

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 (the “**Board**”) of Overseas Education Limited (the “**Company**” or “**OEL**”) refers to the publishing of its annual general meeting related documents on the SGXNET on 12 April 2023. As at 12.00 p.m. on 19 April 2023, the Company has received the following questions from Securities Investors (Association) Singapore (“**SIAS**”) and the Company has provided its replies to SIAS’ questions below:

Q1. For the first time in the past decade (or possibly longer), the group’s total revenue increased, from \$74.6 million to \$76.4 million. The increase in revenue was attributed to an uptick in student enrolment in the second half of 2022 with expatriate families returning to Singapore as most international borders are now fully reopened post-COVID.

In the chairman’s message to shareholders, he confirmed that enrolment has increased across all grades with the opening of borders.

(i) Can management provide more details on the enrolment and the growth rates across the schools, namely kindergarten, elementary school, middle school and high school? Are there any significant differences in the growth rates?

(A) The average total student enrolment for FY2022 was 2250 students. This was about a 7% increase in enrolment over FY2021. The increases at the Kindergarten and Elementary School levels were greater.

(ii) Has management observed any changes in the profile of the student body over the past three years? If so, how have the demographics changed and have any adjustments in the management and operations of the schools been made accordingly?

(A) The demographics of the students based on their nationalities have been fairly stable for the past three years.

The operations of Overseas Family School (“OFS”) have not changed and Management’s commitment to deliver high quality educational services and school programmes has not wavered.

(iii) How has the competitive landscape in the foreign school sector in Singapore evolved over the past three years? Has the standing of OFS improved among the foreign school system in Singapore?

(A) The foreign system schools' landscape and the operating environment have become more competitive and challenging with new entrants, rising costs and a high inflationary environment.

Foreign system schools are also largely dependent on the inflow of expatriate families entering and living in Singapore, and any disruption to that pipeline of expatriate families, e.g. another pandemic, global recession or war, will significantly impact the foreign system schools.

We believe OFS continues to rank amongst the top foreign system schools in Singapore. More importantly, OFS will continue to ensure that education remains relevant, compelling and effective despite the competitive and challenging environment.

(iv) Has management increased tuition fees in response to the high inflationary environment?

(A) OFS increased the Semester Two (starting in January 2023) tuition fees by an all-schools average of 6.5% from 1 January 2023.

(v) Is the group also benefitting from families who have shifted from Hong Kong, China and elsewhere to Singapore?

(A) OFS has enrolled more students from China than from Hong Kong. Overall, the percentages of the students' nationalities demographics have not varied materially.

- Q2.** As shown in Note 12 (page 105; Derivatives), the group has interest rate swaps with notional amounts of \$57.25 million as at 31 December 2022.

12. DERIVATIVES

	Group			
	2022		2021	
	Notional amount S\$	Carrying amount Asset S\$	Notional amount S\$	Carrying amount Asset S\$
Interest rate swaps	57,250,275	2,768,703	-	-
- Current		179,552		-
- Non-current		2,589,151		-
		2,768,703		-
Statement of comprehensive income				
Fair value gain on derivatives		2,768,703		-

During the financial year, the Group entered into interest rate swaps with a financial institution with notional amount of S\$60,000,000 (2021: S\$nil) to partially hedge its exposure to interest rate risk on its variable rate borrowings from the same financial institution. The interest rate swaps entitle the Group to receive, on a quarterly basis, floating interest equal to prevailing SORA and pay a fixed rate of interest at rates ranging from 1.74% to 1.86% (2021: nil) per annum. The interest rate swaps mature on 16 February 2027.

The carrying value of the derivatives their fair values at 31 December 2022 based on the methods and assumptions used to estimate their fair values as set out in Note 30. The notional amount of the derivatives outstanding as at 31 December 2022 is S\$57,250,275 (2021: S\$nil). The Group does not apply hedge accounting and records interest rate swaps at fair value with changes in value recorded in profit or loss.

(Source: company annual report)

- (i) Can management help shareholders better understand why the notional amount of \$60 million decreased to \$57.25 million?**

(A) The Interest Rate Swaps ("IRS") mature (or run-down) over the 5-year tenure of the IRS, proportionately in tandem with the quarterly loan instalment payments on the bank loan. This is in accordance with the terms and conditions as set out in the IRS Agreement with the bank.

The notional amount outstanding as at 31 December 2022 was S\$57,250,275 as stated in paragraph 2 of Note 12. The S\$60million was the notional amount at the initial point of entering into the IRS.

- (ii) Can management provide shareholders with an explanation for the decision to enter into interest rate swaps with a notional amount of \$60 million, given that the total borrowings at the beginning of the year exceeded \$101 million? What factors were considered by the board in making this decision?**

(A) The Bank Loan Agreement specified the requirement to hedge interest rate risks of not less than 50% of the outstanding loan principal. At the point of entering into the IRS, the Board considered the overall interest rate risks environment that a partial hedge ratio of 60% of the outstanding principal will provide the Group with reasonable protection against fluctuating debt

cost, and more certainty in cash flows for servicing debt while affording the Group the flexibility of reviewing the hedging strategy in future years.

(iii) Why is a portion of the interest rate swap with carrying value of \$179,552 considered current when it is stated that the interest rate swaps mature on 16 February 2027? Can the company elaborate more on the swaps and their terms and structure?

(A) The carrying values of S\$179,552 and S\$2,589,151 represent the current 12-month portion and non-current portion of the 5-year IRS respectively, which mirror the current and non-current bank loan repayments.

(iv) Is it the intention of management to hold these swaps to maturity?

(A) Yes, this is a term under the IRS Agreement.

Q3. As noted in the key audit matter, the “ability to renew the land lease” is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the school buildings represent a significant proportion of the group’s assets. As at 31 December 2022, the net carrying value of the school buildings amounting to \$155,370,053 which comprise 70% of the Group’s total property, plant and equipment, and 54% of the Group’s total assets. The Group depreciates the school buildings over an estimated useful life of 50 years.

The current land lease of the school site is for 30 years and expires in 2043.

(i) Can the board, particularly the audit committee (AC), help shareholders better understand the deliberations it has had on the disparity between the land lease and the estimated useful life of 50 years for the school buildings?

(A) The school buildings were purpose-built to last at least 50 years. The Management also engaged an independent valuer who opined the expected useful life of the school buildings to be 50 years.

While the lease period of the Pasir Ris school site is for 30 years, Management has also received confirmation from a government authority, soon after the move to Pasir Ris in 2015, to support a further extension of the lease when the current lease (expiring in 2043) is up for renewal. Based on the correspondence with the government authority, and the Management’s ability to meet the conditions for the next renewal, Management has assessed that it is highly probable that the lease would be extended. Other factors considered by Management included the overall private education landscape, government land use plan and other relevant external information. These factors also favoured a successful renewal of the lease.

The AC reviewed and challenged the above-mentioned considerations and conditions relating to the successful renewal of the land lease, and concurred with

the external auditors and Management on their assessment and judgment on the KAM reported by the external auditors.

(ii) What is the fair value of the school (and the land that it sits on)?

- (A) The school and land cost are measured at cost less accumulated depreciation, and not at fair value. There are no indicators of impairment, and as such no valuation has been commissioned for the school and the land that it sits on.

(iii) Would it be prudent for the AC to match the useful life of the building to the remaining land lease? When can management start to negotiate for a new lease of term or an extension for the land?

- (A) Useful life of the school buildings is based on their expected useful life where economic benefits can be generated and available for use. The current expected useful life of the school buildings is estimated to be 50 years. Management had engaged an independent valuer who opined the expected useful life of the school buildings to be 50 years.

To the best of Management's knowledge and belief, the lease would very likely be extended for the reasons given above. Accordingly, Management is of the view that it is reasonable and appropriate to use and depreciate the school buildings through their expected useful life of 50 years.

The application for the extension of the lease can be made when there is less than 15 years remaining on the current lease term.

By Order of the Board of
OVERSEAS EDUCATION LIMITED

Tan Swee Gek
Company Secretary

21 April 2023