FY2018	FY2019
Total revenue ¹	97,119	91,846	86,837*	83,078	82,299
Profit before taxation	17,374	7,500	8,439*	9,351	10,788
Net profit for the year	14,936	5,263	6,238*	6,907	8,007
Earnings per ordinary share (cents)	3.6	1.3	1.5	1.7	1.9

(Source: company annual report)

Revenue has slipped each year from \$97.1 million in FY2015 to \$82.3 million for the financial year ended 31 December 2019. While net profit for the year increased to \$8million in FY2019, the chairman has clarified that the improvement in results was due mainly to lower interest expense of the new bank loan facility compared to the bonds.

(i) Can the board elaborate further on the main macro/external factors that impact the group's performance (i.e. student enrolment)? What are the internal/controllable factors that management is addressing in its attempt to increase revenue?

(A) In our Annual Report FY2015, Chairman informed that the decline in student enrolment in our junior schools was in part due to the move to our new Pasir Ris campus in June 2015.

Student enrolment continued to be impacted from 2016 to 2019 by the global economic slow-down, and increase in school places by new foreign system schools.

Now with COVID-19 on our shores and border restrictions still in place, we would foresee our student enrolment for the next school year starting August 2020 may also be affected.

The Group needs to remain focus on delivering quality school programmes, and to increase our student recruitment efforts and develop more channels to attract student enrolment. In addition, we believe the opportunities of improvement mentioned in Q1(iii) above are important to provide education to our student body that is effective and compelling in the new normal.

(ii) What other levers are available to management to improve the financial performance of the group? In FY2019, the better financial result was mostly due to lower financing costs.

(A) The Group's top priority is to increase student enrolment which translates to revenue; and in the same breath, the Group needs to maintain a conservative stance on expenditure. Personnel expenses and finance costs are the two larger expenditure management pays close attention to.

(iii) Compared to other foreign schools in Singapore, what are the main selling points of Overseas Family School?

(A) Our Educational Philosophy as shared by Chairman on pages 4 and 5 of the Annual Report FY2019.

(iv) How is management trying to close the gap to the leading foreign schools in Singapore? Given the numerous foreign schools that have begun operations in Singapore in the past years, how is OFS pulling itself away from the competitors?

(A) The Group believes OFS is an inextricable part of Singapore's social and economic infrastructure supporting foreign direct investments into Singapore, and an important consideration for expatriates contemplating the relocation of their school-going children here.

Our Master Policy and Who We Are on page 3 of the Annual Report FY2019 define our school's ethos, mission and values (based on our beliefs and can be felt in the school's atmosphere). These strengths are unique to OFS, and will differentiate OFS from the competitors in the foreign system schools space.

Q3. The board has recommended a dividend of 2.75 cents per share for the financial year.

If approved by shareholders at the annual general meeting, it will be the eighth consecutive year that the company is paying 2.75 cents per share.

As shown in the table above (in Q2), the EPS has been 1.3 cents per share to 1.9 cents per share. As at 1 January 2020, the chairman has stated that the company has revenue reserve of \$67 million available for future dividends.

(i) While shareholders are happy that the board is once again recommending a dividend of 2.75 cents per share, dividends have surpassed earnings in the past 4 years. How sustainable is the current practice of declaring 2.75 cents per share each year?

(A) OEL's dividend policy is to pay dividend at least 50% of net profit after tax.

OEL aims to ensure that dividends are sustainable whilst maintaining an equitable balance between return to shareholders and prudent capital management (Note 30, page 123 of the Annual Report FY2019).

As disclosed in Note 19 (page 109 – Borrowings), the group redeemed its bond in April 2019 and obtained a new 10-year bank term loan agreement of S\$117,750,000 with maturity on 15 April 2029.

The new loan is unsecured, payable in quarterly instalments of S\$1,540,000, with a final payment of outstanding loan balance upon maturity. The loan bears interest at average quarterly rates ranging from 3.3% to 3.7% per annum during the year.

(ii) Can management confirm that the bank loan is on a floating rate? How is the interest rate priced?

(A) Yes, the bank loan interest is on a floating rate. The interest rate is priced at Singapore Swap Offer Rate (SOR) plus a fixed margin.

(iii) Has the board evaluated the capital structure? Are there plans to grow the group beyond a single school in Singapore in the foreseeable future?

(A) Yes, the Board reviews OEL's capital structure regularly (Note 30, page 123 of the Annual Report FY2019).

The Group receives and reviews opportunities from time to time. The Group's current priority is to increase the student enrolment at our Pasir Ris campus.

(iv) If not, would the board be re-evaluating the need to hold more than \$45 million in cash and cash equivalent on the balance sheet?

(A) The cash and cash equivalents at 31 December 2019 of \$45 million comprised monies from fees received in advance of \$31.2 million for the semester starting in January 2020, monies and revenue that have not been earned yet at 31 December 2019.

Other Question Received from Shareholders

Q4: What is the expected capital expenditure for FY2020?

- (A) The budgeted capital expenditure for FY2020 is in the range of \$1.5 million - \$2 million, and may need to be adjusted to factor in improvement mentioned in Q1(iii) above to better provide education to our student body that is effective and compelling in the new normal.

By Order of the Board of
OVERSEAS EDUCATION LIMITED

David Alan Perry
Executive Chairman and Chief Executive Officer
12 June 2020