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

RESPONSE TO SGX-ST QUERIES DATED 07 SEPTEMBER 2021

Unless otherwise defined, capitalised terms used herein shall have the same meanings as ascribed to them in the Company's announcement dated 29 July 2021.

The Board of Directors (the "**Board**") of Raffles Education Corporation Limited ("**Company**") refers to further queries raised by SGX-ST in respect of the Company's unaudited full year results announcement for the financial year ended 30 June 2021 dated 27 August as well as the Company's announcement dated 30 August 2021, released by the Company in connection with its previous announcements dated 29 July 2021, 11 August 2021, 23 August 2021 and 25 August 2021.

The Company wishes to respond to the queries as follows:

Question 1: We note a fair value ("FV") gain on investment properties of S$4.4 million mainly attributable to revaluation of investment properties in Oriental University City Holdings (H.K.) Limited ("OUCHK"). Please elaborate on the reasons for the FV gain on OUCHK when revenue from the leasing of education facilities of OUCHK decreased by S$2.5 million from S$14.7 million in the 2nd half FY2020 to S$12.2 million for the 2nd half of FY2021. In your explanation, please disclose the methodology used in valuation, and provide details of the specific factors and assumptions considered and quantify the assumptions which resulted in the increase in FV of OUCHK.

Company's Response:

The FV gain on OUCHK were mainly due to the higher valuation of the investment properties that are located at Oriental University City in Langfang city, the People's Republic of China ("Langfang Investment Properties"), which formed the majority of OUCHK's investment properties. For valuation of Langfang Investment Properties, the independent valuer had adopted Income Capitalization Approach (on the basis of capitalization of rental derived from the rental potential of the Langfang Investment Properties) as most of the Langfang Investment Properties are held for letting purpose and receiving rental income. The independent valuer has also adopted the Market Comparison Approach in valuing the Langfang Investment Properties, as a check. Market Comparison Approach uses the principle of substitution as its basis, which assumes the sale of each of these properties in its existing state by making reference to comparable sales evidence as available in the relevant market.

The Langfang Investment Properties were valued at higher fair value due to the improved long-term income capitalization profiles, taking into account the generally improved property market profile in Langfang property market. While the 2H FY2021 results had seen a reduction in revenue contribution, nonetheless the fair value of the Langfang Investment Properties had improved due to aforementioned factor.

Question 2: We note that non-current assets increased by S$128.7 million or 12.4% to S$1.165 billion while investment in associates decreased from S$49.8 million to S$6.1 million due to the reclassification of Langfang Hezhong Real Estate Development Co., Ltd ("Hezhong") from associate to subsidiary. Some of the reasons disclosed by the Company for changes in its line items in its financial statements was explained to be due to the reclassification of Hezhong from associate to subsidiary. Please quantify how much under each of the line items under Non-current Assets in the statement of financial position was attributed to the reclassification and explain any material changes.

Company's Response:

The reclassification of Hezhong from associate to subsidiary has resulted in the following changes:

1. Increase of Property, Plant and Equipment ("PPE") due to inclusion of Hezhong's PPE of $151.0 million.
2. Decrease in Investment in associate due to the exclusion of $46.2 million pertaining to investment in Hezhong.

There is no other impact to the other line items in the non-current assets due to the reclassification.

Question 3: In response to question 1 of SGX's query on 30 August 2021 in relation to the RM39.1 million additional payments that the Company must pay under the Affin Bank settlement agreement, it disclosed that "The remaining amount of RM32.5 million (the "Difference") pertains to estimated contractual interest and provisions made by the Company for additional net default interest in the event default interest is imposed, for the period from April 2021 to March 2022. Such provisions for additional default interest are subject to further negotiations with Affin Bank. The Difference will be captured in the Group's Income Statement under Finance Costs and captured in the Group's Balance Sheet under Accrued Interest, under Current Liabilities in the respective financial years":

(a) As this amount is contractual under the Settlement Agreement signed by the Company and Affin bank, please explain why these expenses and liabilities are not reported in the FY2021 financial statements and whether and how this is in accordance with accounting standards.

Company's Response:

The interest (including the net default interest which commenced from February 2021), captured in the FY2021 financial statements were from February to June 2021 and amounted to RM15.1 million. This amount was charged by Affin Bank and recorded in accordance with accounting standards for the financial year ended 30th June 2021. Out of this amount, RM9.2 million was from April to June 2021.

The remaining estimated interests (including additional net default interest) of RM23.3 million from July 2021 to March 2022 will be charged to the monthly Profit and Loss accordingly. The Group will continue to negotiate with Affin Bank on the additional net default interest

(b) Please clarify how much of the finance costs of S$11.2 million for the 6 months ended 30 June 2021 was attributable to the default interest and any other penalties recognised by Raffles K12 Sdn Bhd ("RK12") and Raffles Iskandar Sdn Bhd ("RU") due to Affin Bank.

Company's Response:

Additional net default interest and any other penalties recognised by RK12 and RU was S$2.0 million (RM6.0 million) and S$0.4 million (RM1.1 million) respectively.

Below table shows the interests of the two entities for the 6 months from January 2021 to June 2021:

	Contractual interest (RM'm)	Additional net default interest from February to June 2021 (RM'm)	Total (RM'm)
RK12	7.7	6.0	13.7
RU	1.9	1.1	3.0
Total	**9.6**	**7.1**	**16.7**

(c) Please disclose what would be the conditions where Affin Bank can exercise its rights to impose the additional net default interest under the Settlement Agreement.

Company's Response:

Affin Bank is entitled to exercise its right to impose the default interest from the period of the Company's default until when the Settlement negotiations begin and substantial monthly repayment is made. There is no express term in the Settlement Agreement entitling for the imposition of the default interest for the period after that.

Question 4: We note the Group's current borrowings increased to S$299.2 million as at 30 June 2021, which the Company explained was a result of classification of certain non-current borrowings to current borrowings during the year due to the alleged non-repayments under the borrowing agreements by RK12 and RU amounting to RM323.7 million (S$104.7 million) and RM70.6 million (S$22.8 million) respectively, as well as a potential breach of a borrowing agreement by Raffles Assets (Singapore) Pte Ltd ("RA"). Please clarify the following:

(a) Provide a breakdown of the current borrowings of S$299.2 million;

Company's Response:

Entity	$' million
Oriental University City Holdings (H.K.) Co., Ltd	13.0
Tianjin University of Commerce, Boustead College	11.7
Wanbo Institute of Science & Technology	2.1
Raffles Assets (Singapore) Pte Ltd ("RA")	98.4
Raffles Iskandar Sdn Bhd ("RU")	22.8
Raffles K12 Sdn Bhd ("RK12")	104.7
4 Vallees Pte Ltd ("4VPL")	1.2
Raffles Siviez 1750 Pte Ltd ("Siviez")	0.3
Raffles Assets (Thailand) Co., Ltd ("RATH")	9.3
Raffles Education Corporation Limited	35.7
Total	**299.2**

(b) Quantify and provide details of the alleged non-repayments under the borrowing agreements by RK12 and RU and when these allegations occurred;

Company's Response:

For RK12, the alleged non-repayment was RM5.3m, consisted of term loan interest and OD interest from 1 Oct 2020 to 1 Feb 2021.

For RU, the alleged non-repayment was RM2.4m, consisted of term loan interest & principal repayment, from 1 Oct 2020 to 1 Feb 2021.

(c) Disclose the key terms of the RA loan in breach, including but not limited to the identity of the lender, loan amount, interest rate, and tenure;

Company's Response:

Key terms	Response
Lender	UOB Singapore
Loan Amount	$98.4 million
Interest Rate	2% + 1mth SIBOR
Tenure	2 years
Maturity	3rd May 2023
Security	Property Mortgage

The repayment of UOB's loan principal of $98.4 million is due on maturity. With the continued support of UOB, this loan will be refinanced.

(d) Elaborate on the circumstances that resulted in the RA loan breach and why the Company had not disclosed these developments as and when they occurred;

Company's Response:

The facility agreement between UOB and RA relating to the RA loan referred to in paragraph (c) above ("**RA Facility Agreement**") contains cross-default provisions that may have been technically triggered in view of the alleged non-repayments under the Iskandar Facility Agreement and the K12 Facility Agreement.

Further to discussions with the Company's auditors, the Company has reclassified the loan principal under the RA Facility Agreement into current liabilities in view of the requirements under the Singapore Financial Reporting Standards.

The Board believes that such cross-default is technical in nature and will not, in and of itself, constitute an event of default or breach resulting in the termination of the RA Facility Agreement. Further, the Company has actively engaged with UOB. UOB is fully aware of alleged non-repayment by Affin Bank and has not, to date, taken any steps (including letters of demand or legal action) or indicated that it is looking to terminate the RA Facility Agreement or enforce its rights under the RA Facility Agreement. Further, RA has been punctual in respect of all repayments required by or to be made under the RA Facility Agreement. In view of the foregoing, the Board believes that it is premature to consider there to be an event of default or breach of the RA Facility Agreement for the purposes of Rules 703 and 704(28) of the Listing Manual.

(e) What is the consequence of this potential RA loan breach and has the lender taken any action to enforce this breach against RA; and

Company's Response:

The terms of the RA Facility Agreement contain customary remedies (including those set out below) that may be exercised by UOB in connection with a cross-default:

(i) cancel the total commitments whereupon they shall immediately be cancelled;

(ii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the relevant financing documents be immediately due and payable, whereupon they shall become immediately due and payable; and / or

(iii) declare that all or part of the loans be payable on demand, whereupon they shall immediately become payable on demand by UOB.

However, for reasons set out in paragraph (d) above and based on currently available information, the Board does not believe that any such action will be taken for the sole reason of that the cross-default provisions in the RA Facility Agreement may have been technically triggered.

To date, UOB has not taken any of the actions above. To date, there has not been any steps taken (including letters of demand or legal action) by UOB, or any indication (including threats) from UOB that it is looking to enforce its rights under the RA Facility Agreement as a result of the potential breach. UOB has expressed its willingness to give continuous support.

(f) Please elaborate on how the Group intends to finance the repayment of its current borrowings of S$299.2 million given its current non-restricted cash balance of S$29.5 million, together with the Group's receivables of RMB 274 million in connection with the disposal of its subsidiary, Langfang Development Zone Oriental University City Sino-Singapore Education Investment Co., Ltd. ("LDZ Sino-Singapore Education Investment") and RMB 94.1 million in connection with the compulsory acquisition by Hefei City Authority of the land owned by Wanbo Institute of Science & Technology, announced previously by the Company in its response to question 5 of SGX's queries on 30 August 2021, will not be sufficient to fully repay the loans.

Company's Response:

	$' million	**$' million**	**Remarks**
Current bank borrowings		**299.2**	
Less:			
OUCHK	(13.0)		OUCHK is able to generate sufficient funds for the loan repayment
Boustead College	(11.7)		BCT is generating positive free cashflow and can retire the loan if necessary.

			Loan will be re-loan by lending bank.
Wanbo	(2.1)		Wanbo is generating positive free cashflow capable of retiring the loan if necessary. Loan will be re-loan by lending bank.
RA	(98.4)		Due in May 2023. Upon settlement with Affin bank, the entire amount will be reclassified as non-current
Sub-total		**(125.2)**	
Net balance of borrowings can be financed		**174.0**	

	$' million	**$' million**
Net balance of borrowings can be financed from:		**174.0**
Receivables collection from Liu Yan Wen RMB 274.0million	57.0	
Balance proceeds from Compulsory Land Acquisition RMB 94.1million	19.6	
Pledged fixed deposits	55.4	
Current non-restricted cash balance	29.5	
Sub-total		**(161.5)**
Net balance of borrowings can be financed from positive cashflows from operations for FY22		**12.5**

Question 5: We note significant proceeds from disposal of property, plant and equipment ("PPE") of S$32.2 million which resulted in a net gain of $28.4 million as well as payments for PPE of S$22.7 million for FY2021.

(a) Noting that the aggregate value of the consideration for the disposal of PPE of S$32.2 million received is significant compared to the Company's market cap, which currently is approximately S$149 million, please provide details on what PPE has been disposed and the reasons for such significant disposals.

Company's Response:

The disposal proceeds from the compulsory land acquisition of the land owned by Hefei Lanjing Science and Trade Co., Ltd ("HLST") amounted to $32.2 million.

The compulsory land acquisition was announced on 12 Jun 2020, which highlighted the following:

i. The Compulsory Acquisition is not a disposal by the Company but is a compulsory acquisition by the Hefei City Authority which is exercising its legal authority to require the compulsory acquisition of the Acquired Land and Buildings. Accordingly, Chapter 10 of the Listing Manual is not applicable.

ii. The Group is using the proceeds from the Compensation Amount to build a new campus for the Institute to ensure minimal or no disruption to the operations of WIST.

(b) Provide details on what PPE has been purchased which amounted to S$22.7 million.

Company's Response:

Payment for PPE	**$' million**
Additions to PPE:	
- Construction in progress of Xin Qiao Campus	18.5
- Other additions during the year	2.2
Payment for Campus Facilities of Boustead College	9.2
Increase in other payables in relation to PPE	(7.2)
Total	**22.7**

(c) Please explain whether the Company had complied with Chapter 10 of the listing manual and provide the basis for the Board's view of how they have complied with the relevant Listing Rules. Disclose the relevant dates of any announcements/shareholders' approvals where applicable.

Company's Response:

Please refer to Company's Response to Question 5 (a) above in relation to the disposal of PPE & construction of Xin Qiao Campus.

Boustead College's acquisition of Campus Facilities was approved by shareholders at EGM held on 17 May 2019.

Question 6: In response to question 2 of SGX's query on 30 August 2021, the Company was required to pay RM138.2 million in 9 instalments from 1 June 2021 to 31 March 2022. The Company disclosed that it had made aggregate payments of RM16.6 million in total for the 3 monthly instalments from June to August 2021 in accordance with the revised repayment schedule. Please disclose the revised repayment schedule for the balance amount of RM121.6 million and how this will be financed noting that the non-restricted cash and cash equivalent as of 30 June 2021 amounts to S$29.5 million.

Company's Response:

The revised repayment schedule as follows:

Month	**RM' million**
Sep' 21	5.0
Oct' 21	6.6
Nov' 21	25.0
Dec' 21	25.0
Jan' 22	20.0
Feb' 22	20.0
Mar' 22	20.0
Total	**121.6**

The repayments of RM121.6million will be financed from:

i. Receivables collection from Liu Yan Wen;
ii. Balance proceeds from Compulsory Land Acquisition; and
iii. Positive cashflows from operations and balance after redemption of pledged deposits as mentioned in the Company's Response to Question 4 (f) above.

Question 7: In relation to the Group's receivables from LDZ Sino-Singapore Education Investment of RMB 274 million, we note that this Second Tranche Payment (as defined in the Company's circular announced on 13 June 2019), which was due on 30 September 2020, had not been paid by Mr Liu Yanwen, the Purchaser of LDZ Sino-Singapore Education Investment. Please clarify:

(a) why the payment has not been received to-date;

Company's Response:

Mr. Liu Yanwen had vide a notice to the Group dated 27 August 2020, elected to exercise the clause 2.1(c)(iv) in the settlement agreement that allow the deferment of second tranche payment up to 30 September 2022. In accordance with the said clause on deferment of payment, interest will accrue over the principal amount until full payment. It was noted that Liu Yanwen complied the terms of settlement agreement, he is therefore allowed to elect to exercise the clause on the deferment of second tranche payment, and the Group had no reasonable grounds to object to the extension of time up to 30 September 2022 for Mr. Liu Yanwen to make payment.

(b) whether Mr Liu Yanwen had requested to defer the repayment in accordance with the SPA and to which date is repayment deferred to noting that it is still classified as a current receivable.

Company's Response:

The deadline for deferment of payment is up to 30 September 2022, hence would be viewed as current.

(c) what evidence was provided by Mr Liu Yanwen that satisfied the Company that he has sufficient funds to may payment by the deferred date; and

Company's Response:

As the deferment of payment up to 30 September 2022 is a clause exercisable by Mr. Liu Yanwen, there is no contractual obligation on his part to satisfy the Company on the sufficiency of his funds.

(d) what specific actions have been taken by the Board to safeguard the interest of the Company and to recover the significant amount due from Liu Yanwen and the outcome of such actions.

Company' s Response:

The Company's management are in constant communication with Mr. Liu Yanwen on the payment, and had received partial payment of RMB20 million on 23 May 2021, and Mr. Liu had

indicated that the Company can expect to receive further partial payment of RMB 200 million around end of September 2021.

Question 8: We note an increase in advance payment of S$4.6 million for the construction of Wanbo Xin Qiao campus. Please provide details of the stage of construction of the Wanbo Xin Qiao Campus, including the scope of work to be undertaken, when construction had commenced and the expected date of completion.

Company's Response:

Scope of Work	Stage of Completion (as at 9 Sep 2021)	Start Date	Est. Completion Date
Civil Engineering	88%	01 Sept 2018	30 Sept 2021
Project Supervision	96%	01 Sept 2018	30 Sept 2021
Project Follow-up Audit	79%	01 Oct 2020	31 Dec 2021
Power Supply	80%	01 Aug 2021	30 Sept 2021
School Roads	90%	01 Aug 2021	30 Sept 2021
Drainage			
Stadium Track			
Stadium Court			
Stadium Stand			
Enclosing Wall			
Gate			
Laboratories auxiliary room			
Business Street	N.A.	01 Oct 2021	31 Dec 2021
Greening (includes landscape)	N.A.	01 Oct 2021	31 Dec 2021
Riverway Safety	N.A.	01 Oct 2021	31 Dec 2021
Firefighting Works	N.A.	01 Oct 2021	31 Oct 2021
External Power Supply	70%	01 Aug 2021	30 Sept 2021
Library Renovation	85%	01 Aug 2021	30 Sept 2021
Elevators (includes nstallation)	90%	01 May 2021	30 Sept 2021

BY ORDER OF THE BOARD
Raffles Education Corporation Limited
9 September 2021