

**RAFFLES EDUCATION CORPORATION LIMITED**

(Incorporated in the Republic of Singapore)

(Company Registration No.: 199400712N)

**SALE OF LAND AND PROPERTIES THEREON LOCATED IN LANGFANG DEVELOPMENT ZONE, HEBEI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA THROUGH THE SALE OF 100% OF THE EQUITY INTEREST IN LANGFANG TAITU REAL ESTATE DEVELOPMENT CO., LTD (廊坊泰土房地产开发有限公司)**

**1. INTRODUCTION**

- 1.1 The Board of Directors (the "**Directors**") of Raffles Education Corporation Limited (the "**Company**") and together with its subsidiaries, the "**Group**") refers to the announcement released by the Company on 1 March 2012 in relation to the overall agreement dated 29 February 2012 (the "**Overall Agreement**") entered into between a subsidiary of the Company, Hebei Oriental Zhuyun Property Development Co., Ltd. (河北东方筑韵房地产开发有限公司) (the "**Vendor**"), and Langfang Fenghe International Golf Club Co., Ltd. (廊坊凤河国际高尔夫俱乐部有限公司) (the "**Purchaser**") for the sale to the Purchaser of land use rights relating to four land parcels with a total area of approximately 635 mu (the "**635 Mu Land**") located in Langfang Development Zone ("**Langfang Development Zone**"), Hebei Province, the People's Republic of China (the "**PRC**") together with some of the properties located thereon.
- 1.2 Separate from the Overall Agreement, Langfang Development Zone Oriental University City Higher Education Co., Ltd. (廊坊开发区东方大学城高等教育有限公司) ("**Langfang Higher Education**"), a subsidiary of the Company, had on 22 December 2011 entered into a land use rights transfer agreement (the "**LF LUR Agreement**") with the Purchaser for the transfer of land use rights relating to land with a total area of 10 mu (the "**10 Mu Land**") located in Langfang Development Zone for a consideration of RMB11,000,000 (approximately S\$2.2 million based on an illustrative exchange rate of S\$1 to RMB5.005). The sale of the 10 Mu Land was not previously announced as none of the relative figures in relation to such sale computed pursuant to Rule 1006 of the the Listing Manual of Singapore Exchange Securities Trading Limited (the "**Listing Manual**") exceeded 5%. As such, the sale of the 10 Mu Land was a non-discloseable transaction under Chapter 10 of the Listing Manual. The sale of the 10 Mu Land has been included in the Equity Transfer Agreement (as defined below) solely to facilitate completion of the sale.
- 1.3 Further to discussion between the Vendor, the Purchaser, Langfang Higher Education and the relevant authorities in the PRC, and in order **to rationalise the structure** for the transfer of the 635 Mu Land and the 10 Mu Land (collectively, the "**Sale Land**") by the Group to the **Vendor pursuant to** the Overall Agreement and the LF LUR Agreement, the parties have agreed to the following:
- (a) the transfer of **the Sale Land** shall be effected through a transfer (the "**Equity Transfer**") by the Vendor to the Purchaser of 100% of the equity interest (the "**Equity Interest**") in Langfang Taitu Real Estate Development Co., Ltd (廊坊泰土房地产开发有限公司) ("**Taitu**"), a wholly-owned subsidiary of the Vendor, which will hold the Sale Land; and
  - (b) the consideration (the "**Consideration**") for the sale of the Equity Interest shall be **RMB1,047,005,000** (approximately S\$209.2 million based on an illustrative exchange rate of S\$1 to RMB5.005). The Consideration does not include the consideration of RMB11,000,000 for the sale of the 10 Mu Land, which has been received by Langfang Higher Education as at the date of this Announcement.

- 1.4 In connection with the above, Langfang Higher Education, the Vendor and the Purchaser have entered into a supplemental agreement dated 25 March 2012 to supplement the LF LUR Agreement; and the Vendor and the Purchaser have entered into:
- (a) an equity interest transfer agreement dated 19 April 2012 for the Equity Transfer (the "**Equity Transfer Agreement**"); and
  - (b) a debt transfer agreement dated 29 March 2012 with Oriental University Development Co., Ltd (东方大学城开发有限公司) ("**OUCDC**") for the novation of the Debts (as defined below) as part payment of the Consideration (the "**Debt Transfer Agreement**").

## **2. INFORMATION REGARDING TAITU**

- 2.1 As at the date of this Announcement, Taitu, a company incorporated in the PRC, is a subsidiary of the Company. The registered capital of Taitu amounts to RMB5,000,000.
- 2.2 Taitu has been incorporated to hold the Sale Land for the purpose of effecting the sale of the Sale Land and is not engaged in any business operations.

## **3. CONSIDERATION**

- 3.1 The Consideration of RMB1,047,005,000 was arrived at on the basis of a valuation conducted as at 30 June 2011 (the "**Valuation**") and recent transactions in the vicinity as well as on a willing-buyer, willing-seller basis.
- 3.2 The Consideration shall be payable in the following manner:
- (a) novation of debts amounting to approximately RMB702,625,736.72 (the "**Debts**"), which are owed by the Vendor to OUCDC, by the Vendor to the Purchaser pursuant to the Debt Transfer Agreement; and
  - (b) RMB344,379,263.28 in cash (the "**Cash Balance**") by the Purchaser to the Vendor on the following terms:
    - (i) RMB50,000,000 within 15 days from the date of the Equity Transfer Agreement;
    - (ii) RMB100,000,000 within 30 days from the date of the Equity Transfer Agreement; and
    - (iii) the remaining amount by 28 February 2013.

## **4. OTHER TERMS AND CONDITIONS**

- 4.1 In addition to the other terms set out in this Announcement, the salient terms of the Equity Transfer Agreement include:
- (a) completion of the Equity Transfer is subject to the following conditions (the "**Conditions**"):
    - (i) approval from the board of directors and/or the shareholders of each of the Vendor and the Purchaser;

- (ii) approval from the Board of Directors and the shareholders of the Company (the "**Shareholders**");
  - (iii) completion of the registration of Taitu as the holder of the Sale Land;
  - (iv) completion of the registration of the Purchaser as the shareholder of Taitu; and
  - (v) provision of (A) a personal guarantee by Mr Peng Yusheng, the ultimate shareholder of the Purchaser, for the period commencing on the date of completion of the Equity Transfer to the date on which the Cash Balance has been paid in full for any outstanding amount on the Cash Balance or (B) a pledge over part of the Equity Interest by the Purchaser for an amount equivalent to the outstanding amount on the Cash Balance in favour of the Vendor, until such date on which the Purchaser fulfils all its obligations under the Equity Transfer Agreement and all relevant agreements, each in agreed form;
- (b) the Vendor and the Purchaser shall use their best endeavours to procure the satisfaction of the Conditions set out in paragraph 4.1(a) of this Announcement above before 30 June 2012 or such other date as may be agreed. In the event that any of the Conditions is not satisfied within 90 days from the date of the Equity Transfer Agreement or such other date as may be agreed, the Overall Agreement and the Equity Transfer Agreement shall be terminated without liability except that any payment of the Consideration shall be refunded in full (without interest); and
- (c) the Vendor has agreed with the relevant authorities in the PRC (the "**Langfang Authorities**") to transfer to the Langfang Authorities land with a total area of 25.33 mu (the "**Development Land**") for a land acquisition fee of approximately RMB7,500,000 (subject to the results of an assessment to be conducted) for the purposes of road development by the Langfang Authorities. The Vendor and the Purchaser agreed for the transfer of the Development Land to be effected through Taitu. In this regard, the Vendor shall transfer the Development Land to Taitu prior to the completion of the Equity Transfer. Thereafter, Taitu shall transfer the Development Land to the Langfang Authorities, and the Purchaser shall procure that the land acquisition fee be paid by the Langfang Authorities to the Vendor.

4.2 The salient terms of the Debt Transfer Agreement include:

- (a) the Purchaser shall pay to the Vendor any additional amount required for the purchase of the 635 Mu Land, if any;
- (b) the Purchaser shall repay the Debts in the following tranches:
  - (i) RMB100 million within 10 days from the date of the Debt Transfer Agreement;
  - (ii) approximately RMB403 million before 31 December 2012; and
  - (iii) the remaining RMB200 million by 28 February 2013; and
- (c) in the event the Purchaser (or its nominee) fails to, among others, repay all of the Debts, the Vendor shall, upon receipt of a written notice from OUCDC, repay the Debts on the terms set out in paragraph 4.2(b) above.

## 5. RATIONALE FOR THE TRANSACTION

The Equity Interest and the Sale Land to be held by Taitu are non-core assets of the Group, and the divestment of which will enable the Group to realise returns on its investments in Oriental University City. This transaction is expected to significantly strengthen the Group's financial position as the payment of part of the Consideration in the manner contemplated under the Debt Transfer Agreement will result in full payment of the debts owing by the Group to OUCDC. In addition, the Group will also realise cash amounting to RMB344,379,263.28 (payable in the manner set out in paragraph 3.2(b) above), which the Group can re-invest into its education business.

After this transaction, the Group will still own a significant amount of land and buildings in the Langfang Development Zone.

## 6. FINANCIAL EFFECTS OF THE TRANSACTION

- 6.1 The financial effects presented below are based on the value of the 635 Mu Land and the properties thereon and do not take into account the value of 10 Mu Land and the Development Land as each of the sale of the 10 Mu Land and the Development Land is a separate transaction from the sale of the 635 Mu Land (the "**635 Mu Land Sale**"), and has been included in the Equity Transfer Agreement solely to facilitate completion of the sale. As set out in paragraph 1.2 above, the sale of the 10 Mu Land was not previously announced as it was a non-discloseable transaction under Chapter 10 of the Listing Manual.
- 6.2 Based on the audited consolidated financial statements of the Group for the financial year ended 30 June 2011 ("**FY2011**"):
- (a) the book value and net tangible asset value of the 635 Mu Land as at 30 June 2011 was approximately S\$247.0 million; and
  - (b) Taitu is newly incorporated and there are no net profits attributable to Taitu for FY2011. The amount of loss upon completion of the 635 Mu Land Sale is approximately S\$37.8 million.
- 6.3 Based on the valuation report dated 2 August 2011 in respect of the Valuation conducted by Chesterton Suntec International Pte Ltd, the value placed on the 635 Mu Land was approximately S\$247.0 million as at 30 June 2011. The Company commissioned the Valuation, which included a valuation of the entire Langfang Development Zone, for accounting purposes for FY2011. The Valuation was conducted:
- (a) in respect of land, on the basis of direct comparisons with recent transactions in the vicinity (including comparison with residential land prices within the vicinity with regard to residential land), after adjusting for differences in location, size, time and other material factors in determining land; and
  - (b) in respect of the value of the properties, based on the current construction prices in the PRC, and an estimation of the amount of depreciation and obsolescence.
- 6.4 The deficit of the proceeds from the 635 Mu Land Sale (after taking into account transaction costs) over the book value of the 635 Mu Land (net of estimated income tax), based on the Consideration, is equivalent to approximately S\$41.1 million. The Company intends to utilise the proceeds from the 635 Mu Land Sale to pay off outstanding purchase consideration to OUCDC and to realise cash for re-investment into its core education business.

6.5 Based on the audited consolidated financial statements of the Group for FY2011, the financial effects of the 635 Mu Land Sale would be as follows:

- (a) the net tangible assets per share of the Company ("**Share**") as at 30 June 2011 would decrease from 41.75 Singapore cents to 36.94 Singapore cents, assuming that the 635 Mu Land Sale had been completed on 30 June 2011; and
- (b) the earnings per Share for FY2011 would decrease from 4.89 Singapore cents to 1.01 Singapore cents, assuming that the 635 Mu Land Sale had been completed on 1 July 2010.

**7. RELATIVE FIGURES OF THE TRANSACTION UNDER CHAPTER 10 OF THE LISTING MANUAL**

Based on the unaudited consolidated financial statements of the Group for the three-month financial period ended 31 December 2011 ("**2Q2012**"), the relative figures computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

- (a) Rule 1006(a) – the net asset value of the 635 Mu Land of approximately S\$247.0 million as at 31 December 2011 represents approximately 38.0% of the Group's net asset value of S\$650.5 million as at 31 December 2011;
- (b) Rule 1006(b) – the net loss attributable to the 635 Mu Land of approximately S\$1.3 million<sup>1</sup> for 2Q2012 represents approximately negative 23.0% of the Group's net profits of S\$5.7 million for 2Q2012;
- (c) Rule 1006(c) – the Consideration represents approximately 55.4% of the Company's market capitalisation of approximately S\$384.5 million<sup>2</sup> as at 18 April 2012, being the market day immediately preceding the date of the Equity Transfer Agreement; and
- (d) Rule 1006(d) – not applicable as no Shares will be issued by the Company pursuant to the 635 Mu Land Sale.

Based on the above, the 635 Mu Land Sale and accordingly, the Equity Transfer constitutes a major transaction for the purposes of Chapter 10 of the Listing Manual. The Company will therefore seek approval from the Shareholders for the Equity Transfer at an extraordinary general meeting to be convened (the "**EGM**").

**8. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS**

None of the Directors or controlling Shareholders has any interest, direct or indirect, in the Equity Transfer. No person is proposed to be appointed as a director of the Company in connection with the Equity Transfer or any other transaction contemplated in relation to the Equity Transfer.

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<sup>1</sup> Calculated based on the rental revenue attributable to the 635 Mu Land and the properties thereon, and an allocation of the expenses in proportion to the land area of the 635 Mu Land over the total land area of the Langfang Development Zone held by the Group, for 2Q2012.

<sup>2</sup> Calculated based on the closing price of S\$0.450 per Share and 854,469,361 Shares excluding treasury shares.

**9. DOCUMENTS FOR INSPECTION**

A copy of each of the Equity Transfer Agreement and the Debt Transfer Agreement may be inspected during the Company's usual business hours (from 9.00 a.m. to 5.00 p.m.) on any business day for a period of three months from the date of this Announcement at the registered office of the Company at Raffles Education Campus, 99 Beach Road, Singapore 189701.

**10. FURTHER DETAILS**

A circular to Shareholders, together with notice of the EGM, to seek Shareholders' approval for the Equity Transfer will be despatched to Shareholders in due course.

By Order of the Board

**RAFFLES EDUCATION CORPORATION LIMITED**

Chew Hua Seng  
Chairman  
20 April 2012