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GENERAL ANNOUNCEMENT::RESPONSE TO QUESTIONS FROM SHAREHOLDERS

RAFFLES EDUCATION CORPORATION LIMITED

Securities

RAFFLES EDUCATION CORP LTD - SG2C97968151 - NR7

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No

Announcement Details

Announcement Title

General Announcement

Date &Time of Broadcast

29-Sep-2020 17:30:18

Status

New

Announcement Sub Title

RESPONSE TO QUESTIONS FROM SHAREHOLDERS

Announcement Reference

SG200929OTHRH96P

Submitted By (Co./ Ind. Name)

Chew Hua Seng

Designation

Chairman & CEO

Description (Please provide a detailed description of the event in the box below)

Please refer to the attachment.

Attachments

REC - Proposed Acquisition - EGM QA - 29 September 2020.pdf

Total size =109K MB

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

EXTRAORDINARY GENERAL MEETING IN RELATION TO THE PROPROSED ACQUISITION RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS

The Board of Directors ("**Board**") of Raffles Education Corporation Limited ("**Company**", and together with its subsidiaries, the "**Group**") refers to the circular issued to Shareholders dated 8 September 2020 (the "**Circular**") and in particular to the invitation to shareholders to submit questions relating to the business of the EGM in advance of the EGM.

Unless otherwise defined, all capitalised terms used in this Announcement shall have the same meanings ascribed to them in the Circular.

The Company has received certain substantial and relevant questions from Shareholders in relation to the Proposed Acquisition and the Company's response to the said questions are set out below in this announcement:

Question 1

In paragraph 2.1 of the Circular, the Company referred to the Framework Agreement, the Shareholders' Agreement, the Option Agreement, the First Supplemental to the Shareholders' Agreement, the Supplemental to the Option Agreement, the Option Settlement Agreement and the Second Supplemental to the Shareholders' Agreement. While some of these documents have been made available for inspection to shareholders in the past, they are currently not available for inspection before the EGM. As these documents are material to the understanding of the Proposed Acquisition, please make copies of these documents available to shareholders for inspection online immediately.

Company's Response

As disclosed in Section 14 of the Circular, a copy of the SPA in relation to the Proposed Acquisition is made available for inspection during normal business hours at the Company's registered office. A summary of the relevant terms of the agreements mentioned in Section 2.1 of the Circular and the background to the Proposed Acquisition has been disclosed in Section 2.1 of the Circular. Further, the Board notes that the material terms of the said agreements were previously disclosed in the Company's previous announcements (including the announcements released by the Company on 11 September 2013, 9 December 2013 and 18 June 2019) and the circular issued by the Company to Shareholders dated 15 March 2014 (the "**2014 Circular**").

Question 2

It was disclosed in paragraph 2.1(a) of the Circular that the Vendor's initial role was to procure the conversion of the Land from educational use to residential and mixed development use. In paragraphs 2.1(c) and 4 of the Circular, it was disclosed that no development of the Land had taken place as the Land had not been successfully converted from educational use to residential and mixed development use and the conversion application over the last six years had been stalled by numerous protracted challenges.

(i) Please clarify whether the Vendor's failure to procure the conversion of the Land from educational use to residential and mixed development use constitutes a breach by the Vendor of its obligations under the Shareholders' Agreement or any other agreement.

Company's Response

The Shareholders' Agreement is silent on the deadline before which the Vendor must complete the Land Conversion. The Purchaser was advised that the Vendor's failure to procure the Land Conversion at the time was not a breach.

(ii) If so, please explain why the Purchaser has not taken any legal action or pursued any damages or compensation against the Vendor for its breach of the Shareholders' Agreement or any other agreement.

Company's Response

The Purchaser was advised that the Vendor's failure to procure the Land Conversion did not warrant any legal action against the Vendor given the absence of a deadline.

(iii) If the Purchaser has agreed to waive any claims against the Vendor for such breach, please explain why it has done so.

Company's Response

The Purchaser has not agreed to waive any claims against the Vendor for the Vendor's failure to procure the Land Conversion. The failure of the Vendor to obtain Land Conversion at the time was a matter of fact and the Company took a practical view in resolving the matter in a way that is in the best interests of the Company.

Question 3

The Vendor's primary role in the joint venture was to procure the conversion of the Land from educational use to residential and mixed development use. Given that the Vendor has been unsuccessful in procuring such conversion and the Purchaser intends to give up on this strategy and develop the Land for educational facilities instead:

(i) Please clarify the role of the Vendor as a defaulted partner in the joint venture.

Company's Response

The Vendor is still a partner in the joint venture.

(ii) Please explain what contributions or expertise the Vendor will be able to make to the joint venture thereafter given his defaulted status.

Company’s Response

The Vendor is familiar with and experienced in dealing with the relevant government authorities in connection with land development.

Question 4

In paragraph 2.1(b) of the Circular, it was disclosed that the Vendor was unable to pay the full Put Option exercise price and that the Vendor and Purchaser subsequently entered into the Option Settlement Agreement pursuant to which the Option Agreement and the Supplemental to the Option Agreement were terminated and the Vendor and Purchaser each waived any claims against each other under the Shareholders' Agreement and the Option Agreement. The Company has not provided a clear rationale and basis for the entry into the Option Settlement Agreement and the termination of the Option Agreement except to state that this was the result of "commercial negotiations between the Vendor and the Purchaser.” The failure of the Vendor to pay the full Put Option exercise price in accordance with the Option Agreement constitutes a breach of the Option Agreement by the Vendor. It was disclosed in the 2014 Circular that if the Vendor fails to purchase the Equity Interest (as defined in 2014 Circular) from the Purchaser in accordance with the Option Agreement, the Purchaser shall have the right to confiscate the Security Deposit (as defined in the 2014 Circular) and to terminate the Option Agreement and the Shareholders' Agreement at its sole discretion, or ask the Vendor to transfer all its 30% equity interest in the Target Company to Purchaser at the price equivalent to the actual capital contribution by the Vendor in the Target Company at that time.

(i) Please provide further clarification on the Company's rationale and basis of the commercial considerations for agreeing to the terms of the Option Settlement Agreement and the termination of the Option Agreement when the Vendor is a defaulted partner and has financial difficulties.

Company’s Response

As provided in the Option Settlement Agreement, the Option Settlement Agreement was entered into by the Parties “due to the change in overall business environment”. The Purchaser entered into the Option Settlement Agreement, terminated the Option Agreement and did not exercise its rights under the Option Agreement as it was in the best interests of the Company to do so under the circumstances because it would be practically very difficult to obtain the full benefits under the Option Agreement. Further, instead of being stuck in a stalemate indefinitely, on account of the challenges in procuring Land use conversion, it would be in the interests of the Company to simply rationalise the original land use rights of the Vacant Land, which is education usage or development, as demand for education facilities in the region remains high.

(ii) Please clarify why the Purchaser agreed to the Option Settlement Agreement instead of exercising the remedies available to it under the Option Agreement and the reason for the Purchaser agreeing to waive all claims under the Shareholders' Agreement and Option Agreement, instead of taking legal action or pursuing compensation against the Vendor for its breach of the Option Agreement.

Company’s Response

Please refer to our response to Question 4 (i) above.

(iii) Please clarify why the Purchaser is instead compensating the Vendor by purchasing back the shares without any penalty to the Vendor and taking on additional risks in the joint venture and why the Purchaser has given the Vendor the opportunity to sell its stake in the Target Company and to make a profit even though it has failed to satisfy its obligation to procure the conversion of the Land use.

Company's Response

The Company was advised that the circumstances did not warrant the initiation of legal action against the Vendor and also the Company is of the view that taking legal action against a [business] partner is not in the best interest of the Company if the issue can be resolved amicably instead. The other factors that the Company took into account in entering into the Option Settlement Agreement are that the demand for development of education facilities remains high, the buy-back price is at minimal premium as compared to what the Vendor had paid more than 6 years ago and the Purchaser did not suffer any material loss from the Vendor's failure to obtain the Land Conversion.

(iv) Please explain why the Purchaser did not exercise its right to buy out the 30% equity interest in the Target Company held by the Vendor when the Vendor had financial issues and was unable to fulfil its obligation to convert the Land from educational use to residential and mixed development use.

Company's Response

The Vendor did not wish to dispose of its entire stake in the Target Company.

(v) Please clarify if the Company or Purchaser conducted any due diligence on the Vendor prior to entering into the joint venture and if so, the type of due diligence that was conducted.

Company's Response

The Company did carry out the usual business due diligence.

Question 5

In paragraph 2.1(b) of the Circular, it was disclosed that the Purchaser and the Vendor presently hold 70% and 30% registered shareholding ownership in the Target Company, and 34.1% and 65.9% beneficial ownership in the Target Company, respectively.

(i) Please explain why there is a differential between the registered shareholding ownership and beneficial ownership in the Target Company.

Company's Response

As disclosed in Section 2.1(b) of the Circular, the Purchaser and the Vendor had agreed that, in consideration of the Vendor's partial payment of the Put Option exercise price of RMB 460,825,998.88, the Vendor would be entitled to the beneficial ownership of a portion of the Option Equity comprising 35.9% of the aggregate equity interest in the Target Company. The difference in the registered shareholding ownership and beneficial ownership arose as the Vendor's additional 35.9% equity interest pursuant to the Option Settlement Agreement was not registered in the name of the Vendor.

(ii) Please explain the basis of attributing the beneficial ownership in the Target Company.

Company's Response

As disclosed in Section 2.1(b) of the Circular, the parties had agreed that the Vendor would be entitled to a further beneficial interest of 35.9% in the Target Company (instead of the full Option Equity of 70% of the total equity in the Target Company) in consideration of the Vendor's partial payment of the Put Option exercise price of RMB 460,825,998.88 to the Purchaser. Please refer to the footnote to section 2.1(b) of the Circular for details on how the 35.9% figure was calculated based on the Vendor's partial payment.

Question 6

It was disclosed in paragraph 2.3 of the Circular that the Vendor does not have any shareholding interest, direct or indirect in the Company, nor is the Vendor related to any of the Directors, the CEO, the Controlling Shareholders, or their respective Associates. This does not cover any interest that the Directors may have with the Vendor, or the Vendor's shareholders or directors.

(i) Please disclose if any of the Vendor and its shareholders or directors have business relationships with any of the Company's directors or their associates.

Company's Response

None of the Vendor, its shareholders or its directors have business relationships with any of the Directors of the Company or their associates.

(ii) Please confirm if the Vendor and its shareholders or directors are nominees of any of the Company's directors or their associates.

Company's Response

None of the Vendor, its shareholders or its directors are nominees of any of the Company's directors or their associates.

Question 7

The Circular disclosed that the beneficial shareholders of the Vendor are Zhao Qinhua (95%) and Liu Guilin (5%). In the 2014 Circular, it was disclosed that the shareholders of the Vendor were Yang Fuyun (95%) and Liu Guilin (5%).

(i) Please provide additional information on the beneficial shareholders of the Vendor, such as their background and business interests.

Company's Response

The Company does not have any additional information on the beneficial shareholders of the Vendor, such as their background and business interests.

(ii) Please explain why the Vendor was permitted to change its controlling shareholder without any consequences or the permission of the Purchaser.

Company's Response

The signing parties to the Shareholders Agreement and other agreements are the Vendor and the Purchaser and there is no "change of control" clause found in those agreements restricting the parties from changing their controlling shareholders. Therefore, legally speaking, the change of the controlling shareholder on the part of the Vendor did not trigger consent from the Purchaser.

(iii) Please confirm if Zhao Qinhua, Liu Guilin and Yang Fuyun are related to Mr. Peng Yusen or his associates and whether they are their nominees or have any business relationships with them.

Company's Response

The Company does not know if Zhao Qinhua, Liu Guilin and Yang Fuyun are related to Peng Yusen or his associates and whether they are their nominees or have any business relationships with them.

Question 8

We refer to the various disclosures in the Circular that the Land remains undeveloped as a result of unsuccessful attempts to apply for a conversion of the Land from educational use to residential and mixed development over the last six years. The Company has taken the view in paragraph 4 of the Circular that the "rationalization of the Land into educational facilities is viable and would also create revenue streams complementary to the Group's businesses of providing education consulting and other education related services". We note that the ongoing global COVID-19 pandemic will necessarily have a negative impact on the growth of enrolment in educational courses going forward when distance learning is becoming the norm and there is a reduced need for physical educational facilities. In the Company's latest financial announcement for the financial year ended 30 June 2020, the Company itself recognizes that "the challenging global education environment, currency volatility, increasing competition and the Covid-19 pandemic continue to impact the Group" and that "the uncertainty brought about by Covid- 19 pandemic with the shutdown and restricted border movements in all the locations we operate in is impacting our recruitment and retention of foreign students from January till date and will have an impact on the Group."

(i) Please explain in greater detail and provide supporting evidence as to why the Company is of the view that the rationalization of the Land into educational facilities is viable.

Company's Response

The Company is of the view that the People's Republic of China ("PRC") remains the key bright spot in the global economy, including the education sector. Due to tensions between China and the West – even before the coronavirus pandemic – middle-class parents in China had become increasingly concerned about the safety of, and possible discrimination against, their children abroad and would prefer their children to study in domestic universities, which translates into a positive impact on the education sector in the PRC.

(ii) Please also provide supporting evidence for the Company's assertion that Tianjin University of Commerce Boustead College has experienced "rapid increase in enrolment of its courses in recent years", including details of the student enrolment numbers in China for the Group since it started operations there.

Company's Response

Tianjin University of Commerce Boustead College has a total enrolment of about 8,200 students across its courses and its new enrolment (i.e. new yearly intake) for the past 2 years is about 2500 students per year, up from about 1800 students for 2016 and 2017 respectively. Please also clarify whether this assertion is relevant to the rationale of the Proposed Acquisition in light of the ongoing global COVID-19 pandemic that has negatively impacted the education sector.

Company's Response

As mentioned in 8(i) above, the COVID-19 pandemic has a positive impact on the education sector in the PRC whilst at the same time it has negative impact on the education sector in the other countries where the Group operates.

(iii) Please also clarify whether the rationalization of the Land into educational facilities will be more profitable, or favourable to the Purchaser, when directly compared to the original intention to develop the Land into a commercial and residential development.

Company's Response

As disclosed in Section 4 of the Circular, the Company, over the last six years, the application to convert the Land to commercial and residential land titles had been stalled by numerous protracted challenges and has not been successful to date. In view of the above, and the other reasons for the Proposed Acquisition as set out in Section 4 of the Circular, the Board is of the view that the Proposed Acquisition is in the best interest of the Group.

(iv) Please also explain in greater detail why the Company is seeking to acquire a further 35.9% equity interest in the Target Company from the Purchaser when the original intention to develop the Land for commercial and residential development is unlikely to be fulfilled and the current intention to use the Land for educational facilities appears to be less favourable for the Purchaser.

Company's Response

Please refer to our response to Question 8 (iii) and (iv) above.

Question 9

In the Company's latest financial announcement for the financial year ended 30 June 2020, the Company stated that "the Group continues to streamline and restructure its operations to adapt to the new paradigm brought about by Covid-19 pandemic for better cost management and improve efficiency."

Please explain how the Purchaser assuming majority control over the Target Company and the Land and increasing its stake in the Target Company under the Proposed Acquisition is consistent with streamlining of the Group's operations and cost management.
Company's Response

The Company is proposing the Proposed Acquisition so that it may obtain majority control over the Target Company and thereafter rationalise the Land for development and use as education facilities instead of a commercial and residential development. The Company is of the view that the People's Republic of China ("PRC") remains the key bright spot in the global economy, including the education sector. Due to tensions between China and the West – even before the coronavirus pandemic – middle-class parents in China had become increasingly concerned about the safety of, and possible discrimination against, their children abroad and would prefer their children to study in domestic universities. In the circumstances, the proposed acquisition is an opportunistic investment.

Question 10

In paragraph 4 of the Circular, it was disclosed that the Company is exploring developing a higher education institution with an estimated initial development cost of between RMB 20,000,000 to RMB 50,000,000 in the initial stage.

(i) Please clarify what educational facilities are being contemplated within this development cost.

Company's Response

As stated in the Circular, this is the initial stage of development. The details are still being worked out, yet to be finalised.

(ii) Please provide details on the future projected expenses and development costs that will be required for this project.

Company's Response

The development is in the initial stage, the details are being worked out.

(iii) Please also explain how the Purchaser expects to be able to fund the entire development costs and future projected expenses and clarify if such costs and expenses will be borne in proportion by the Vendor and the Purchaser.

Company's Response

The Purchaser intends to fund the entire development from internal funds, revenue of the group and bank borrowings and if needed by carrying out corporate fund raising.

Costs and expenses for the development will be borne by the Vendor and Purchaser in accordance with their respective shareholding in the company.

Question 11

Can the Board elaborate on the development plan for the acquired land going forward? Do we expect any other regulatory hurdles in the future development of this acquisition?

Company's Response

The details of the development are being worked out. The Company is not aware of any regulatory hurdles in relation to the development of the land.

Question 12

Please also clarify and consider if the costs of development of the Land into educational facilities and any proposed cash injection into the Target Company should have been included in the aggregate value of the Consideration for the purposes of calculating the relative figure pursuant to Rule 1006(c) of the Listing Manual (i.e. the aggregate consideration is the purchase consideration together with the development costs and any proposed cash injection into the joint venture). If so, the Company should also clarify if this will change the relative figure computed pursuant to Rule 1006(c) of the Listing Manual.

Company's Response

The figure under Rule 1006(c) of the Listing Manual requires computation of the relevant figure for "the aggregate value of the consideration given or received compared with the issuer's market capitalisation based on the total number of issued shares excluding treasury shares."

As disclosed in Section 3.1 of the Circular, the aggregate Consideration for the Sale Shares is RMB 254,000,000.

Accordingly, the figure of "RMB 254,000,000" being the Consideration for the Sale Shares, is used for computation of the relevant figure under Rule 1006(c) in Section 6 of the Circular.

Question 13

Please disclose the expected impact on the consolidated accounts of the Group if there is a need for future expenses associated with the Purchaser taking majority control over the Target Company and the Land and increasing its equity stake in the Target Company pursuant to the Proposed Acquisition. By increasing its equity stake in the Target Company to 70%, the Target Company will become a subsidiary of the Group.

Company's Response

The Company is not aware of any future expenses associated with the Purchaser taking majority control over the Target Company and the Land and increasing its equity stake in the Target Company to 70%, pursuant to the Proposed Acquisition.

Question 14

In paragraph 4 of the Circular, it was disclosed that there are no regulatory requirements stipulating a timeframe before which development of the Land for use as educational facilities must be completed. Please clarify the intended timeline for the development of the Land.

Company's Response

As stated in the Circular, for the initial stage, the Company is exploring developing a higher education institution with an estimated initial development cost of between RMB 20,000,000 to RMB 50,000,000. There are no regulatory requirements stipulating a timeframe before which such development must be completed. The Company is still working out the details of the development, including the intended development timelines.

Question 15

As disclosed in paragraph 3.1 of the Circular, the Consideration was paid in cash, with a Deposit of RMB 25,400,000 having been paid by the Purchaser to the Vendor on 17 July 2020 prior to the EGM. It was also disclosed that the Deposit was not held in escrow.

(i) Please explain why the Deposit was paid in advance in cash on 17 July 2020 prior to shareholders' approval having been obtained for the Proposed Acquisition at the EGM.

Company's Response

It is a commercial decision by the Purchaser as the Board wanted to secure the deal by which the Purchaser can buy the Sale Shares from the Vendor at a price with minimal premium as compared to the sale price for the Sale Shares about 6 years before.

(ii) Please explain why the Deposit is not being held in an escrow account considering that the Vendor is a defaulting party who is in financial difficulties.

Company's response

As disclosed in Section 3.4 of the Circular, the SPA provides a mechanism whereby the SPA will terminate if the Conditions Precedent are not satisfied before the Longstop Date of 15 October 2020 and the Vendor shall within five calendar days from the termination of the SPA, fully refund the Deposit to the Purchaser. Additionally, the Board is of the view that the fact that the Purchaser is the registered owner of 70% of the shares of the Target Company, even though the Purchaser only has beneficial interest in 34.1% and the balance 35.9% is beneficially owned by the Vendor, is sufficient collateral should the Vendor fail to repay the Deposit.

BY ORDER OF THE BOARD

Chew Hua Seng
Chairman and Chief Executive Officer

29 September 2020