

RAFFLES EDUCATION CORPORATION LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 199400712N)

**PROPOSED ACQUISITION OF ALL THE MEMBERSHIP INTEREST OF
SANTA FE UNIVERSITY OF ART AND DESIGN, LLC**

1. INTRODUCTION

- 1.1 The Board of Directors of Raffles Education Corporation Limited ("**REC**", and together with its subsidiaries, the "**Group**") wishes to announce that Joshua Education, Inc. (the "**Purchaser**"), which is a wholly-owned indirect subsidiary of REC, has on 17 May 2016 (the "**Signing Date**") entered into a membership interest purchase agreement (the "**SPA**") with LEI Holdings US-1, Inc. (the "**Seller**") and Santa Fe University of Art and Design, LLC (the "**Company**"), pursuant to which the Seller has agreed to sell to the Purchaser all of the issued and outstanding membership interests (the "**Sale Interests**") of the Company (the "**Proposed Acquisition**"). REC has also executed a Guaranty Agreement in favour of the Seller guaranteeing (subject to certain limitations set out in the Guaranty Agreement) the obligations of the Purchaser under the SPA and the obligations of the Company (which will be wholly-owned by the Purchaser following the Closing (as defined hereunder) under a financial stabilisation and earnout agreement ("**Stabilisation Agreement**") to be entered into between the Purchaser, the Seller and the Company upon the closing of the Proposed Acquisition (the "**Closing**").
- 1.2 Unless indicated otherwise, the indicative US\$-to-S\$ exchange rate used for the purposes of this Announcement is US\$1: S\$1.37.

2. PARTICULARS OF THE COMPANY

The Company is a limited liability company incorporated in the state of New Mexico, the United States of America. The principal business activities of the Company are the ownership and operation of the institution of higher education called Sante Fe University Of Art And Design, LLC (the "**University**") located at 1600 Saint Michael's Drive, Santa Fe, New Mexico 87505, United States of America.

3. CONDITIONS PRECEDENT

- 3.1 The parties' respective obligations to consummate the transactions in the SPA and the Closing are conditional upon, *inter alia*, the following conditions having been fulfilled (or waived) by the relevant party:
- (a) the delivery by the Purchaser, the Seller and the Company of their respective closing deliverables as set out in the SPA;
 - (b) the receipt of regulatory approvals and notices from the Higher Learning Commission and the United States Department of Education with respect to the Proposed Acquisition;
 - (c) the absence of any material breach by the Purchaser, the Seller and the Company of the covenants and obligations under the SPA;

- (d) the representation and warranty of the Seller and the Company on the compliance with educational laws remain true and correct in all material respects;
- (e) the absence of any final governmental order that restrains or enjoins the Proposed Acquisition;
- (f) the receipt of the approval of REC's shareholders for the Proposed Acquisition or a waiver of any requirement to obtain the approval of REC's shareholders from the Singapore Exchange Securities Trading Limited;
- (g) the receipt of a certificate of the president of the Company certifying, amongst others, that the board of managers of the Company have approved the Proposed Acquisition; and
- (h) the Seller and the Company shall have funded the operating deficit of the University through the Closing.

3.2 Pursuant to the terms and conditions of the SPA, the Closing shall take place no later than seven (7) business days after the above conditions have been fulfilled or waived, provided that if the Closing will occur after the 10th day of any month, the Closing shall occur on the first business day of the next succeeding month, or at such other place, time and date as may be mutually agreed by the Purchaser and the Seller.

3.3 On Closing, the Seller, the Purchaser and the Company will also enter into a Transition Services Agreement.

4. CONSIDERATION

4.1 The estimated consideration to be paid by the Purchaser to the Seller for the Sale Interests shall be US\$1.00 (approximately S\$1.37),

- (a) minus the aggregate amount of the indebtedness of the Company as of the close of business on the day prior to the Closing (the "**Company Indebtedness**") as estimated by the Seller (if any);
- (b) plus cash and cash equivalents of the Company (including marketable securities and short term investments) as of the close of business on the day prior to the Closing (the "**Cash**") as estimated by the Seller (if any);
- (c) minus all the expenses incurred by the Seller and the Company prior to the Closing relating to the Proposed Acquisition (the "**Selling Expenses**") as estimated by the Seller (if any);
- (d) plus the amount of the working capital of the Company (i.e. the current assets less the current liabilities of the Company) as of the close of business on the day prior to the Closing (the "**Working Capital**") as estimated by the Seller (if any); and
- (e) minus the amount by which the estimated Working Capital is less than zero (if any),

all as provided in the SPA (the "**Estimated Consideration**").

The Estimated Consideration was arrived at on a "willing seller, willing buyer" basis after taking

into account the Company Indebtedness, the Cash, the Selling Expenses and the Working Capital.

- 4.2 At the Closing, the Purchaser shall deliver to the Seller the Estimated Consideration by wire transfer of immediately available funds to an account of the Seller designated in writing by the Seller to the Purchaser. If the Estimated Consideration is less than zero, the Seller shall pay the amount by which the Estimated Consideration is less than zero to the Purchaser at the Closing.
- 4.3 Within 90 days after the Closing, the Purchaser shall prepare and deliver to the Seller a statement setting forth the Purchaser's determination of the Company Indebtedness, the Cash, the Selling Expenses and the Working Capital (the "**Post-Closing Statement**"). If the Seller has no objections to the Post-Closing Statement, the components therein shall be deemed to be finally determined. If the Seller disagrees with the Post-Closing Statement, the Purchaser and the Seller shall use reasonable efforts to resolve any disagreement. If the disagreement cannot be resolved by the Purchaser and the Seller, such disagreement shall be resolved conclusively by KPMG LLP or an independent accounting firm reasonably acceptable to the Purchaser and the Seller.
- 4.4 If the final Cash amount is more or less than the estimated Cash amount, the Estimated Consideration shall be increased or decreased respectively by such difference in amount. The same applies to the Working Capital.
- 4.5 If the final Company Indebtedness amount is more or less than the estimated Company Indebtedness amount, the Estimated Consideration shall be decreased or increased respectively by such difference in amount. The same applies to the Selling Expenses.
- 4.6 Any adjustment in the amount of the Estimated Consideration shall be paid by the Seller to the Buyer (or *vice versa* as the case may be) within five (5) business days of the date on which the final amount is determined.

5. OTHER MATERIAL DOCUMENTS AND TERMS

- 5.1 In connection with the Proposed Acquisition, the Purchaser and the Seller shall each contribute US\$5,000,000 (approximately S\$6,850,000) into an escrow account established pursuant to an escrow agreement to be entered into between them and an escrow agent. At Closing, the Purchaser and the Seller shall jointly instruct the escrow agent to disburse all the funds in the escrow account to the University to be applied in accordance with the Stabilisation Agreement.
- 5.2 Pursuant to the Stabilisation Agreement, the funds contributed by the Seller above plus interest and other amounts specified in the Stabilisation Agreement shall be maintained in an account ("**Seller Account**") to be used exclusively to (a) fund a portion of the University's operating deficits from the Closing date through 31 December 2018 and (b) satisfy the Seller's indemnification obligations under the SPA. After 2018, any remaining funds in the Seller Account shall be released to the Seller (the "**Released Funds**").
- 5.3 Pursuant to the Stabilisation Agreement, if the operating surplus of the Company for 2021 or 2022 is greater than US\$5,000,000 (approximately S\$6,850,000) (subject to adjustment in accordance with the Stabilisation Agreement), the Company shall pay an Earnout Amount to the Seller. The "**Earnout Amount**" is defined as the amount equal to (a) the sum of all amounts contributed to the Seller Account by the Seller minus (b) the sum of the Released Funds minus (c) the sum of all amounts required for satisfaction of the Seller's indemnification obligations under the SPA, subject to a cap of US\$10,000,000 (approximately S\$13,700,000). The

Stabilisation Agreement provides for an option for the Purchaser to defease certain obligations under the Stabilisation Agreement at any time by paying to the Seller the full Earnout Amount. For the avoidance of doubt, the Earnout Amount is payable only once and applicable only to either 2021 or 2022, as the case may be (or applicable to neither year if the Purchaser exercises the option described above).

- 5.4 Besides the terms set out herein, the SPA and the Stabilisation Agreement contain other customary terms such as, without limitation, the parties' respective representations and warranties, non-competition and non-solicitation, termination, limitation and indemnification provisions.

6. RATIONALE FOR THE PROPOSED ACQUISITION

- 6.1 The Proposed Acquisition enables REC to acquire a fully fledged and duly accredited institution for higher education in the United States of America. It is a complementary acquisition that falls well within REC's area of expertise. The Proposed Acquisition will allow REC to expand into the United States and leverage its extensive student base in Asia.
- 6.2 The payments for and in connection with the Proposed Acquisition will be funded from internal funds.

7 FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

- 7.1 As at 30 June 2015, the net tangible asset value of the Sale Interests were US\$6,126,000 (approximately S\$8,272,000 based on a closing rate of S\$1=US\$1.3502).
- 7.2 As at 30 June 2015, the net loss attributable to the Sale Interests was US\$7,570,000 (approximately S\$9,937,000 based on an average rate of S\$1=US\$1.3127).
- 7.3 Based on the audited consolidated financial statements of the Group for the financial year ended 30 June 2015 ("**FY2015**"), the financial effects of the Proposed Acquisition would be as follows:
- (a) the net tangible assets per share of REC as at 30 June 2015 would increase from 45.56 Singapore cents to 46.39 Singapore cents, assuming that the Proposed Acquisition had been completed on 30 June 2015; and
 - (b) the earnings per share of REC for FY2015 would decrease from 1.68 Singapore cents to 0.70 Singapore cents, assuming that the Proposed Acquisition had been completed on 1 July 2014.

8. RELATIVE FIGURES UNDER CHAPTER 10 OF THE LISTING MANUAL

Based on the unaudited consolidated financial statements of the Group for the nine (9) months ended 31 March 2016 ("**3Q 2016**"), the relative figures computed in respect of the Proposed Acquisition 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) – not applicable to an acquisition of assets;
- (b) Rule 1006(b) – the aggregate net loss attributable to the Sale Interests of US\$3,888,000 (approximately S\$5,260,000 based on an exchange rate of S\$1=US\$1.3530) for 3Q

2016 represents approximately 92.09% of the Group's net loss of S\$5,712,000 for 3Q 2016 (based on the Company's unaudited consolidated financial statements for the third quarter ended 31 March 2016);

- (c) Rule 1006(c) – the aggregate consideration for the Proposed Acquisition of US\$1 (approximately S\$1.37)¹ represents approximately 0.0% of REC's market capitalisation of approximately S\$207,584,000² as at 16 May 2016, being the market day immediately preceding the date of the SPA; and
- (d) Rule 1006(d) – not applicable as no shares will be issued by REC pursuant to the Proposed Acquisition.
- (e) Rule 1006(e) – not applicable as the Proposed Acquisition is not a disposal of mineral, oil or gas assets by a mineral, oil and gas company.

Based on the above, the Proposed Acquisition constitutes a major transaction for the purposes of Chapter 10 of the Listing Manual and requires the approval of REC's shareholders. Accordingly, a circular in relation to the Proposed Acquisition, together with a notice of the extraordinary general meeting to be convened, will be despatched to the shareholders of REC in due course.

9. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling shareholders of REC has any interest, direct or indirect, in the Proposed Acquisition. No person is proposed to be appointed as a director of REC in connection with the Proposed Acquisition.

10. DOCUMENTS FOR INSPECTION

Copies of the SPA, and the Guaranty Agreement may be inspected during REC's usual business hours (from 9.00 a.m. to 5.00 p.m.) on any business day for a period of three (3) months from the date of this Announcement at the registered office of REC at 51 Merchant Road, Raffles Education Square, Singapore 058283.

By Order of the Board
RAFFLES EDUCATION CORPORATION LIMITED

Chew Hua Seng
Chairman

18 May 2016

¹ Please note that this consideration sum is an estimated amount. The final amount of the consideration can only be ascertained after the Closing.

² Calculated based on the closing price of S\$0.215 per share and 965,505,133 issued shares excluding treasury shares.