

Centurion Corporation Limited

(Incorporated in the Republic of Singapore with limited liability)

(Company Registration No. 198401088W)

Responses to questions relating to Centurion Corporation Limited's Annual Report for the Financial Year ended 31 December 2021 ("FY2021") from Securities Investors Association (Singapore) ("SIAS")

Question 1

As noted in the joint chairmen letter to shareholders, 2021 marked the group's 10th year foray into specialised accommodation. From a single workers accommodation of 5,300 beds in Singapore, the group has grown this stable and resilient business into a portfolio of 36 accommodation assets under management with over 79,700 beds in 17 cities across six countries.

In FY2021, the group delivered a 11% growth in revenue to \$143 million despite the continued challenging environment from the pandemic. The higher revenue was due to newly leased and operated assets for worker accommodation in Singapore and Malaysia, including 4 Quick Build Dormitories ("QBDs") as well as a Purpose-Built Dormitory ("PBD") in Malaysia.

The group's net profit in FY2021 was \$55.8 million or 198% higher than the \$18.7 million recorded in FY2020. Excluding the effects on fair value adjustments, net profit from core business operations attributable to equity holders was \$46.5 million in FY2021 compared to \$41.3 million in FY2020.



CENTURION CORPORATION LIMITED
ANNUAL REPORT 2021

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

(S\$'000)	FY2021	FY2020	Change
Revenue	143,017	128,355	11%
Gross Profit	94,316	89,599	5%
Gross Margin	66%	70%	-4pp
Net Profit After Tax	55,797	18,711	198%
Net Profit After Tax Attributable to Equity Holders	52,679	17,171	207%
Net Profit from Core Business Operations attributable to Equity Holders (Non IFRS Measure)	46,486	41,320	13%

(Source: company annual report)

(i) **Migrant Worker Onboarding Centres ("MWOCs")**: Can management help shareholders better understand the significance of the MWOCs?

Company's response:

Migrant Worker Onboarding Centres ("MWOCs") are one-stop centres that integrate vaccination verification, enhanced medical examination and settling-in programme that orientates migrant workers arriving in Singapore for employment readiness, in a safe, timely and cost-efficient manner that benefitting their employers. The centre also has swabbing facilities and provides accommodation that allows migrant workers to serve out their isolation period as stipulated by the health authorities upon arrival into Singapore.

Are these likely to be temporary facilities/services that will be phased out as the government scales back the COVID-19 measures? Has the Ministry of Manpower renamed these as "Onboard centres"?

Company's response:

The Government has stated that onboarding centres will 'likely become a permanent fixture' in Singapore¹ as they help Singapore better prepare for a future pandemic while lowering costs for employers. The Ministry of Manpower has, in 4Q 2021, re-branded the MWOCs as 'Onboard' centres

There continues to be a shortage of workers, and demand from employers to bring in migrant workers, as the number of work permit holders has fallen by 16% from 999,000 in December 2019 to 834,000 in June 2021².

What will be the impact on revenue and occupancy if MWOCs were phased out?

Company's response:

Westlite Accommodation manages two such facilities in collaboration with the Association of Employment Agencies (Singapore), namely Onboard@Punggol and Onboard@Choa Chu Kang, on one-year management service contracts since 1Q 2021. Both management service contracts have been extended by 6 months until September 2022.

In FY2021, the Group recorded S\$8.1 million in revenue from operating the MWOCs (or approximately 5.7% of the Group's FY2021 revenue of S\$143.0 million), which includes the provision of food and accommodation-related services to workers that were onboarded through the centres.

Should the government continue to operate Onboard or similar centres beyond the current stated lease period, the Group will continue to seek opportunities to participate in the management of such facilities.

The occupancy rate of other Westlite Accommodation properties in Singapore are not affected by MWOC operations.

(ii) **QBDs:** These refer to the interim dormitories which were developed by the Singapore government at speed during 2020 and 2021 as part of pandemic management measures, with short leases of 4 years or less. **Similarly, are these going to be phased out after the initial lease?**

¹ [Migrant worker onboarding centres will help S'pore prepare for 'Disease X', The Straits Times, 26 Mar 2021](#)

² [The Big Read: The COVID-19-induced foreigners' exodus — will they return to Singapore and what if they don't?, CNA, 31 Jan 2022](#)

Company's response:

The four Quick Build Dormitories ("QBD") which Centurion manages are on three-year Master Leases with the option to extend for one additional year. The first QBD, Westlite Kranji Way, began operations in 3Q 2020, while the fourth, Westlite Tuas South Boulevard commenced in 4Q 2021.

We cannot determine, at this point, if the government will exercise the option to extend the Master Leases for the additional fourth year, or if QBD operations and leases may be extended beyond the currently defined 3+1 year tenure.

However, given that the Government has consistently calibrated the supply of beds to meet demand and also to minimise land wastage, we believe that the industry will adapt accordingly.

What will be the impact on occupancy and revenue if QBDs were phased out?

Company's response:

In FY2021, the Group recorded S\$17.3m in revenue from operating the QBDs or approximately 12.1% of the Group's FY2021 revenue of S\$143.0 million.

Upon the expiry of the lease of the QBDs, this revenue will no longer recur but we believe, in that instance, demand for beds will be taken up by the PBDs.

As shown in the summary of events in 2021 (page 3 of annual report), capacity at the group's new facilities have been reduced significantly. For instance, Westlite Tampoi in Johor, Malaysia opened with approximately 2,000 beds instead of the initial 3,600 beds to comply with Department of Labour of Peninsular Malaysia's requirement after completion of asset enhancement initiative. In the CEO's statement, it was stated that the portfolio bed count in Malaysia has reduced from 39,758 beds to 24,411 as of 1 January 2022.

In Singapore, new specifications for existing worker dormitories are expected to be announced in 2022.

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(iii) Strategic changes in the landscape: Does management see further changes in the specifications for dormitories in Singapore? With these specification changes, does the board/management expect profit margins to decrease as a result?

Company's response:

The Singapore government has, on 17 September 2021, announced new specifications for future worker dormitories, which will apply to all new dormitories to be developed from 18 Sept 2021, including Purpose Built Dormitories, Factory Converted Dormitories, Construction Temporary

Quarters and Temporary Occupation Living Quarters. However, the extent to which the new specifications for future dormitories will be applied to existing dormitories has not as yet been announced.

The government has stated that, in specifying how the new requirements are to be applied to existing dormitories, there would be consideration for practicalities, time and support needed for industry and businesses to make the transition.

Pending announcement by the Government of the new requirements for existing dormitories with transition times and possible support for dormitory operators and industry, the Group is at this point unable to speculate on the possible impact of anticipated changes.

(iv) How does the board/management balance profitability and living standards in the workers accommodations?

Company's response:

Centurion's core business mission is to provide a safe and conducive housing environment, and we strive to meet and go beyond the housing needs of workers and students, to also provide for the physical, social and mental wellbeing of our resident communities.

In our Purpose-Built Workers Accommodation ("PBWA"), this begins with the design and development or refurbishment of our Westlite Accommodation properties, to include extensive communal amenities such as minimarts, gyms, outdoor courts, and indoor recreation rooms, to provide convenience and an active lifestyle to residents. Within the living areas, and prior to COVID-19, all apartment units in our PBWA in Singapore are already ensuite with toilets, showers, kitchens and dining areas within each unit.

Beyond the living quarters, we also believe that physical, social, and mental well-being ride on being able to have an active life beyond work. Our dedicated Westlite Resi-Life managers support the dormitory managers, with an annual assigned budget, to ensure that we proactively organise regular festive, leisure and learning activities through the year. With the lifting of pandemic restrictions, Centurion brought back the popular Westlite Charity Cricket Tournament in December 2021 albeit on a smaller scale due to safe-distancing requirements, and organised visits to iconic Singapore destinations like Gardens by the Bay. For mental well-being, we provide counselling and mental wellness workshops and access to help through hotlines, in collaboration with NGOs and their qualified mental wellness support providers. In addition, we believe it is also important to help worker residents integrate with the local community in Singapore. In that regard, Centurion would provide language support classes and organise volunteerism activities, for example, participating in Marina Bay Run to raise funds for the Singapore Community Chest, or painting St Luke's Hospital together with NUS student volunteers. Please refer to the pages 61 to 62 of the annual report for the number of events and activities organised for our worker and students residents in 2021.

Centurion recognises that creating sustainable value for all of our stakeholders remains at the core of our business, and that quality purpose-built accommodation and profitability is not a zero-sum situation. Since 2011, when Centurion entered the Purpose-Built Workers Accommodation business, we have continually enhanced our properties to meet evolving regulatory standards and lead design, development, and management standards of the industry, while continuing to deliver value to our investors and shareholders.

For instance, in Malaysia, Centurion has completed the reconfiguration of the Group' purpose-built workers accommodations. Each property is compliant with prevailing regulatory requirements and meets international ethical standards set by organisations such as the International Labour Organisation and Responsible Business Alliance. While the portfolio bed capacity has reduced as a result of the reconfiguration, financial occupancy and rental revenue of the portfolio have remained stable, as the majority of tenancy leases are for entire apartments or housing units ("Unit"), and average rental rates per Unit have held firm.

The COVID-19 pandemic has accentuated the need for specialised accommodation owners and operators to recalibrate assets and spaces for future pandemic management. As we redefine our developments to address new living specifications, we will continually mould our spaces to be more ready for 'dual or multiple use' during a pandemic, including the ability to convert spaces into temporary living quarters or for isolation purposes in the shortest possible time.

New living standards may lead to increased costs for the ecosystem as a whole, including dormitory operators, employers, Government and consumers. Centurion will continue to collaborate closely with the government and healthcare authorities to build resilience against future pandemics, as well as with industry and community partners to build a sustainable business providing for the evolving needs of our residents.

(v) Westlite Toh Guan: What is the planned capital expenditure for the redevelopment at Westlite Toh Guan? What was the projected return estimated by management and approved by the board during the approval process?

Company's response:

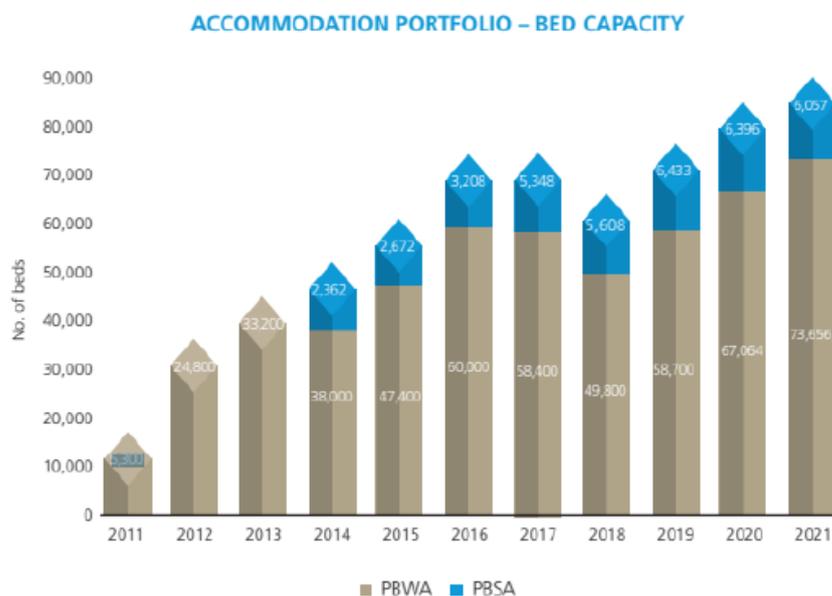
The planned capital expenditure for the redevelopment at Westlite Toh Guan is approximately S\$17.1 million.

With the redevelopment, the existing lease period at the Property from September 2032 to November 2057 or 25 years shall have a change of use from industrial to workers dormitory. There are no additional worker beds added from the redevelopment but an additional training centre which is intended to benefit migrant workers in the marine sector.

The redevelopment has commenced in August 2021 but is currently paused, pending announcement of new specifications by the Government.

Question 2

As shown in Note 39 (page 202 – Segment information), the group has \$858 million (61%) and \$555 million (39%) of assets in the workers accommodation and student accommodation segments respectively.



(Source: company annual report)

In terms of bed capacity, the PBSA segment, which was started in 2014, has experienced more gradual growth.

(i) As shown in the table below, the operating capacity of Malaysia workers accommodation has been reduced by nearly 40% due to new regulations.

EXPECTED GROWTH IN BED CAPACITY IN 2022 MARKETS

	Operating Capacity (approximate no. of beds)	
	FY2021	Expected (2022)
Workers Accommodation		
Singapore	33,898	33,898
Malaysia	39,758	24,411*
Student Accommodation		
UK*	2,808	2,807
US*	2,145	2,145
Australia	896	920
South Korea	208	208
Total	79,713	64,389

* Post reconfiguration works to comply with Workers' Minimum Standards of Housing and Amenities (Amendment) Act 2019 ("Act 446") with effect from 1 January 2022

* Centurion Overseas Investments Pte. Ltd. holds approximately 74.3% of the total number of units in the Centurion Student Accommodation Fund, which acquired dwell@ Castle Gate H&S

* Centurion Overseas Investments Pte. Ltd. holds approximately 28.7% of the total number of units in the Centurion US Student Housing Fund, which acquired all six US properties

Would government regulations, such as the new specifications for existing PBDs in Singapore and the Workers Minimum Housing and Amenities Act (Amendment) 2019 in Malaysia, reduce the attractiveness of the segment vis-à-vis the student accommodation segment?

Company's response:

In Malaysia, the Amendment to the Workers' Minimum Standards of Housing and Amenities Act ("Act 446") will create greater awareness and demand for quality PBWA. While Act 446 will also lead to new competitors emerging, the interest and demand from employers far exceeds current and anticipated supply of quality PBWA. As an established first-mover and market leader, Centurion believes there will be opportunities for further growth in this market.

In Singapore, details for new specifications applicable to existing dormitories are expected to be announced, with an adjustment period and support extended to dormitory operators and the industry to transit to the new specifications. In the long-term, we expect that as the government will continue to balance the supply of dormitory beds with the migrant worker population, the demand and supply dynamics in Singapore will be stable, and the PBWA segment will remain attractive.

In the UK, the PBSA segment has experienced marked recovery in demand, which is expected to continue into the upcoming academic year.

Both the PBWA and PBSA segments continue to present opportunities across various geographies where Centurion currently operates, and the Group will selectively pursue opportunities across the two business segments for diversification and resilience.

(ii) As such, can the board elaborate further on its capital allocation strategy for the two segments? In particular, what are the long-term targets (by bed capacity and by investment amount) for each segment at the portfolio level?

Company's response:

Centurion's strategy of diversification into two specialised accommodation segments across six country markets has enabled the Group to deliver continued growth in portfolio capacity and revenue in the face of pandemic headwinds.

Growth opportunities may arise across its current or new country markets, and the Group will remain nimble to explore and seize such opportunities as they arise.

The Board and Company continue to explore investment, divestment as well as asset-light growth opportunities across its markets, towards an equal balance of assets in the two segments.

Question 3

As noted in the corporate governance report, the company has outsourced its internal audit function to BDO LLP.

The internal auditor is provided with unfettered access to the company's properties, documents, information, records and personnel (Provision 10.4 of 2018 Code) and performs their reviews in accordance with the BDO Global Internal Audit Methodology which is consistent with the International Standards for the Professional Practices of Internal Auditing established by the Institute of Internal Auditors

(i) How was the scope of the internal audit determined?

Company's response:

The scope of the internal audits was developed by the internal auditors in consultation with management and the Audit Committee. The internal audit planning process is further outlined in Point (iii).

(ii) What was the scope of the internal audit in FY2021?

Company's response:

The scope of the internal audits for FY2021 covered selected key financial and operational processes of the worker dormitories and student dormitories in Singapore, Malaysia, UK and Australia. As part of the scope, the internal auditor also reviews Risk Control checklists prepared for the respective business units to highlight any potential gaps over risk management procedures and requirements.

(iii) Can the audit committee clarify if the internal audit covers all of the group's foreign entities and the material associated companies?

Company's response:

The internal audit plan has been designed to cover all key business operations of the Group including the foreign business units on a cyclical basis. The plan is derived mainly through financial analysis of contributions from business entities and other relevant risk indicators. Associate companies are only subject to internal audit review if their contributions are material to the Group or if separately requested.

(iv) For the benefit of shareholders and investors, what are the key findings of the internal auditor in FY2021?

Company's response: Key findings by internal auditors with management responses are presented to and discussed with the Audit Committee who will submit its findings and recommendations to the Board. The recommendations also serve as further inputs for the next cycle of internal audit and enterprise risk management reviews. For the Group's FY2021 internal audit, the Board has not identified any material weakness of controls and risk management systems based on the findings by the internal auditors.