

Appendix 1

CENTURION CORPORATION LIMITED
(Incorporated in the Republic of Singapore)
(Co. Reg. No. 198401088W)

Responses to Questions Relating to Centurion Corporation Limited's Annual Report for the Financial Year Ended 31 December 2018 ("FY 2018") from Securities Investors Association (Singapore) ("SIAS")

Question 1

Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Occupancy rate:** The group has highlighted that the performance of the 28 operational assets, with 55,408 beds, across five countries in the portfolio remained stable in FY2018 and it achieved average occupancy rates of 95.2% for the year. In addition, the group expects several assets to become operational soon, including the 6,600-bed Westlite Bukit Minyak workers accommodation, 280-bed dwell East End Adelaide, 208-bed dwell Dongdaemun and an additional 160 beds at RMIT Village AEP.

Would management help shareholders understand how much time is needed to scale up a new asset to the optimised level?

Company's response 1(i):

Based on our past experience, it will typically take around 9-12 months to scale up a new asset to the optimised level.

Would management provide shareholders with a clear and concise summary of the occupancy rates of the assets in the portfolio to help shareholders understand the performance of each asset?

Company's response 1(i) continued:

Occupancy rates of individual assets is not meaningful as we manage our assets as a portfolio within each country. Furthermore, there are commercial sensitivities in disclosing individual assets occupancy, with competition within each city.

Therefore, to help shareholders understand the performance of our assets, we report the occupancy rates by business segment and by country markets.

For FY2018, our average occupancy rates, based on available beds, as disclosed in our Annual Report are:

| Asset Type | Singapore | Malaysia | UK | Australia | Average* |
|------------|-----------|----------|-----|-----------|----------|
| Workers | 96% | 94% | NA | NA | 95.3% |
| Students | 89% | NA | 93% | 97% # | 93.6% |
| Total | | | | | 95.2% |

** weighted average based on available beds.*

excluding beds closed for Asset Enhancement Programme in RMIT Village

Occupancy rates of assets held under private investment fund ie in the US, in which we have a minority equity stake, are not disclosed. However, they are at healthy occupancy levels.

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- (ii) **Fund management:** In line with the group's asset light strategy, the group started its first private fund, Centurion US Student Housing Fund, which has been fully drawn down to acquire a portfolio of six purpose-built student accommodation assets in the United States. The group has a 28.7% stake in the fund was closed in November 2017 after reaching US\$89.5 million. The second private fund, Centurion Student Accommodation Fund, was started to invest in PBSA assets globally (excluding the US) and has achieved a first closing of S\$70 million. It is observed that the group committed nearly 30% in the first fund, while taking a 14% (or a \$10 million stake) in the second fund. At moment, the second fund only has one external investor who invested \$60 million although management has targeted at least \$100 million for the second fund. **How does management carry out its marketing and fundraising for its fund? What is the profile of the targeted Limited Partner?**

Company's response 1(ii):

Our targeted Limited Partners for our private funds include institutions, family offices, investment funds and high net worth individuals.

Our investment team reaches out to potential investors whom we know through our own business networks, banks and financial intermediaries, as well as through leads obtain from investor roadshows and seminars and talks that we participate in. Our announcements through the exchanges and media publicity have also succeeded in attracting reverse enquiries from interested parties.

- (iii) **Leverage:** The group has a net gearing ratio of 53%, up from 51% as at 31 December 2017. Net gearing ratio is calculated as net debt divided by total capital where total capital is calculated as borrowings plus net assets of the group. As at the end of the financial year, the net debt amounted to \$675.5 million while total capital was \$1.26 billion. The group's total equity stood at just \$525.0 million.

Has the board evaluated the optimal capital structure and set an internal limit to the amount of leverage use?

Company's response 1(iii):

The board has evaluated the optimal capital structure and has set an internal limit for leverage (including corporate debt) of not more than a net gearing ratio of 60% or net debt to equity ratio of 1.5 times.

The limit set has taken into consideration the stable cashflow of the Group and the structure of the bank debts that the Group obtains to finance its assets. The Group has adopted a prudent approach having long term bank debt to finance its long term assets.

At the asset level, loan facilities range between 7 to 15 years in loan tenure, and are structured with amortized principal repayments annually based on cashflows generated.

As at 31 December 2018, our remaining bank debt maturity profile averages 8 years.

At the corporate level, the Group had outstanding MTNs of S\$85 million as at 31 Dec 2018. These have since been fully redeemed in April 2019, partially through issuing S\$60 million new notes via an Exchange Offer Exercise to existing note holders and reverse enquiries in Feb 2019. The remaining S\$25 million was funded through bank facilities and internal resources.

- (iv) **Exit:** Given that funds usually have fixed terms of up to 8-10 years (with extensions possible), what would be the group's exit strategy for the assets in the funds and also for

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the assets held directly by the group? Has the board evaluated its options, including setting up a more efficient structure like a real estate investment trust?

Company's response 1(iv):

The Board has and will continue to explore all possible exit options, taking into consideration market conditions at the point of exit, which will best add value to our shareholders and investors. This may include trade sales, or portfolio sales, IPO listings or setting up a REIT.

Question 2

The company was listed on the SGX in 1995 and it obtained a dual listing status on the Main Board of The Hong Kong Stock Exchange Limited (SEHK) on 12 December 2017 with the issuance of 36 million new shares, representing approximately 4.5% of the enlarged share capital.

- (i) Can the company disclose the total amount of fees and charges incurred for the dual primary listing on SEHK?**

Company's response 2(i):

The total amount of fees incurred for the dual primary listing on SEHK in FY2017 was S\$7.9 million.

This consists of S\$1,031,000 in share issue expenses charged against the share capital and S\$6,869,000 recorded as listing expenses in the profit and loss account. These figures were disclosed in FY2017 annual report as well as our FY2018 annual report as 2017 comparative figures on pages 115 and page 142 respectively.

- (ii) In the circular dated 14 August 2017, the company has stated that the dual primary listing will help the company access different group of investors, promote its brand recognition and presence in the international market and gain access to a wider range of private and institutional investors. Can the board update shareholders if the group has realised any of these potential benefits?**

Company's response 2(ii):

Centurion is still relatively new to the Hong Kong stock market, having only been listed in December 2017. This is only a little more than one year.

With the greater depth of capital market in Hong Kong, we are able to access different groups of investors which we were not able to engage in the past. We have managed to gain access to institutional investors for both our equities as well as investors that are interested in our private fund investments.

Since the dual primary listing on SEHK, we have continued to gain visibility among international investors as a global brand. This is a continuous process and with the continued profiling of the Group via the media and IR activities in Hong Kong, it will continue to promote brand recognition and our presence in the international market.

- (iii) Does the dual primary listing significantly increase management's time spent on reporting and the compliance costs?**

Company's response 2(iii):

While there are additional reporting responsibilities and time spent on the dual primary listing, it is not that significant as the compliance requirements for SGX and SEHK are generally quite similar.

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We have a structure in place that helps us to ensure that any work pertaining to reporting and compliance is performed efficiently and promptly.

The additional recurring compliance cost per year is approximately S\$400K, which is not a material cost compared to our revenues and profits. We believe that the Group and our shareholders will benefit from the long-term growth opportunities derived from our Hong Kong listing.

Question 3

As noted in the Corporate Governance report, two of the independent directors, namely Mr. Gn Hiang Meng and Mr Chandra Mohan s/o Rethnam, were first appointed to the board on 17 May 2007 and thus have served on the board of the company for nearly 12 years.

The company has recently appointed two other independent directors, namely Mr. Owi Kek Hean and Ms. Tan Poh Hong, on 1 January 2017 and 8 May 2018 respectively.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (i) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

Company's response 3(i):

The Board is aware of and have evaluated the 2018 CG Code and the amendments to the SGX-ST's Listing Rules.

In particular, the Nominating Committee (NC) are well aware of the amendments relating to the term of Independent Directors, which specifically relate to 2 of our Independent Directors, Mr Gn Hiang Meng and Mr Chandra Mohan s/o Rethnam.

We believe that throughout their term as Independent Directors, both Mr Gn and Mr Mohan have contributed and continue to contribute immensely to the strategic direction and governance of the Group. Their character, independence and wealth of knowledge and experience is unquestioned and we continue to value their balanced guidance on our board.

Notwithstanding the foregoing, the Board will regularly review the 2018 CG Code, and listing rules, as well as the structure and composition of the Board and consider the appropriateness of Board renewal as and when deemed necessary.

- (ii) **Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments, especially as the group has branched out into fund management?**

Company's response 3(ii):

The Board, through its NC, reviews, on an on-going basis, the structure, size and composition of the Board.

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Currently, the Independent Directors make up half of the Board. The NC is of the view that the current Board comprises individuals, who as a group, provide an appropriate balance and diversity of skills, experience, gender, and expertise required for effective management of the Group.

The Board collectively possesses core competencies in areas such as accounting or finance, legal and regulatory matters, risk management, business or management experience and industry knowledge. For example, both Mr Loh Kim Kang David and Mr Han Seng Juan, Non-Executive Directors of the Company, have more than 20 years of experience in the investment industry, and also extensive direct experience in managing investment funds.

The nominating committee (NC) stated that it has in place a Director Nomination Policy for selection, nomination and appointment of new directors and when a vacancy arises, the NC will identify potential candidates for appointments.

- (iii) Can the NC elaborate further on its search and nominating process for directors, especially independent directors? How often are professional search firms used to cast a wider net for the best candidate?**

Company's response 3(iii):

The NC has in place a Director Nomination Policy for the selection, nomination, and appointment or re-appointment of Directors. The NC takes the lead in identifying, evaluating and selecting suitable candidates for new directorships before recommendation to the Board for appointment.

In identifying suitable candidates, the NC considers candidates from internal and external sources, by referral of our business associates and the candidates' industry standing and reputation. Where necessary, we may seek assistance from external search consultants.

Suitable candidates may be identified for appointment to the Board, after the NC evaluates his/her suitability to further enhance the diversity of skills, knowledge and experience of the Board in order to meet the business and governance needs of the Group.

For example, Mr Owi brings to us a great depth of experience in international tax management and accounting matters. Ms Tan, apart from adding gender diversity as our first female Independent Director, also adds solid knowledge and experience in the real estate and residential housing domain.

Furthermore, the NC uses its best efforts to ensure that each Independent Director brings to the Board an independent and objective perspective to enable the Board to make balanced and well-considered decisions.

- (iv) Following the appointment of Mr. Owi and Ms. Tan, what are the company's other near term plans to refresh the membership of the board to comply with the new 2018 Code in good time? Doing so would avoid undue disruption and maintain institutional knowledge and continuity in the board.**

Company's response 3(iv):

Please refer to the Company's responses set out in 3(i) and 3(ii) above.

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By Order of the Board of
Centurion Corporation Limited

Kong Chee Min
Chief Executive Officer

25 April 2019