

RESPONSE TO QUERIES BY SGX-ST ON FURTHER DISCLOSURE REQUIRED FOR THIRD QUARTER RESULTS FOR FY2015 (“FY2015 Q3”) ANNOUNCED ON 14 MAY 2015

1. SGX-ST Query

In the Company’s Response on 19 June 2015 to question 1(i), the Company announced that “Due to the swap of equity interests in June 2014, the Group gave the operational rights of LOIT to another party. Thus, the Group ceased consolidating the operational results (including revenue) of LOIT from 1 July 2014”.

Please:-

- i) Provide details (including the consideration value) of the swap agreement and elaborate on the substance of the transaction;
- ii) Provide specific details and disclose the background of the counter party where the operational rights were given;
- iii) Explain why the swap of equity interests was not announced in June 2014;
- iv) Please quantify how material LOIT was to the Group before the swap agreement, and disclose the financial effects arising from the swap agreement including the effects on the Company’s Earnings-per-share, Net Asset Value, total assets and gearing;
- v) Provide details on the implications of the swap agreement on the Company’s legal, operational and economic interest in LOIT. If the Company still legally owns LOIT, please explain why the accounts are deconsolidated;
- vi) State if the swap of equity interests is considered a disposal of LOIT. Please provide basis for the Company’s views; and
- vii) Provide details on the gain/loss from the swap and disposal of LOIT (if applicable).

Company’s Response

- 1i) Please refer to the previous announcements on 23 July 2012 and 15 October 2012 which are attached as part of the response.
- 1ii) Please refer to the previous announcements on 23 July 2012 and 15 October 2012 which are attached as part of the response.
- 1iii) Hebei Oriental Zhuyun Property Development Co., Ltd. (“ZY”) and Mr Liu Yanwen (“LYW”) engaged a valuer to perform a valuation of the 10% equity interest in each of Oriental University City Higher Education (H.K.) Limited, Oriental University City Education Development (H.K.) Limited, Oriental University City Education Consultancy (H.K.) Limited (collectively the “Hong Kong companies”) and the valuation of LOIT as a going concern.

Both ZY and LYW agreed in FY2014 to accept this valuation report and both parties have agreed for ZY to accede operational rights and control to LYW in exchange for a yearly fixed return from LYW ("Fixed Return") which is to be determined. Both parties are still in negotiations.

The Company did not make an announcement in June 2014 as the Fixed Return and terms relating to the transfer of the 49% equity interest in LOIT have not been finalised. The Company will make the necessary announcement once the Fixed Return and terms have been finalised in a definitive agreement.

Under an interim arrangement between LYW and the Company, LYW will provide all the working capital and bear full responsibility for the operational results of LOIT in exchange for the Fixed Return (to be determined). As such, the Company no longer consolidates the operation results and working capital of LOIT, and now consolidates only 51% of the land and buildings held by LOIT.

- 1iv) LOIT's loss after tax in FY2014 was \$2.1m and its net asset value as at 30 June 2014 was \$74.3 million.

For illustrative purposes, the financial effects of the swap arrangement on the earnings per share ("EPS"), net assets value (NAV), total assets and gearing ratio of the Group based on the audited consolidated financial statements of the Group for the financial year ended 30 June 2014, are as follows:

EPS

Assuming the swap arrangement has been effected at the beginning of the financial year ended 30 June 2014, the financial impact of the swap arrangement on the EPS of the Group would have been as follows:

	As at 30 June 2014	
	Without swap arrangement	With swap arrangement
EPS (cents)	5.40	5.83

NAV, total assets and gearing ratio

Assuming the swap arrangement has not been effected at the end of the financial year ended 30 June 2014, the financial effects without the swap arrangement on the NAV, total assets and gearing ratio of the Group would have been as follows:

	As at 30 June 2014	
	With swap arrangement	Without swap arrangement
NAV (\$'000)	603,285	600,656
Total assets (\$'000)	1,122,878	1,132,989
Gearing ratio (%)	47%	46%

- 1v) Refer to 1iii) above.
- 1vi) As explained in 1iii) above, the Group has accounted the disposal of equity interest and retained 51% equity interest in LOIT.
- 1vii) The financial effects arising from the swap arrangement was disclosed in the Consolidated Statement of Changes in Equity on page 70 of the FY2014 Annual Report under the line item - Swap of equity interest in certain subsidiaries with non-controlling interest.

2. SGX-ST Query

In the Company's Response to question 6 on 19 June 2015 regarding the outlook of the Company, the Company announced that "The Group has seen revenue outside of PRC increasing from \$13.0 million for FY2014 Q3 to \$13.3 million for FY2015 Q3".

Please elaborate on the impact of this on the Company's profits and margins.

Company's Response

Net loss after tax outside of PRC was \$5.3 million in FY2014 Q3 and the net profit after tax outside of PRC was \$0.4 million in FY2015 Q3.

Net loss margin outside of PRC was 40% in FY2014 Q3 and the net profit margin outside of PRC was 3% in FY2015 Q3.

On behalf of the Board

Chew Hua Seng
Chairman and Group Chief Executive Officer

3 July 2015

RAFFLES EDUCATION CORPORATION LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No.: 199400712N)

FRAMEWORK AGREEMENT IN RELATION TO THE LANGFANG ORIENTAL INSTITUTE OF TECHNOLOGY

The Board of Directors (the "**Board**") of Raffles Education Corporation Limited (the "**Company**") wishes to announce that its subsidiaries, Hebei Oriental Zhuyun Property Development Co., Ltd. (河北东方筑韵房地产开发有限公司) ("**ZY**") and 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**") have on 20 July 2012 entered into a framework agreement (the "**Framework Agreement**") with Mr Liu Yanwen ("**LYW**") in relation 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**").

Pursuant to the terms of the Framework Agreement, and subject to the definitive agreements to be entered into between the parties (the "**Definitive Agreements**"), it is intended in principle that:

- (a) LYW will swap his 10% shareholding in each of Oriental University City Higher Education Co., Ltd., Oriental University City Education Development Co., Ltd. and Oriental University City Education Consultancy Co., Ltd. for a 49% shareholding in ZX (subject to the result of a valuation exercise to be conducted), and consequently, ZX will be converted into a joint venture company, with ZY (or its nominee) and LYW (or his nominee) as its shareholders;
- (b) ZY and LYW will transfer certain land and properties as well as other educational resources necessary to satisfy the requirement of setting up and operate a degree granting education college to OIT; and
- (c) ZY (or its nominee) and ZX will also enter into a management services agreement with LYW (or his nominee) for LYW (or his nominee) to provide management services to ZX and OIT.

The Framework Agreement also addresses certain key principles on which the co-operation will be based.

The exact method of valuation, mechanism for implementing the shareholding structure in the Framework Agreement, the scope of the management services to be provided by LYW as well as other aspects of the co-operation have not yet been finalised, and the parties are currently still in discussions with the intention of entering into the Definitive Agreements, which will set out the detailed terms and conditions of the co-operation between the parties, soon. Once the details have been finalised in the Definitive Agreements, and the Definitive Agreements entered into between the parties, the Company will make the necessary announcement(s) to update shareholders and the public.

By Order of the Board

RAFFLES EDUCATION CORPORATION LIMITED

Chew Hua Seng
Chairman
23 July 2012

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