

## RAFFLES EDUCATION CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No.: 199400712N)

### OVERALL AGREEMENT FOR THE SALE OF LAND USE RIGHTS AND ABOVE-GROUND STRUCTURES RELATING TO A PLOT OF LAND OF APPROXIMATELY 118 MU LOCATED IN LANGFANG DEVELOPMENT ZONE, HEBEI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA, TO LANGFANG TIANYING TRADING AND COMMERCIAL CO., LTD.

(廊坊市天英商贸有限公司)

#### 1. INTRODUCTION

- 1.1 The Board of Directors of Raffles Education Corporation Limited (the "**Company**"), and together with its subsidiaries, the "**Group**") wishes to announce that Hebei Oriental Zhuyun Property Development Co., Ltd. (河北东方筑韵房地产开发有限公司) (the "**Vendor**"), which is a subsidiary of the Company, has today entered into an overall land use rights transfer agreement (the "**LUR Agreement**") with Langfang Tianying Trading & Commercial Co., Ltd. (廊坊市天英商贸有限公司) (the "**Purchaser**").
- 1.2 Pursuant to the LUR Agreement, the Vendor has agreed to sell to the Purchaser the land use rights to a plot of land located in Langfang Development Zone, Hebei Province, the People's Republic of China (the "**PRC**"), with an area of approximately 118 mu (the "**Land**"), together with the car park and the other structures (of which property ownership and change of ownership registration are not required) thereon situated (the car park and the other structures hereinafter collectively referred to as "**Above-Ground Structures**") on an "as is, where is" basis, free from encumbrances.
- 1.3 Under the LUR Agreement, the Vendor and the Purchaser have agreed that the sale of the Land and the Above-Ground Structures shall be effected through the transfer (the "**Transfer**") by the Vendor to the Purchaser of 100% of the equity interest (the "**Equity Interest**") in a wholly-owned project company and subsidiary of the Vendor (the "**New Company**"), which shall be incorporated as soon as possible after the date of the LUR Agreement and into which the Vendor will inject the land use rights of the Land and ownership of the Above-Ground Structures.

#### 2. PARTICULARS OF THE LAND AND ABOVE-GROUND STRUCTURES AND THE NEW COMPANY

- 2.1 The Land and the Above-Ground Structures are located at the periphery of Di Kou Village of Langfang Oriental University City (the "**Di Kou Village**"). The Above-Ground Structures are presently vacant.
- 2.2 As stated in paragraph 1.3 above, the Vendor will be incorporating the New Company for the purposes of holding the Land and the Above-Ground Structures. It is presently intended that the New Company will not be engaged in any other business operations after incorporation.

#### 3. CONSIDERATION

The consideration (the "**Consideration**") to be paid by the Purchaser to the Vendor for the Equity Interest shall be the aggregate of RMB159,300,000 (approximately S\$31,828,000 based on an illustrative exchange rate of SGD1 = RMB5.005) and the amount of cash contributed by

the Vendor to the New Company as registered capital (the "**Contribution Amount**"). The Consideration was derived taking into account the Valuation (as defined in paragraph 6.3 below) and recent transactions in the vicinity as well as on a willing-buyer, willing-seller basis. The Consideration will be paid by the Purchaser to the Vendor in cash according to the following schedule:

- (a) RMB5,000,000 within 30 days from the date of the LUR Agreement; and
- (b) the balance (i.e. RMB154,300,000 plus the Contribution Amount) in one of the following manners:
  - (i) the Purchaser shall pay to the Vendor the balance of the Consideration in three instalments as follows:
    - (A) RMB50,000,000 within three months from the date of implementation of the demolition and re-construction plan in relation to Di Kou Village (the "**Implementation Date**");
    - (B) RMB50,000,000 within six months from the Implementation Date; and
    - (C) the remaining balance of RMB54,300,000 plus the Contribution Amount within one year from the Implementation Date; or
  - (ii) the Purchaser may obtain bank loans or other financings for the purposes of paying the balance of the Consideration, and any funds obtained by the Purchaser through bank loans or other financings shall be used in priority for the payment of the balance of the Consideration to the Vendor in one lump sum.

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

In addition to the other terms set out in this Announcement, the other salient terms of the LUR Agreement include:

- (a) upon the Vendor's receipt of the payment of RMB5,000,000 as referred to in paragraph 3(a) above, the Vendor shall procure the incorporation of the New Company and the registration of the land use right of the Land and the Above-Ground Structures in the name of the New Company within 10 days;
- (b) the Vendor and the Purchaser shall sign an equity transfer agreement in relation to the Transfer, if required;
- (c) subject to the completion of the Transfer, and the completion of the change of land use purpose of the Land, the Vendor shall be responsible for demolishing the carpark on the Land and shall be responsible for paying the demolition compensation and all other expenses in relation thereto within three months from the Implementation Date or after the Vendor is satisfied that the Purchaser has the capacity to pay the Consideration through bank loans or other financings;
- (d) all land grant premiums, taxes and costs, policy risks of and legal procedure risks which may arise from the change of land use purpose of the Land shall be assumed by the Purchaser; and
- (e) after the land use rights of the Land have been injected into the New Company and the Equity Interest has been transferred to the Purchaser, but prior to the payment of the

Consideration in full:

- (i) the Purchaser shall mortgage the land use rights of all the Land in favour of the Vendor until the full payment by the Purchaser of the Consideration. If the Purchaser needs to create any mortgage or other encumbrances on the land use rights of the Land for the purpose of obtaining bank loans or other financings to pay the Consideration, the Purchaser shall give a prior written notice to the Vendor. The Vendor agrees to provide reasonable assistance, provided that the Vendor has received confirmation that all funds obtained through such bank loans or other financings will be used in priority to pay all outstanding balance of the Consideration in one lump sum to the Vendor; and
- (ii) the Purchaser shall, based on the amount of the outstanding balance of the Consideration, pledge the *pari passu* portion of the Equity Interest in favour of the Vendor until the full payment by the Purchaser of the Consideration.

## **5. RATIONALE FOR THE TRANSACTION**

The Land is L-shaped and lies on the periphery of the Di Kou Village. By itself, the Land has limitations of use as it is narrow and lack depth, which significantly limits its development potential. The Land is currently not utilised by the Group.

The divestment of such non-deployed assets will enable the Company to realise some returns on its investments in Oriental University City for re-investment.

## **6. FINANCIAL EFFECTS OF THE TRANSACTION**

- 6.1 As the New Company has not been incorporated and the Contribution Amount has not yet been determined, the financial effects presented in this paragraph 6 are based on the disposal of the Land and the Above-Ground Structures. It is expected that the value of the Equity Interest will be similar to the aggregate of the value of the Land and the Above-Ground Structures and the Contribution Amount as the New Company, which will be newly formed, will not have any other assets or liabilities.
- 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 Land and the Above-Ground Structures as at 30 June 2011 was approximately S\$10,220,000;
  - (b) there are no net profits attributable to the Land and the Above-Ground Structures as they are presently unutilised and do not generate any profit. The amount of gain upon completion of the sale of the Land and Above-Ground Structures is approximately S\$21,608,000.
- 6.3 Based on the valuation report dated 2 August 2011 in respect of the valuation of the entire Langfang Development Zone conducted by Chesterton Suntec International Pte Ltd ("**Valuation**"), the value placed on the Land and the Above-Ground Structures was approximately S\$10,220,000 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 excess of the proceeds from the sale of the Land and Above-Ground Structures (after taking into account transaction costs) over the book value of the Land and the Above-Ground Structures (net of estimated income tax) is equivalent to approximately S\$19,763,000 (the "**Excess**"). The actual amount of income tax payable has not been finalised with the relevant authorities. The income tax amount that may eventually be finalised may be higher or lower than the estimated income tax utilised to calculate the Excess in this paragraph 6.4. Accordingly, the finalised amount of income tax may affect the amount of the Excess, depending on whether the finalised income tax payable is higher than that estimated, or *vice versa*, assuming that transaction costs remain unchanged. The Company intends to utilise the Excess 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 sale of the Land and the Above-Ground Structures would be as follows:
- (a) the net tangible assets per share of the Company as at 30 June 2011 would increase from 41.75 Singapore cents to 44.06 Singapore cents, assuming that the sale of the Land and the Above-Ground Structures had been completed on 30 June 2011; and
  - (b) the earnings per share of the Company for FY2011 would increase from 4.89 Singapore cents to 6.76 Singapore cents, assuming that the sale of the Land and the Above-Ground Structures had been completed on 1 July 2010.

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

As the New Company has not been incorporated and the Contribution Amount has not yet been determined, the relative figures presented in this paragraph 7 below are based on the disposal of the Land and the Above-Ground Structures. Based on the unaudited consolidated financial statements of the Group for the three months ended 31 March 2012, the relative figures computed in respect of the sale of the Land and the Above-Ground Structures on the bases set out in Rule 1006 of the Listing Manual of Singapore Exchange Securities Trading Limited (the "**Listing Manual**") are as follows:

- (a) Rule 1006(a) – the net asset value of the Land and the Above-Ground Structures of approximately S\$10,220,000 as at 31 March 2012 represents approximately 1.6% of the Group's net asset value of S\$646,803,000 as at 31 March 2012;
- (b) Rule 1006(b) – there are no net profits attributable to the Land and the Above-Ground Structures as they are presently unutilised and do not generate any profit;
- (c) Rule 1006(c) – the Consideration (less the Contribution Amount which has not yet been determined) represents approximately 9.3% of the Company's market capitalisation of approximately S\$341,787,000<sup>1</sup> as at 18 July 2012, being the market day immediately preceding the date of the LUR Agreement; and

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<sup>1</sup> Calculated based on the weighted average price of S\$0.400 per share and 854,469,361 shares excluding treasury shares.

- (d) Rule 1006(d) – not applicable as no shares will be issued by the Company pursuant to the LUR Agreement.

Based on the above, the Transfer constitutes a discloseable transaction for the purposes of Chapter 10 of the Listing Manual and does not require the approval of the Company's shareholders. It is not expected that the inclusion of the Contribution Amount in determining the relative figures under Rule 1006 of the Listing Manual will affect the classification of the Transfer as a discloseable transaction for the purposes of Chapter 10 of the Listing Manual.

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

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

**9. DOCUMENTS FOR INSPECTION**

A copy of the LUR 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.

By Order of the Board  
**RAFFLES EDUCATION CORPORATION LIMITED**

Chew Hua Seng  
Chairman  
19 July 2012