

RAFFLES EDUCATION CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No.: 199400712N)

EQUITY SWAP

The Board of Directors (the "**Board**") of Raffles Education Corporation Limited (the "**Company**") refers to the Company's announcement dated 23 July 2012 relating to the Framework Agreement executed by Hebei Oriental Zhuyun Property Development Co., Ltd. (河北东方筑韵房地产开发有限公司) ("**ZY**"), Langfang Development Zone Oriental University City Sino-Singapore Education Investment Co., Ltd. (廊坊开发区东方大学城中新教育投资有限公司) ("**ZX**") and Mr Liu Yanwen ("**LYW**") on 20 July 2012 relating to the setting up of a degree education college through Langfang Oriental Institute of Technology (廊坊东方职业技术学院) ("**OIT**").

The Board wishes to announce that pursuant to the said Framework Agreement, ZY has entered into an equity transfer agreement ("**Equity Transfer Agreement**") with LYW and a company owned by LYW, Langfang Development Zone Sino-Singapore Enterprise Management Co., Ltd. ("**Management Co**"), for the effective transfer to Management Co of 49% of its equity interest in ZX, in consideration of the transfer by LYW of his 10% shareholding in each of Oriental University City Higher Education (H.K.) Limited (東方大學城高等教育(香港)有限公司), Oriental University City Education Development (H.K.) Limited (東方大學城教育開發(香港)有限公司), Oriental University City Education Consultancy (H.K.) Limited (東方大學城教育諮詢(香港)有限公司) (collectively the "**Hong Kong Companies**") to a related party of ZY and subsidiary of the Company, Oriental University City Limited (东方大学城有限公司), a company incorporated in Cayman Islands ("**OUC**"), (collectively, the "**Equity Swap Arrangement**").

Pursuant to the Equity Transfer Agreement, ZX will be converted into a joint venture company with Beijing Tianhairong Education Consultancy Co., Ltd (北京天海融教育咨询有限公司), a nominee of ZY ("**ZY Nominee**"), and Management Co, a company owned by LYW, as its shareholders, with effective equity interests of 51% and 49% respectively.

The agreements entered into by ZY, ZY Nominee, LYW and Management Co on 12 October 2012 to effect the Equity Swap Arrangement are set out below:

- (a) A termination agreement has been entered into ZY, ZX and LYW ("**Termination Agreement**") for the termination of prior agreements entered into by ZY, ZX and LYW on 1 July 2012 in relation to cooperation for the running of schools (collectively, the "**Relevant Agreements**"). Under the Relevant Agreements, all equity interest in ZX was previously held by LYW on behalf of ZY. The Termination Agreement together with the Equity Transfer Agreement implement the new shareholding structure in ZX as described above. A shareholders' agreement has simultaneously been entered into between ZY Nominee, Management Co and LYW to govern the conduct of the business and affairs of ZX ("**Shareholders' Agreement**"). A management agreement has also been entered into between ZY Nominee, Management Co and LYW to provide for the operation and management of OIT by Management Co ("**Management Agreement**").
- (b) LYW has entered into share transfer agreements with OUC to transfer his 10% shareholdings in each of the Hong Kong Companies to OUC ("**Share Transfer Agreements**").
- (c) To adjust for any difference in value between the 49% effective interest in ZX and the 10% equity interests in each of the Hong Kong Companies, a credit right assignment agreement has been entered into between ZY and Management Co. The credit right refers to the account receivable owing by ZX to ZY in consideration of the injection of lands and properties by ZY to

ZX for use by OIT, a subsidiary of ZX. Where the valuation of LYW's 10% equity interest in each of the Hong Kong Companies is higher than the valuation of the 49% equity interest held by Management Co in ZX, ZY will assign part of the credit right to LYW in settlement of the balance of the consideration provided by LYW. In the event that the converse is the case, the shareholding of Management Co in ZX shall be reduced accordingly and Management Co will take necessary action to transfer immediately the corresponding percentage of equity interest ZX to the ZY Nominee without any compensation.

The Termination Agreement, the Equity Transfer Agreement and the Share Transfer Agreements will be effected subject to the satisfaction of the conditions precedent in the agreements. These include, without limitation, shareholders' approval where necessary.

It is provided in the Management Agreement that where ZX and LYW fail to reach an agreement on or before 31 December 2012 on the proper valuation of the equity that has been transferred between them, the Management Agreement shall be terminated. Where the Management Agreement is terminated, the Shareholders' Agreement may be revised or the equity interest of ZY Nominee and Management Co in ZX may be purchased by either party at fair market value to be determined in accordance with the terms of the Shareholders' Agreement.

Under the Shareholders' Agreement, LYW agrees to provide a guarantee indemnifying ZY Nominee for losses suffered as a result of the failure of Management Co to perform any of its obligations and responsibilities under the Shareholders' Agreement, up to a maximum liability equivalent to the valuation of the 49% equity interest in ZX as vested in the Management Co. During the term of the Shareholders' Agreement, where LYW transfers any of the equity interest held by him in Management Co to a third party, that third party shall provide a guarantee to ZY Nominee up to a maximum liability pro-rated based on the equity interest in Management Co acquired by that third party and taking into account the valuation of the equity interest in ZX held by Management Co. In such a case, the maximum liability of the guarantee provided by LYW shall be reduced by an equivalent amount. However, where the third party fails to provide the aforementioned guarantee to ZY Nominee, the maximum liability of the guarantee provided by LYW shall remain unchanged.

Until the valuation has been completed, the Company is not able to determine whether the Equity Swap Arrangement is a discloseable transaction or a major transaction under Chapter 10 of the Listing Manual of the Singapore Exchange Securities Trading Limited. As and when the valuation is completed, an announcement pursuant to the requirements of Chapter 10 will be made by the Company. If shareholders' approval is required for the Equity Swap Arrangement, the Board will make it clear in the announcement and seek the relevant approval in due course.

By Order of the Board

RAFFLES EDUCATION CORPORATION LIMITED

Chew Hua Seng
Chairman
15 October 2012