

RAFFLES EDUCATION CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No.: 199400712N)

OPTION AGREEMENT RELATING TO THE PROPOSED SALE OF LAND USE RIGHTS AND PROPERTIES LOCATED IN LANGFANG DEVELOPMENT ZONE, HEBEI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

1. INTRODUCTION

The Board of Directors (the "**Board**") of Raffles Education Corporation Limited (the "**Company**") and together with its subsidiaries, the "**Group**") refers to the announcement dated 11 September 2013 (the "**11 September Announcement**") relating to the Framework Agreement entered into by the Company's subsidiary Hebei Oriental Zhuyun Property Development Co., Ltd. ("**Zhuyun**") for the potential sale of land use rights and properties located in Langfang Development Zone, Hebei Province, PRC, to Langfang He Ying Property Development Co., Ltd. ("**He Ying**").

The Board wishes to announce that Zhuyun has on 6 December 2013 entered into the following Definitive Agreements with He Ying:

- (a) a shareholders' agreement (the "**Shareholders' Agreement**") in relation to the establishment and operation of an equity joint venture company tentatively to be named "Langfang He Zhong Property Development Co., Ltd." (the "**JV Company**"), in which Zhuyun and He Ying will own 70% and 30% of the equity interest in the JV Company respectively; and
- (b) an option agreement (the "**Option Agreement**"), pursuant to which He Ying will grant an irrevocable put option to Zhuyun (the "**Put Option**") to request He Ying to purchase Zhuyun's 70% equity interest (the "**Equity Interest**") in the registered capital of the JV Company.

2. INFORMATION ON THE JV COMPANY

The JV Company will be incorporated as a limited liability company in Hebei, the PRC, pursuant to the Shareholders' Agreement, and is envisaged to have a registered capital of RMB333,330,000. The business scope of the JV Company is envisaged to be property development, property leasing and related businesses.

Pursuant to the Shareholders' Agreement, Zhuyun will inject the Land and the Property (both as defined in the 11 September Announcement) (the "**Land**" and the "**Property**" respectively) as capital contribution into the JV Company, and He Ying will inject cash of RMB100,000,000 as capital contribution into the JV Company, for their respective equity interests in the JV Company of 70% and 30%.

3. **CONSIDERATION**

The exercise price ("**Exercise Price**") for the Put Option pursuant to the Option Agreement shall be RMB700,000,000 (approximately S\$143,780,000 based on an exchange rate of S\$1 = RMB4.8685) based on the Land size of approximately 332,682 sqm (499.02 MU). The Exercise Price was derived taking into account the net asset value of the JV Company as well as on a willing-buyer, willing-seller basis. The Exercise Price will be paid by He Ying to Zhuyun in cash according to the following schedule:

- (a) He Ying has paid of RMB50,000,000 to Zhuyun pursuant to the Framework Agreement. He Ying will pay to Zhuyun a further amount of RMB200,000,000 on the date of the Option Agreement. Upon exercise of the Put Option by Zhuyun and the entry into a sale and purchase agreement in relation to the Equity Interest, the aggregate amount of RMB250,000,000 shall be converted into part of the Exercise Price; and
- (b) The balance amount of RMB450,000,000 of the Exercise Price shall be paid by He Ying within three (3) days after the transfer of the Equity Interest pursuant to the exercise of the Put Option having been registered with the relevant State Administration for Industry and Commerce in the PRC.

4. **OTHER TERMS AND CONDITIONS**

- 4.1 Upon the incorporation of the JV Company, He Ying and Zhuyun agree to procure the JV Company to ratify the Option Agreement and Shareholders' Agreement.
- 4.2 Zhuyun may at its own discretion decide to exercise the Put Option at any time upon satisfaction of the following conditions:
 - (a) the JV Company having been incorporated;
 - (b) the envisaged registered capital of the JV Company having been fully paid up by He Ying and Zhuyun; and
 - (c) the approval for the Option Agreement and the Shareholders' Agreement having been obtained from the board of directors and (if required) shareholders of the Company.
- 4.3 The completion of transfer of the Equity Interest will be subject to the satisfaction of the following conditions:
 - (a) all necessary approval procedures required by applicable laws having been completed by each of He Ying and Zhuyun and approval having been obtained from their boards of directors and shareholders; and
 - (b) the registration with the State Administration for Industry and Commerce of the PRC or its local counterpart having been completed in relation to the transfer of the Equity Interest.

- 4.4 In accordance with the Option Agreement, He Ying has also issued to Zhuyun a power of attorney, authorising Zhuyun to nominate a person to execute and deliver the necessary documentation on behalf of He Ying, in the event that He Ying fails to perform any of its obligations under the Option Agreement.

5. RATIONALE FOR THE TRANSACTION

The divestment of the Land and the Property, which are non-core assets, through the disposal of the Equity Interest under the Put Option, will enable the Company to realise returns on its investments for re-investment and also avail itself of cash for re-investment into the core education businesses.

6. THE LAND AND PROPERTY

Based on the audited consolidated financial statements of the Company for the financial year ended 30 June 2013 ("**FY2013**"), the book value and net tangible value of the Land and Property injected into the JV Company is approximately S\$98,298,000.

Based on a valuation report dated 15 August 2013, conducted by DTZ Debenham Tie Leung Limited ("**Valuation**"), the value placed on the Land and Property was approximately S\$98,298,000 as at 30 June 2013. The Company commissioned the Valuation for accounting purposes for FY2013. The Valuation was conducted using income approach on the basis of capitalisation of net rental income derived from existing tenancies, with due allowance for reversionary income potential of the Land and Property or by reference to comparable market transactions.

7. FINANCIAL EFFECTS OF THE TRANSACTION

- 7.1 The excess of the net proceeds from the exercise of the Put Option (after taking into account transaction costs and estimated income tax) over the book value of the Land and Property, based on the Exercise Price, is equivalent to approximately S\$27,377,000. The Company intends to utilise the proceeds for re-investment into the core education businesses of the Group, as stated in paragraph 3 above.
- 7.2 The net loss attributable to the Land and Property is approximately S\$1,792,000 for FY2013. The estimated amount of gain on disposal of the Land and Property is approximately S\$27,377,000.
- 7.3 The financial effects of the exercise of the Put Option have been prepared based on the audited consolidated financial statements of the Group for FY2013 and based on the following assumptions:
- (a) for the purpose of computing the financial effects of the exercise of the Put Option on the net tangible assets (the "**NTA**") per ordinary share of the Company ("**Share**"), the exercise of the Put Option is assumed to have been completed on 30 June 2013; and
 - (b) for the purpose of computing the financial effects of the exercise of the Put Option on the earnings per Share ("**EPS**"), the exercise of the Put Option is assumed to have been completed on 1 July 2012.

Effect on the NTA per Share for the financial year ended 30 June 2013

	Before the Put Option Exercise	After the Put Option Exercise
NTA (S\$'000) ⁽¹⁾	425,380	447,556
NTA per Share ⁽²⁾ (Singapore cents)	41.49	43.65

Note:

- (1) NTA as at 30 June 2013.
(2) NTA per Share is calculated based on 1,025,363,233 Shares (excluding treasury shares) as at 30 June 2013.

Effect on EPS for the financial year ended 30 June 2013

	Before the Put Option Exercise	After the Put Option Exercise
Net profit attributable to shareholders of the Company (" Shareholders ") (S\$'000)	26,671	50,639
EPS ⁽¹⁾ (Singapore cents)	2.66	5.04

Note:

- (1) EPS is calculated based on the weighted average number of Shares (excluding treasury shares) of 1,004,413,517 for the financial year ended 30 June 2013.

8. REQUIREMENTS OF THE LISTING MANUAL

- 8.1 Rule 1014(1) of the Listing Manual ("**Listing Manual**") of the SGX-ST states that where any of the relative figures as computed on the bases set out in Rule 1006 of the Listing Manual exceeds 20%, a transaction is classified as a major transaction. Rule 1014(2) of the Listing Manual further states that such a major transaction must be made conditional upon approval by the Shareholders in general meeting.
- 8.2 The relative figures for the Put Option computed on the bases as set out in Rule 1006 of the Listing Manual and calculated based on the unaudited consolidated financial statements of the Group for the first financial quarter ended 30 September 2013, are as follows:
- (a) Rule 1006(a) of the Listing Manual – the net asset value of the Land and the Property of approximately S\$98,298,000 represents approximately 16.4% of the Group's net asset value of S\$599,464,000;
- (b) Rule 1006(b) of the Listing Manual – the net loss attributable to the Land and the Property of approximately S\$732,000 represents approximately 32.3% of the Group's

net loss of S\$2,265,000;

- (c) Rule 1006(c) of the Listing Manual – the Exercise Price represents approximately 50.1% of the Company's market capitalisation of approximately S\$287,102,000¹ as at 5 December 2013, the market day immediately preceding the date of the Option Agreement; and

¹ Calculated based on the closing price of S\$0.280 per Share and 1,025,363,233 Shares excluding treasury shares.

- (d) Rule 1006(d) of the Listing Manual – the equity securities test is not applicable in the context of the Put Option.

8.3 Based on the relative figures set out in paragraph 8.2 above, the Put Option constitutes a major transaction under Chapter 10 of the Listing Manual. The Company will therefore seek approval from the Shareholders for the Put Option at an extraordinary general meeting ("**EGM**") to be convened.

9. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Put Option.

No person is proposed to be appointed as a director of the Company in connection with the Put Option or any other transaction contemplated in relation to the Option Agreement. Accordingly, there is no service contract proposed to be entered into by the Company in connection with the Put Option.

10. CIRCULAR TO SHAREHOLDERS

A circular (the "**Circular**") containing details of the Put Option and a notice convening an EGM of the Company will be despatched to Shareholders in due course.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

11. DOCUMENTS FOR INSPECTION

A copy of the Option Agreement and the Shareholders' 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 Square, 51 Merchant Road, Singapore 058283.

By Order of the Board
RAFFLES EDUCATION CORPORATION LIMITED

Chew Hua Seng
Chairman

9 December 2013