

ANNUAL *R* EPORT 2005

FINANCIAL CONTENTS

Report of the Directors	26
Auditors' Report	31
Balance Sheets	32
Consolidated Profit and Loss Statement	33
Statements of Changes in Equity	34
Consolidated Cash Flow Statement	36
Notes to Financial Statements	38
Statement of Directors	61
Statistics of Shareholdings	62
Notice of Annual General Meeting	64

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company and the consolidated financial statements of the group for the financial year ended June 30, 2005.

During the financial year, the company changed its name from Raffles LaSalle Limited to Raffles Education Corporation Limited.

1 DIRECTORS

The directors of the company in office at the date of this report are:

Mr. Chew Hua Seng
 Mr. Gay Chee Cheong
 Mr. Henry Tan Song Kok
 Mr. Chew Chin Hua

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures in the company or any other body corporate except for the options as described in paragraph 5 below.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the company holding office at the end of the financial year had no interests in the share capital and debentures of the company and related corporations as recorded in the register of directors' shareholdings kept by the company under Section 164 of the Singapore Companies Act except as follows:

Names of directors and company in which interests are held	Holdings registered in names of directors		Holdings in which directors are deemed to have interests	
	At beginning of year	At end of year and as at July 21, 2005	At beginning of year	At end of year and as at July 21, 2005
Interests in Raffles Education Corporation Limited	Ordinary shares of \$0.025 each ^(a)	Ordinary shares of \$0.025 each	Ordinary shares of \$0.025 each ^(a)	Ordinary shares of \$0.025 each
Mr. Chew Hua Seng	154,380,000	53,880,000	79,120,000	145,120,000
Mr. Chew Chin Hua	300,000	300,000	–	200,000
Mr. Henry Tan Song Kok	500,000	50,000	–	–
Mr. Gay Chee Cheong	2,400,000	28,000,000	49,800,000	–

REPORT OF THE DIRECTORS

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (Cont'd)

Names of directors and company in which interests are held	Holdings registered in names of directors		Holdings in which directors are deemed to have interests	
	At beginning of year	At end of year and as at July 21, 2005	At beginning of year	At end of year and as at July 21, 2005
Options to subscribe for ordinary shares in Raffles Education Corporation Limited	Options to subscribe for ordinary shares of \$0.025 each ^(a)	Options to subscribe for ordinary shares of \$0.025 each	Options to subscribe for ordinary shares of \$0.025 each ^(a)	Options to subscribe for ordinary shares of \$0.025 each
Mr. Chew Hua Seng	1,500,000	1,000,000	300,000	500,000
Mr. Chew Chin Hua	120,000	270,000	–	–
Mr. Henry Tan Song Kok	120,000	270,000	–	–
Mr. Gay Chee Cheong	150,000	150,000	–	–
Interests in Hartford Holdings Limited	Ordinary shares of \$0.05 each	Ordinary shares of \$0.05 each	Ordinary shares of \$0.05 each	Ordinary shares of \$0.05 each
Mr. Chew Hua Seng	1,760,000	1,760,000	36,003,000	36,003,000

^(a) Adjusted for the share split of one ordinary share of \$0.05 each into two ordinary shares of \$0.025 each which was approved by the shareholders of the company at an Extraordinary General Meeting on August 18, 2004 (“Share Split”).

By virtue of Section 7 of the Singapore Companies Act, Mr. Chew Hua Seng is deemed to have an interest in the company and in all the related companies/corporations of the company.

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the financial statements.

5 OPTION TO TAKE UP UNISSUED SHARES

a) The Raffles LaSalle Employees' Share Option Scheme (Year 2001) was approved by the shareholders at the Extraordinary Meeting held on August 28, 2000. On November 30, 2004, the employees' share options scheme is renamed as “Raffles Education Corp Employees' Share Option Scheme (Year 2001) (the “Scheme”).

The Scheme is administered by a committee (the “Committee”) appointed and authorised by the directors to administer the Scheme. The Committee consists of directors and such other persons as may be nominated by the company, including directors or persons who may be participants (the “Participants”) of the Scheme. A member of the Committee who is also a Participant of the Scheme must not be involved in its deliberations in respect of options granted or to be granted to him.

The Committee administering the Scheme comprises Mr. Chew Hua Seng, Mr. Henry Tan Song Kok and Mr. Chew Chin Hua.

REPORT OF THE DIRECTORS

5 OPTION TO TAKE UP UNISSUED SHARES (Cont'd)

- b) Under the Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares of \$0.025 in the company. The Committee may at its discretion, fix the subscription price at a discount up to 20% off market price but not lower than the par value of the shares or fix at a price equal to the average of the last dealt market prices for a share for the 5 consecutive market days immediately preceding the grant of the options. The consideration for the grant of an option is \$1.00. Options granted with the market price set at a discount to the market price shall only be exercised on the second anniversary but before the tenth anniversary of the date of grant of that option, except for options granted to a participant not holding a salaried office or employment in the group as the expiry date is before the fifth anniversary of the date of grant of that option. Options granted with the subscription price fixed at an average price of the last dealt market prices for a share for the 5 consecutive days immediately preceding the grant of the options shall only be exercised after the first anniversary of the date of grant of these options but before the tenth anniversary of the date of grant of that option, except for options granted to a participant not holding a salaried office or employment in the group as the expiry date is before the fifth anniversary of the date of grant of that option. Options granted will lapse when the option holder ceases to be a full-time employee of the company or any company of the group subject to certain exceptions at the discretion of the company.
- c) Under the Scheme, share options granted and exercised during the financial year and outstanding as at June 30, 2005 were as follows:

<u>Date of grant</u>	<u>At 01.07.04 or date of grant, whichever is later</u>	<u>Adjustment*</u>	<u>Exercised</u>	<u>Expired/ Cancelled</u>	<u>Balance as at 30.06.2005</u>	<u>Subscription price*</u>	<u>Exercise period</u>
September 4, 2002	1,249,000	1,249,000	(1,553,000)	(729,000)	216,000	0.1249	September 4, 2003 to September 3, 2012
September 4, 2002	150,000	150,000	(300,000)	–	–	0.1249	September 4, 2003 to September 3, 2007
August 7, 2003	1,995,000	1,995,000	(2,825,000)	(369,000)	796,000	0.2467	August 7, 2004 to August 6, 2013
August 25, 2003	255,000	255,000	(270,000)	–	240,000	0.2620	August 25, 2004 to August 24, 2008
October 22, 2003	900,000	900,000	(1,500,000)	–	300,000	0.4700	October 22, 2004 to October 21, 2013
October 22, 2003	150,000	150,000	–	–	300,000	0.4700	October 22, 2004 to October 21, 2008
September 21, 2004	2,118,000	–	–	(281,000)	1,837,000	0.5600	September 21, 2005 to September 20, 2014
November 30, 2004	1,270,000	–	–	(20,000)	1,250,000	0.5800	November 30, 2005 to November 29, 2014
November 30, 2004	450,000	–	–	–	450,000	0.5800	November 30, 2005 to November 29, 2009
February 7, 2005	2,140,000	–	–	(100,000)	2,040,000	0.7000	February 7, 2006 to February 6, 2015
	<u>10,677,000</u>	<u>4,699,000</u>	<u>(6,448,000)</u>	<u>(1,499,000)</u>	<u>7,429,000</u>		

* Adjustment arisen from the Share Split of 1 ordinary share of \$0.05 each divided into 2 ordinary shares of \$0.025 each in the current financial year.

REPORT OF THE DIRECTORS

5 OPTION TO TAKE UP UNISSUED SHARES (Cont'd)

- d) Aggregate options granted to directors and controlling shareholders of the company under the Scheme since the commencement of the Scheme and adjusted for the Share Split are as follows:

Name	Options granted during the financial year under review	Aggregate options granted since the commencement of the scheme to the end of the financial year under review	Aggregate options exercised since the commencement of the scheme to the end of the financial year under review	Aggregate options outstanding at the end of financial year under review
Mr Chew Hua Seng	1,000,000	2,500,000	(1,500,000)	1,000,000
Mr. Henry Tan Song Kok	150,000	570,000	(300,000)	270,000
Mr. Chew Chin Hua	150,000	570,000	(300,000)	270,000
Mr. Gay Chee Cheong	150,000	300,000	(150,000)	150,000
Ms. Chung Gim Lian	200,000	500,000	–	500,000
	<u>1,650,000</u>	<u>4,440,000</u>	<u>(2,250,000)</u>	<u>2,190,000</u>

- e) The number and proportion of options granted during the financial year at:
- i) a discount of 10% or less off market price - nil
 - ii) a discount of more than 10% off market price - nil
- f) During the financial year, no employee received 5% or more of the total number of options, available under the Share Option Scheme.
- g) There are no options granted to participants who are controlling shareholders of the company and their associates except for options granted to Mr. Chew Hua Seng and Ms. Chung Gim Lian, as disclosed above.
- h) During the financial year, no options to take up unissued shares of any subsidiary were granted and there were no shares of any subsidiary issued by virtue of the exercise of an option to take up unissued shares.
- i) These options do not entitle the holder to participate by virtue of the options, in any share issue of any other corporations.
- j) At the end of the financial year, there were no unissued shares of any subsidiary under option.

6 AUDIT COMMITTEE

The Audit Committee comprises three non-executive directors - Mr. Henry Tan Song Kok, Chairman of the Committee, Mr. Gay Chee Cheong and Mr. Chew Chin Hua.

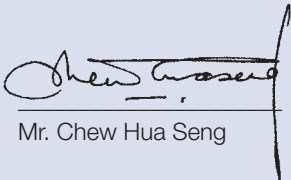
The Committee carries out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap. 50 including a review of the audit plan, the scope and results of the audit, financial and operating results and the recommendations made by the auditors with respect to the group's accounting methods and systems of internal control and the assistance given by the company's officers to the auditors.

The Committee recommends to the Board of Directors the nomination of Deloitte & Touche as external auditors at the forthcoming Annual General Meeting of the company.

7 AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS



Mr. Chew Hua Seng



Mr. Henry Tan Song Kok

October 10, 2005

AUDITORS' *R*EPORT

To the Members Of Raffles Education Corporation

We have audited the accompanying financial statements of Raffles Education Corporation Limited set out on pages 32 to 60 for the year ended June 30, 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- a) the accompanying consolidated financial statements of the group and the balance sheet and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the group and of the company as at June 30, 2005 and of the results, changes in equity and cash flows of the group and the changes in equity of the company for the year ended on that date; and
- b) the accounting and other records required by the Act to be kept by the company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Deloitte & Touche

Deloitte & Touche
Certified Public Accountants

Ng Peck Hoon
Partner

Singapore
October 10, 2005

BALANCE SHEETS

June 30, 2005

Note	Group		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
ASSETS				
Current assets:				
Cash	12,547	17,506	494	1,113
Trade receivables	5	9,292	2,962	384
Other receivables and prepayments	6	9,018	6,047	12,670
Inventories		–	25	–
Total current assets		30,857	26,540	13,548
Non-current assets:				
Investment in subsidiaries	7	–	–	23,448
Investment in associates	8	–	–	253
Equipment	9	5,963	3,421	–
Goodwill	10	6,242	6,242	–
Intangible assets	11	6,295	–	–
Total non-current assets		18,500	9,663	23,701
Total assets		49,357	36,203	37,249
LIABILITIES AND EQUITY				
Current liabilities:				
Bank overdrafts	12	–	2,301	–
Trade payables		1,211	860	–
Other payables	13	16,524	12,389	8,516
Dividend payable		2,537	2,505	2,537
Income tax payable		3,501	1,712	1,032
Total current liabilities		23,773	19,767	12,085
Non-current liability:				
Deferred tax liabilities	14	105	48	–
Minority interests		1,487	1,441	–
Capital and reserves:				
Issued capital	15	12,685	12,523	12,685
Share premium		1,832	290	1,832
Reserves		9,475	2,134	10,647
Total equity		23,992	14,947	25,164
Total liabilities and equity		49,357	36,203	37,249

See accompanying notes to financial statements.

CONSOLIDATED PROFIT AND LOSS STATEMENT

Year Ended June 30, 2005

	Note	Group	
		2005 \$'000	2004 \$'000
Revenue	16	59,404	32,289
Other operating income	17	910	428
Administrative expenses		(39,864)	(20,727)
Profit from operations	18	20,450	11,990
Finance cost	19	(12)	(60)
Profit before share of results of associate		20,438	11,930
Share of results of associate		–	(77)
Profit before income tax		20,438	11,853
Income tax expense	20	(2,663)	(1,831)
Profit after income tax		17,775	10,022
Minority interests		(61)	124
Net profit for the year		17,714	10,146
Basic earnings per share (cents)	21	3.51	2.04
Diluted earnings per share (cents)	21	3.49	2.02

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year Ended June 30, 2005

	Note	Issued capital \$'000	Share premium \$'000	Reserves		Total \$'000	
				Currency translation reserve \$'000	Proposed dividend \$'000		Accumulated losses \$'000
Group							
Balance at June 30, 2003		8,277	2,816	321	3,311	(182)	14,543
Currency translation differences		–	–	(94)	–	–	(94)
Net profit for the year		–	–	–	–	10,146	10,146
Issue of shares	15	95	448	–	–	–	543
Bonus issue of shares	15	4,151	(2,974)	–	–	(1,177)	–
Final dividend paid	22	–	–	–	(3,311)	(10)	(3,321)
Interim dividend paid	22	–	–	–	–	(4,365)	(4,365)
Interim dividend declared	22	–	–	–	–	(2,505)	(2,505)
Proposed final dividend	22	–	–	–	2,505	(2,505)	–
Balance at June 30, 2004		12,523	290	227	2,505	(598)	14,947
Currency translation differences		–	–	(257)	–	–	(257)
Net profit for the year		–	–	–	–	17,714	17,714
Issue of shares	15	162	1,542	–	–	–	1,704
Final dividend paid	22	–	–	–	(2,505)	(18)	(2,523)
Interim dividend paid	22	–	–	–	–	(5,056)	(5,056)
Interim dividend declared	22	–	–	–	–	(2,537)	(2,537)
Proposed final dividend	22	–	–	–	5,074	(5,074)	–
Balance at June 30, 2005		12,685	1,832	(30)	5,074	4,431	23,992

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year Ended June 30, 2005

	Note	Issued capital \$'000	Share premium \$'000	Reserves		Total \$'000
				Proposed dividend \$'000	Accumulated losses \$'000	
Company						
Balance at June 30, 2003		8,277	2,816	3,311	2,021	16,425
Net profit for the year		–	–	–	9,561	9,561
Issue of shares	15	95	448	–	–	543
Bonus issue of shares	15	4,151	(2,974)	–	(1,177)	–
Final dividend paid	22	–	–	(3,311)	(10)	(3,321)
Interim dividend paid	22	–	–	–	(4,365)	(4,365)
Interim dividend declared	22	–	–	–	(2,505)	(2,505)
Proposed final dividend	22	–	–	2,505	(2,505)	–
Balance at June 30, 2004		12,523	290	2,505	1,020	16,338
Net profit for the year		–	–	–	17,238	17,238
Issue of shares	15	162	1,542	–	–	1,704
Final dividend paid	22	–	–	(2,505)	(18)	(2,523)
Interim dividend paid	22	–	–	–	(5,056)	(5,056)
Interim dividend declared	22	–	–	–	(2,537)	(2,537)
Proposed final dividend	22	–	–	5,074	(5,074)	–
Balance at June 30, 2005		12,685	1,832	5,074	5,573	25,164

See accompanying notes to financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year Ended June 30, 2005

	Note	Group	
		2005	2004
		\$'000	\$'000
Cash flows from operating activities:			
Profit before income tax and share of results of associate		20,438	11,930
Adjustments for:			
Depreciation expense		1,819	1,159
Loss on disposal of equipment		26	180
Operating profit before working capital changes		22,283	13,269
Trade receivables		(6,330)	(263)
Other receivables and prepayments		(2,650)	(1,518)
Inventories		25	40
Tuition fees received in advance		196	4,156
Trade payables		351	187
Other payables		1,707	243
Cash generated from operations		15,582	16,114
Income tax paid		(817)	(764)
Net cash from operating activities		14,765	15,350
Cash flows from investing activities:			
Proceeds from sale of equipment		6	-
Purchases of equipment		(4,370)	(1,527)
Acquisition of subsidiary, net of cash acquired	A	(4,225)	(4,088)
Course development expenses		(159)	-
Net cash used in investing activities		(8,748)	(5,615)
Cash flows from financing activities:			
Bank overdrafts		(2,301)	2,301
Proceeds from issue of new shares		1,704	543
Dividend payment to minority shareholders		(159)	(116)
Dividend payment to shareholders		(10,084)	(7,686)
Net cash used in financing activities		(10,840)	(4,958)
Net effect of exchange rate changes in consolidating subsidiaries		(136)	(23)
Net (decrease) increase in cash		(4,959)	4,754
Cash at beginning of year		17,506	12,752
Cash at end of year		12,547	17,506

See accompanying notes to financial statements.

CONSOLIDATED *CASH* FLOW STATEMENT

Year Ended June 30, 2005

Notes to the cash flow statement:

A Acquisition of subsidiary

During the year, the group acquired a subsidiary and took over the following assets and liabilities:

	Group	
	2005	2004
	\$'000	\$'000
Equipment	–	217
Investment in associates	–	23
Trade receivables	–	1,361
Other receivables and prepayments	321	743
Cash	1,911	4,553
Trade payables	–	(445)
Other payables – tuition fees received in advance	(2,232)	(2,092)
Income tax payable	–	(140)
Deferred income tax	–	(13)
Goodwill	–	6,242
Intangible asset	6,136	–
Minority interests	–	(1,683)
Net assets acquired	<u>6,136</u>	<u>8,766</u>
Cost of acquisition	6,136	8,641
Cash acquired	<u>(1,911)</u>	<u>(4,553)</u>
Net cash outflow on acquisition of subsidiary	<u>4,225</u>	<u>4,088</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

1 GENERAL

The company (Registration No. 199400712N) is incorporated in the Republic of Singapore with its principal place of business and registered office at 11 Beach Road, #01-02, Singapore 189675. The company is listed on Singapore Exchange Securities Trading Limited. The financial statements are expressed in Singapore dollars.

The principal activities of the company are that of an investment holding company and provision of office support services.

The principal activities of the subsidiaries are described in Note 7 to the financial statements.

The financial statements of the company and the consolidated financial statements of the group for the year ended June 30, 2005 were authorised for issue by the Board of Directors on October 10, 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) **BASIS OF ACCOUNTING** - The financial statements are prepared in accordance with the historical cost convention and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards.

The Group has early adopted the requirements of FRS 103 *Business Combinations*, together with those of the revised standards FRS 36 *Impairment of Assets*, and FRS 38 *Intangible Assets*, in prior year. Accordingly, there is no impact in the current year.

- b) **BASIS OF CONSOLIDATION** - The consolidated financial statements incorporate the financial statements of the company and enterprises controlled by the company (its subsidiaries) made up to June 30 each year. Control is achieved when the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. On acquisition, the assets and liabilities and contingent liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss statement from the effective date of acquisition or to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the group. All significant intercompany transactions and balances between group enterprises are fully eliminated on consolidation.

In the company's financial statements, investment in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in the profit and loss statement.

- c) **FINANCIAL ASSETS** - The company's and group's principal financial assets include cash and bank balances, trade and other receivables. Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
- d) **FINANCIAL LIABILITIES AND EQUITY** - Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities include trade and other payables and bank overdrafts.

Trade and other payables are stated at their nominal values.

Finance costs are accounted for on an accrual basis (effective yield) method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments are recorded at the fair value of the consideration received, net of direct issue costs.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

- e) **INVENTORIES** - Inventories comprising mainly of teaching materials are measured at the lower of cost (first-in first-out method) and net realisable value. Cost includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.
- f) **ASSOCIATES** - An associate is an enterprise over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The equity method of accounting is used. The carrying amount of such investments is reduced to recognise any decline in the net recoverable value of individual investments. Where a group enterprise transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the company's financial statements, investment in associates are carried at cost less any impairment in net recoverable value that has been recognised in the profit and loss statement.

- g) **EQUIPMENT** - Equipment is carried at cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

The gain or loss arising on the disposal of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss statement.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Renovation	-	10% to 33%
Furniture, fittings and equipment	-	20% to 33%
Computer and software	-	33.33%

Fully depreciated assets still in use are retained in the financial statements.

- h) **GOODWILL** - Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries and associates at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

i) INTANGIBLE ASSETS

- a) Intellectual properties with infinite useful life are measured initially at purchase cost and are subsequently measured at cost less any accumulated impairment losses.
- b) Expenditure on course development are amortised using the straight-line method over their useful lives, but not exceeding 3 years. Intangible assets are stated at cost less amortisation. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

- j) **IMPAIRMENT OF ASSETS EXCLUDING GOODWILL** - At each balance sheet date, the company and the group reviews the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

- k) **PROVISIONS** - Provisions are recognised when the group has a present obligation as a result of a past event where it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.
- l) **LEASES** - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit and loss statement on a straight-line basis over the term of the relevant lease.

- m) **SHARE OPTIONS** - Share options are not recorded as an expense. When exercised, the exercise price is allocated between issued capital and share premium accordingly.
- n) **FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION** - Transactions in foreign currencies are recorded using the rates ruling on the dates of the transactions. At each balance sheet date, recorded monetary balances and balances carried at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet date. All realised and unrealised exchange adjustment profits and losses are dealt with in the profit and loss statement.

For inclusion in the consolidated financial statements, assets and liabilities of the foreign entities are translated at the rates of exchange approximating those ruling at the balance sheet date. The profit and loss statements are translated at the average rates of exchange for the year, and the opening net investment in the foreign entities are translated at the historical rates. The resulting currency translation differences are taken to the currency translation reserve. On disposal of a foreign entity, the accumulated currency translation differences are recognised in the profit and loss statement as part of the profit or loss on disposal.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

- o) **REVENUE RECOGNITION** - Tuition fees and course fees and related instruction costs are recognised over the period of instruction.

Revenue from rendering of management and registration services is recognised when the services are completed.

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

Dividend income from investments is recognised when the right to receive payment has been established.

- p) **RETIREMENT BENEFIT COSTS** - Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes, such as Singapore Central Provident Fund) are charged as an expense when incurred.
- q) **LEAVE ENTITLEMENT** - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.
- r) **INCOME TAX** - Tax expense is determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit except that a debit to the deferred tax balance is not carried forward unless there is a reasonable expectation of realisation in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit and loss statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority.

3 FINANCIAL RISKS AND MANAGEMENT

The group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the group.

- i) Foreign exchange risk

The group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Singapore dollars. The currencies giving rise to this risk are primarily Chinese Renminbi and Australian dollars.

As far as possible, the group uses natural hedges of matching foreign currency assets and liabilities.

- ii) Interest rate risk

It is the group's policy to minimise exposure to interest rate fluctuations by obtaining minimal financing through bank borrowings and leasing arrangements.

Surplus funds are placed with reputable banks and financial institutions which generate interest income for the group.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

3 FINANCIAL RISKS AND MANAGEMENT (Cont'd)

iii) Credit risk

Credit risk refers to the risk that students will default on their obligations to pay tuition fees when due, resulting in a loss to the group.

Students are required to pay tuition fees in advance and outstanding debts due from students are not expected to be significant. Therefore, the group does not expect material credit losses on its debts with students.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

iv) Liquidity risk

In the management of liquidity risk, the group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the group's operations and mitigate the effects of fluctuations in cash flows.

v) Fair value of financial assets and financial liabilities

The carrying amounts of the financial assets and liabilities in the balance sheet of the group approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

4 RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, interest-free and without fixed repayment terms unless stated otherwise.

5 TRADE RECEIVABLES

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Outside parties	8,990	3,022	–	–
Less: Allowance for doubtful debts	(82)	(444)	–	–
	8,908	2,578	–	–
Associates (Note 8)	384	384	384	384
Total	9,292	2,962	384	384

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

6 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Subsidiaries (Note 7)	–	–	9,303	7,569
Associates (Note 8)	3,611	2,404	3,345	2,024
Related parties (Note 4)	–	24	–	–
Deposits	1,218	669	–	2
Prepayments	1,108	533	–	–
Recoverable	1,902	1,375	–	650
Advances to employees	14	25	9	20
Loans receivable	–	82	–	–
Others	1,165	935	13	156
Total	9,018	6,047	12,670	10,421

The above non-trade balances are unsecured, interest-free and have no fixed repayment terms.

7 INVESTMENT IN SUBSIDIARIES

	Company	
	2005	2004
	\$'000	\$'000
Unquoted equity shares/capital, at cost	18,089	10,556
Quoted equity shares, at cost	8,766	8,766
	26,855	19,322
Impairment loss on unquoted equity shares	(3,407)	–
	23,448	19,322
Market value of quoted equity shares	14,401	15,121

a) Significant transaction with subsidiaries:

	Company	
	2005	2004
	\$'000	\$'000
Management service fee income	7,139	253

b) The amounts owing by/from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

7 INVESTMENT IN SUBSIDIARIES (Cont'd)

Details of the subsidiaries are described below:

Subsidiaries	Effective equity interest held by the group		Cost of investment		Country of incorporation/operation	Principal activities
	2005	2004	2005	2004		
	%	%	\$'000	\$'000		
DHU-LaSalle International Design College (h)	100	100	1,169	1,169	People's Republic of China	Provision of training programmes and courses in various areas of design and management.
Jilin RAFFLES 2000 Group Pte Ltd (b)	100	100	3,407	3,407	People's Republic of China	Provision of management services. In the process of deregistration.
RAFFLES Design Institute Pte Ltd (formerly known as RAFFLES LaSalle Institute Pte Ltd)	100	100	1,848	1,848	Singapore	Provision of training programmes and courses in various areas of design and management.
RAFFLES LaSalle Institute Pty Ltd (c)	100	100	56	56	Australia	Provision of training programmes and courses in various areas of design and management.
RAFFLES-BICT International College (h)	100	100	1,506	1,506	People's Republic of China	Provision of training programmes and courses in various areas of design and management.
RAFFLES-C.U. International Design College (b)	100	100	748	748	People's Republic of China	Provision of training programmes and courses in various areas of design and management.
RAFFLES-H.U. International College (a)	100	100	1,212	1,212	People's Republic of China	Provision of training programmes and courses in various areas of design and management.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

7 INVESTMENT IN SUBSIDIARIES (Cont'd)

Subsidiaries	Effective equity interest held by the group		Cost of investment		Country of incorporation/operation	Principal activities
	2005	2004	2005	2004		
	%	%	\$'000	\$'000		
RAFFLES Education Network Pte Ltd (formerly known as RAFFLES LaSalle Network Pte Ltd)	100	100	–	–	Singapore	Investment holding.
RAFFLES-Ningbo International College (h)	55	55	369	369	People's Republic of China	Provision of training programmes and courses in various areas of design and management.
RAFFLES LaSalle Education Consultancy (Shanghai) Pte Ltd (h)	100	100	241	241	People's Republic of China	Provision of consultancy services in various areas of training, marketing and management.
Hartford Holdings Limited (d)	60	60	8,766	8,766	Singapore	Investment holding and provision of management services.
RAFFLES KVB Design Institute Pty Ltd (a) (Became a subsidiary on July 1, 2004)	100	–	6,263 #	–	Australia	Provision of training programmes and courses in various areas of design.
RAFFLES Design International India Pvt Ltd (a) (Became a subsidiary on July 1, 2004)	100	–	1,270	–	India	Provision of training programmes and courses in various areas of design and management.
RAFFLES-Changzhou International College (h) (Became a subsidiary on July 1, 2004)	100	–	–	–	People's Republic of China	Provision of training programmes and courses in various areas of design and management.
			26,855	19,322		

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

7 INVESTMENT IN SUBSIDIARIES (Cont'd)

Subsidiaries	Effective equity interest held by the group		Cost of investment		Country of incorporation/operation	Principal activities
	2005	2004	2005	2004		
	%	%	\$'000	\$'000		
<u>Subsidiary of RAFFLES Education Network Pte Ltd</u>						
LaSalle College International Holding Pte Ltd*	50	50	–	–	Singapore	Sub-licensing of its licensing rights to related companies.
<u>Subsidiary of DHU-LaSalle International Design College</u>						
LaSalle International Design College, Guangzhou (a)	100	100	–	–	People's Republic of China	Provision of training programmes and courses in various areas of design and management.
<u>Subsidiaries of Hartford Holdings Limited</u>						
Hartford Institute Pte. Ltd. (formerly known as Hartford Institute of Management Pte Ltd) (d)	60	60	–	–	Singapore	Provision of distance education and services.
Elearningsp.Com Private Limited (d)	60	60	–	–	Singapore	Provision of distance education and services.
Hartford Holdings (H.K.) Limited (e)	60	60	–	–	Hong Kong	Provision of distance education and services.
Hartford Institute Mongolia Ltd (g)	45	–	–	–	Mongolia	Provision of distance education and services.
Hartford Management Centre Sdn Bhd (f)	42	42	–	–	Malaysia	Provision of educational counselling services.
Hartford Management Centre (Beijing) Private Ltd (d)	–	30.6	–	–	Singapore/ People's Republic of China	Dormant.
Hartford Management Centre (Chengdu) Pte Ltd (d)	42	42	–	–	Singapore/ People's Republic of China	Provision of distance education and services.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

7 INVESTMENT IN SUBSIDIARIES (Cont'd)

The cost of investment is subject to adjustment based on the business profit after tax for the year ended June 30, 2005 to be audited by another independent accountant.

* This is deemed to be a subsidiary of the company by virtue of management control.

All subsidiaries are audited by Deloitte & Touche, Singapore except as follows:

- (a) Audited by overseas practices of Deloitte Touche Tohmatsu.
- (b) Audited by Deloitte & Touche Singapore for consolidation purpose only.
- (c) Audited by other firm of auditors, Foster & Raffan, Australia.
- (d) Audited by other firm of auditors, BDO Raffles, Singapore.
- (e) Audited by other firm of auditors, BDO McCabe LO & Co, Hong Kong.
- (f) Audited by other firm of auditors, BDO Binder, Malaysia.
- (g) Audited by NIMM Audit Co. Ltd, Mongolia.
- (h) Audited by overseas practices of Deloitte Touche Tohmatsu for consolidation purposes only.

8 INVESTMENT IN ASSOCIATES

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Unquoted equity shares, at cost	276	276	253	253
Impairment loss	(29)	(29)	–	–
Share of post-acquisition accumulated losses	(247)	(247)	–	–
Net	–	–	253	253

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
a) Significant transactions with associates:				
Management fee service income	500	–	500	–

b) The balances with the associates are unsecured, interest-free and have no fixed repayment terms.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

8 INVESTMENT IN ASSOCIATES (Cont'd)

Details of the associates are described below:

Associates	Effective equity interest held by the group		Cost of investment		Country of incorporation/operation	Principal activities
	2005	2004	2005	2004		
	%	%	\$'000	\$'000		
LaSalle International Design School Sdn Bhd (b)	20	20	(a)	(a)	Malaysia	Provision of training programmes and courses in various areas of design and management.
RAFFLES LaSalle International (Thailand) Ltd (c)	49	49	253	253	Thailand	Provision of training programmes and courses in various areas of design and management.
<u>Associate of Hartford Holdings Limited</u>						
Pei De Language Training Centre (d)	20	20	23	23	People's Republic of China	Provision of English classes.
Total			<u>276</u>	<u>276</u>		

Notes on associates:

- (a) Cost of investment is \$2.
- (b) Audited by overseas practices of Deloitte Touche Tohmatsu.
- (c) Audited by other firm of auditors, Sunantanawat Karnbanchee, Thailand.
- (d) Equity accounted based on unaudited management accounts as the impact on the financial statements is insignificant.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

9 EQUIPMENT

Group	Renovation	Furniture, fittings and equipment	Computer and software	Total
	\$'000	\$'000	\$'000	\$'000
Cost:				
At beginning of year	2,378	2,617	4,255	9,250
Additions	1,350	1,803	1,217	4,370
Disposals	(82)	(50)	(34)	(166)
Foreign currency exchange adjustment	(31)	36	(17)	(12)
At end of year	<u>3,615</u>	<u>4,406</u>	<u>5,421</u>	<u>13,442</u>
Accumulated depreciation:				
At beginning of year	872	1,672	3,285	5,829
Depreciation	420	648	751	1,819
Disposals	(73)	(40)	(21)	(134)
Foreign currency exchange adjustment	(12)	(9)	(14)	(35)
At end of year	<u>1,207</u>	<u>2,271</u>	<u>4,001</u>	<u>7,479</u>
Depreciation for last year	<u>281</u>	<u>299</u>	<u>579</u>	<u>1,159</u>
Carrying book value:				
At beginning of year	<u>1,506</u>	<u>945</u>	<u>970</u>	<u>3,421</u>
At end of year	<u>2,408</u>	<u>2,135</u>	<u>1,420</u>	<u>5,963</u>

10 GOODWILL

	Group	
	2005	2004
	\$'000	\$'000
At cost:		
Balance at beginning and at end of year	<u>6,242</u>	<u>6,242</u>

Goodwill arose from the acquisition of Hartford Holdings Limited and its subsidiaries ("Hartford") has been allocated to the cash generating unit of Hartford as this is the lowest level at which goodwill is monitored for internal management purpose.

The group assesses goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of goodwill is based on the fair value of Hartford as reflected in the quoted value of Hartford on the SGX-ST Dealing and Automated Quotation System as compared to the cost of acquisition of the subsidiary.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

11 INTANGIBLE ASSETS

	Intellectual properties	Development costs	Total
	\$'000	\$'000	\$'000
At cost and carrying amount:			
Arising from acquisition of subsidiary	6,136	–	6,136
Additions	–	159	159
Balance at end of year	<u>6,136</u>	<u>159</u>	<u>6,295</u>

12 BANK OVERDRAFTS

For 2004, the bank overdrafts were secured on all the ordinary shares in its subsidiary, Hartford Holdings Limited, owned by the company and its chairman, as well as a personal guarantee of the chairman.

The bank overdrafts were fully repaid during the financial year.

13 OTHER PAYABLES

	Group		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Subsidiaries (Note 7)	–	–	3,174	10,037
Directors	424	59	343	–
Tuition fees received in advance	9,298	6,870	–	–
Accruals	6,310	4,583	198	281
Others	492	877	4,801 ⁽¹⁾	–
Total	<u>16,524</u>	<u>12,389</u>	<u>8,516</u>	<u>10,318</u>

⁽¹⁾ Under certain fund remittance agreements with certain third parties, certain subsidiaries have advanced \$4,801,000 (RMB 23,650,000) to the representatives of one of the third parties. In return, the aforesaid third party had arranged for their representatives to advance \$4,801,000 to the company. In return for the representatives of the third party waiving their rights to the related advances to the company as at the year end, the subsidiaries have simultaneously waived their rights to the advances to the representatives of the third party. Accordingly, at the group level, such advance payable by the company was fully offset against the related advance receivable recorded in the books of these subsidiaries.

14 DEFERRED TAX LIABILITIES

	Group	
	2005	2004
	\$'000	\$'000
At beginning of year	48	78
Arising from acquisition of subsidiary	–	13
Charge to income for the year (Note 20)	57	(43)
At end of year	<u>105</u>	<u>48</u>

This represents the tax effect of the excess of tax over book depreciation of certain equipment.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

15 ISSUED CAPITAL

	Company and Group			Company and Group	
	2005	2005	2004	2005	2004
	Number of ordinary shares			\$'000	\$'000
	\$0.025 each	\$0.05 each	\$0.05 each		
Authorised	800,000,000	400,000,000	400,000,000	20,000	20,000
Issued and fully paid:					
At beginning of year	–	250,468,787	165,542,858	12,523	8,277
Issued during the year before share split	–	682,500	–	34	–
Share split	502,302,574	(251,151,287)	–	–	–
Issued during the year	5,083,000	–	1,911,500	128	95
Bonus share issued during the year	–	–	83,014,429	–	4,151
At end of year	<u>507,385,574</u>	<u>–</u>	<u>250,468,787</u>	<u>12,685</u>	<u>12,523</u>

a) During the current financial year, the company:

- i) issued 682,500 ordinary shares of \$0.05 each (before share split) and 5,083,000 ordinary shares of \$0.025 each (after share split) at a premium under the Raffles Education Corp Employees' Share Option Scheme.
- ii) split 1 ordinary share of \$0.05 each into 2 ordinary shares of \$0.025 each in the share capital of the company. This resulted in an increase in the number of shares from 251,151,287 ordinary shares of \$0.05 cash to 502,302,574 ordinary shares of \$0.025 each.

b) During the previous financial year, the company:

- i) increased its authorised share capital from 240,000,000 ordinary shares of \$0.05 each to 400,000,000 ordinary shares of \$0.05 each.
- ii) issued 1,911,500 ordinary shares of \$0.05 each at a premium under the Raffles LaSalle Employees' Share Option Scheme.
- iii) had a bonus issue of shares on the basis of 1 new share for every 2 shares held. This resulted in an increase in the number of shares from 166,028,858 ordinary shares of \$0.05 each to 249,043,287 ordinary shares of \$0.05 each.

c) As at June 30, 2005, the company has 7,429,000 outstanding share options as described in paragraph 5(c) of the Report of the Directors.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

16 REVENUE

	Group	
	2005	2004
	\$'000	\$'000
Tuition and course fees	57,278	30,684
Management service fee	500	–
Registration fee	1,103	1,388
Other fee	523	217
Total	<u>59,404</u>	<u>32,289</u>

17 OTHER OPERATING INCOME

	Group	
	2005	2004
	\$'000	\$'000
Interest income from non-related companies	112	77
Foreign exchange gain	501	220
Others	297	131
Total	<u>910</u>	<u>428</u>

18 PROFIT FROM OPERATIONS

	Group	
	2005	2004
Number of employees at end of year	<u>557</u>	<u>387</u>

	Group	
	2005	2004
	\$'000	\$'000
Staff costs	19,751	9,802
Costs of defined contribution plans included in staff costs	846	386
Director's fees	110	100
Directors' remuneration:		
Directors of company ^(a)	343	185
Directors of subsidiaries	–	23
Auditors' remuneration:		
Company auditors:		
- Current year	115	87
- (Over) Under provision in prior year	34	(19)
Other auditors	150	95
Non-audit fees paid to company's auditors	7	12
Non-audit fees paid to other auditors	19	19
Impairment loss on investment of associate	–	29
Loss on disposal of equipment	<u>26</u>	<u>180</u>

^(a) A director of the company has foregone his profit sharing bonus of \$1,226,000 (2004 : 716,000) based on 6% of the Group profit before tax of \$20,438,000 (2004 : \$11,930,000)

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

19 FINANCE COST

This relates to interest expense on bank overdrafts.

20 INCOME TAX EXPENSE

	Group	
	2005	2004
	\$'000	\$'000
Current	3,274	1,772
(Over) Under provision in prior years	(668)	102
	2,606	1,874
Deferred (Note 14)	57	–
Overprovision in prior years (Note 14)	–	(43)
	2,663	1,831

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20% (2004 : 20%) to profit before income tax as a result of the following differences:

	Group	
	2005	2004
	\$'000	\$'000
Income tax expense at statutory rate	4,088	2,371
Tax exemption	(392)	(1,370)
Non allowable items	202	306
Utilisation of tax losses not recognised previously	–	(73)
Deferred tax benefit not recognised for current year	159	318
Effect of different tax rates of overseas operations	1,161	1,279
Effect of concessionary tax rate at 10%	(1,887)	(1,059)
(Over) Under provision in prior years	(668)	59
Total income tax expense	2,663	1,831

The company's overseas subsidiaries have tax loss carry forward available for offsetting against future taxable income as follows:

	Group	
	2005	2004
	\$'000	\$'000
Amount at beginning of year	3,109	2,049
Amount in current year	797	1,590
Amount utilised in current year	–	(365)
Amount expired in current year	(409)	(97)
Foreign currency exchange adjustment	29	(68)
	3,526	3,109
Deferred tax benefit on above not recorded	1,082	953

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

20 INCOME TAX EXPENSE (Cont'd)

The realisation of the future income tax benefits from tax loss carryforwards is available for an unlimited future period subject to the conditions imposed by law including the retention of majority shareholders as defined. The unrecognised tax losses will expire between year 2006 to year 2010.

No deferred tax assets has been recorded due to uncertainties in future profit streams.

21 EARNINGS PER SHARE

	Group			
	2005		2004	
	Basic \$'000	Diluted \$'000	Basic \$'000	Diluted \$'000
Profit attributable to shareholders of the company	17,714	17,714	10,146	10,146

	Group			
	2005		2004	
	Number of shares		Number of shares	
	Basic '000	Diluted '000	Basic '000	Diluted '000
Weighted average number of ordinary shares	504,555	504,555	498,320	498,320
Adjustment for potentially dilutive ordinary shares	–	2,444	–	5,443
Weighted average number of ordinary shares used	504,555	506,999	498,320	503,763
Earnings per share (cents)	3.51	3.49	2.04	2.02

The fully diluted earnings per ordinary share is calculated assuming the full exercise of share options outstanding as at the end of the financial year (Note 15) and adjusting the weighted average number of ordinary shares to reflect the effect of all potentially dilutive ordinary shares in issue during the financial year.

The comparative figures as at June 30, 2004 have been adjusted for the share split of 1 ordinary share of \$0.05 each divided into 2 ordinary shares of \$0.025 each.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

22 DIVIDENDS

	Group and Company	
	2005	2004
	\$'000	\$'000
Additional dividend of 1 cent (2004 : 2 cents) per ordinary share under one-tier system	18	10
Interim dividend of 0.75 cent per ordinary share of 5 cents each under one-tier system paid during the year	–	1,868
Interim dividend of 0.5 cent (2004 : 1 cent) per ordinary share of 2.5 cents each (2004 : 5 cents each) under one-tier system		
- Paid	5,056	2,497
- Declared and payable	2,537	2,505
Proposed final dividend of 1 cent (2004 : 1 cent) per ordinary share of 2.5 cents each (2004 : 5 cents each) under one-tier system	5,074	2,505
	<u>12,685</u>	<u>9,385</u>

Subsequent to the balance sheet date, the directors of the company recommended that a final dividend be paid at 1 cent (2004 : 1 cent) per ordinary share under the one-tier system totalling \$5,074,000 (2004 : \$2,505,000) on 507,385,574 shares of \$0.025 each (2004 : 250,468,787 shares of \$0.05 each) for the financial year just ended.

23 CONTINGENT LIABILITIES

The Company has undertaken to provide financial support to certain subsidiaries and associates. A subsidiary has a guarantee amounting to \$4,500 (2004 : \$38,000) issued by a bank which has been secured by a fixed deposit of a subsidiary amounting to \$108,586 (2004 : \$108,586).

24 COMMITMENTS

- The company is committed to provide up to \$1,624,000 (RMB 8,000,000) [2004 : \$1,656,000 (RMB 8,000,000)] funds as required for the operation of its wholly-owned subsidiary, DHU-LaSalle International Design College ("LDHU"). As at the financial year end, the cost of investment in LDHU amounted to \$1,169,000 (RMB 5,710,555) [2004 : \$1,169,000 (RMB 5,710,555)].
- The company is committed to provide up to \$1,218,000 (RMB 6,000,000) [(2004 : \$1,242,000 (RMB 6,000,000)] funds as required for the operations of its subsidiary, RAFFLES-Ningbo International College. As at the financial year end, the cost of investment in RAFFLES-Ningbo International College amounted to \$369,000 (RMB 1,750,000) [(2004 : \$369,000 (RMB 1,750,000))].
- The company is committed to provide up to \$1,218,000 (RMB6,000,000) funds as required for the joint education venture with Dalian Light-Industrial Institute. As at the financial year end, the cost of investment in the joint education venture amounted to \$Nil.
- The company is committed to provide up to \$1,015,000 (RMB5,000,000) funds as required for the joint education venture with Changzhou Textile Garment Institute. As at the financial year end, the cost of investment in the joint education venture amounted to \$Nil.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

24 COMMITMENTS (Cont'd)

- e) The company is committed to provide up to \$1,218,000 (RMB6,000,000) funds as required for the joint education venture with Wuhan University of Science and Engineering. As at the financial year end, the cost of investment in the joint education venture amounted to \$Nil.
- f) The company is committed to pledge shares of Hartford Holdings Limited (36,003,000 existing shares and 47,503,000 new rights shares) as securities to a bank to finance the subscription of 47,503,000 rights shares of Hartford Holdings Limited pursuant to a proposed rights issue. The proposed rights issue is subjected to approval by the Singapore Exchange.
- g) A subsidiary of the company is committed to incur \$42,200 (2004: \$41,600) on software development costs.
- h) The company has agreed to give an irrevocable undertaking to a subsidiary, Hartford Holdings Limited ("Hartford") to vote in favour of a Rights Issue at the extra-ordinary general meeting to be convened and subscribe and/or procure subscriptions for:-
- (i) its entitlement of 36,003,000 Rights Shares at issue price of \$0.10 each;
 - (ii) 11,490,000 Rights Shares at issue price of \$0.10 each to be renounced by 2 other substantial shareholders of Hartford in favour of the company;
 - (iii) up to a maximum of 12,597,000 Rights Shares at issue price of \$0.10 each by way of applying and subscribing for the excess Rights Shares which are not taken up by the other Shareholders and/or by way of purchase of "nil paid" rights entitlements traded on the SGX SESDAQ followed by the subscription of the Rights Shares in connection therewith.

The above is expected to increase the company's shareholding in Hartford from approximately 60% to 80%. In-principle approval was obtained from the SGX-ST subsequent to the year end. Please see Note 27(b).

25 OPERATING LEASE COMMITMENTS

	Group	
	2005	2004
	\$'000	\$'000
Minimum lease payments made under operating leases included in profit and loss statement	6,898	2,613

At the balance sheet date, the commitments in respect of non-cancellable operating leases for rental of premises were as follows:

	Group		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Future minimum lease payments payable:				
Within one year	5,902	2,547	-	-
In second to fifth year inclusive	16,299	2,436	-	-
After five years	17,889	-	-	-
Total	40,090	4,983	-	-

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

26 REPORT BY SEGMENTS

For management purposes, the Group is organised into two major operating divisions, namely fashion design, visual communication (graphic design), multimedia design and interior design ("Design") and design management, fashion marketing and business administration ("Management"). The group adopts these two business segments as the basis for its primary segment information.

(a) Analysis By Business Segment

Segment revenue and expense: Segment revenue and expense are the operating revenue and expense reported in the Group's profit and loss statement that are directly attributable to a segment and the relevant portion of such revenue and expense that can be allocated on a reasonable basis to a segment.

Segment assets and liabilities: Segment assets include all operating assets used by a segment and consist principally of operating receivables, inventories and property, plant and equipment, net of allowances and provisions. Capital expenditure includes the total cost incurred to acquire property, plant and equipment, and intangible assets directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses.

Inter-segment transfers: Segment revenue and expenses include transfers between business segments. Inter-segment sales are charged at cost plus a percentage profit mark-up. These transfers are eliminated on consolidation.

Investment in associates: Income from associates are not allocated as they are not specifically attributable to any of the major business segments, and correspondingly the investments in associates are included as unallocated assets of the Group.

Primary segment information for the group based on business segments are as follows:

	<u>Design</u>	<u>Management</u>	<u>Total</u>
	\$'000	\$'000	\$'000
<u>2005</u>			
PROFIT AND LOSS STATEMENT			
Revenue	41,967	17,437	59,404
Result			
Segment result	15,488	4,052	19,540
Other operating income			910
Profit from operations and before income tax			20,450
Finance cost			(12)
Profit before income tax			20,438
Income tax			(2,663)
Profit after income tax			17,775
Minority interests			(61)
Profit attributable to the shareholders of the group			17,714
Other information			
Additions to equipment	3,200	1,170	4,370
Additions to intellectual properties arising from acquisition of subsidiary	6,136	-	6,136
Additions to development costs	159	-	159
Depreciation of equipment	1,274	545	1,819

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

26 REPORT BY SEGMENTS (Cont'd)

(a) Analysis By Business Segment (cont'd)

	<u>Design</u>	<u>Management</u>	<u>Total</u>
	\$'000	\$'000	\$'000
<u>2005</u> (cont'd)			
STATEMENT OF NET ASSETS			
Assets			
Segment assets	17,148	7,125	24,273
Unallocated assets			25,084
Total assets			<u>49,357</u>
Liabilities			
Segment liabilities	12,529	5,206	17,735
Unallocated liabilities			6,143
Total liabilities			<u>23,878</u>
	<u>Design</u>	<u>Management</u>	<u>Total</u>
	\$'000	\$'000	\$'000
<u>2004</u>			
PROFIT AND LOSS STATEMENT			
Revenue	<u>24,133</u>	<u>8,156</u>	<u>32,289</u>
Result			
Segment result	10,129	1,433	11,562
Other operating income			428
Profit from operations and before income tax			11,990
Finance cost			(60)
Share of losses of associates			(77)
Profit before income tax			11,853
Income tax			(1,831)
Profit after income tax			10,022
Minority interests			124
Profit attributable to the shareholders of the group			<u>10,146</u>
Other information			
Additions to equipment	823	704	1,527
Additions to goodwill	6,242	–	6,242
Depreciation of equipment	<u>820</u>	<u>339</u>	<u>1,159</u>

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

26 REPORT BY SEGMENTS (Cont'd)

(a) [Analysis By Business Segment](#) (cont'd)

	<u>Design</u>	<u>Management</u>	<u>Total</u>
	\$'000	\$'000	\$'000
2004 (cont'd)			
STATEMENT OF NET ASSETS			
Assets			
Segment assets	9,309	3,146	12,455
Unallocated assets			23,748
Total assets			<u>36,203</u>
Liabilities			
Segment liabilities	9,904	3,345	13,249
Unallocated liabilities			6,566
Total liabilities			<u>19,815</u>

(b) [Analysis By Geographical Segment](#)

Segment revenue: Segment revenue is analysed based on the location of students and place of tuition.

Segment assets and capital expenditure: Segment assets and capital expenditure are analysed based on the location of those assets. Capital expenditure includes the total cost incurred to acquire equipment, and intangible assets.

Revenue

	By Location of Students/Customers	
	<u>2005</u>	<u>2004</u>
	\$'000	\$'000
Asean	13,631	7,908
North Asia	34,539	23,836
Australasia	11,158	545
South Asia	76	-
Total	<u>59,404</u>	<u>32,289</u>

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

26 REPORT BY SEGMENTS (Cont'd)

(b) Analysis By Geographical Segment (cont'd)

Carrying amount of segment assets and capital additions by geographical areas in which the assets are located are as follows:

	Carrying amount of segment assets		Capital additions	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Asean	19,412	16,436	2,548	6,398
North Asia	14,936	19,187	1,407	1,314
Australasia	13,826	580	6,314	57
South Asia	1,183	—	396	—
Total	49,357	36,203	10,665	7,769

27 SUBSEQUENT EVENTS

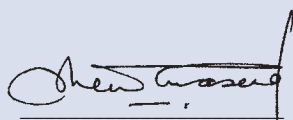
Subsequent to the balance sheet date:

- a) Raffles-Wuhan Design Institute, a joint venture between the company and a state university in China, Wuhan University of Science and Engineering, commenced operations in the People's Republic of China.
- b) A subsidiary of the company, Hartford Holdings Limited, received in-principle approval from SGX-ST for the dealing in and listing of the quotation for the Rights Shares as mentioned in Note 24(h).

STATEMENT OF *D*IRECTORS

In the opinion of the directors, the accompanying financial statements of the company and consolidated financial statements of the group set out on pages 32 to 60 are drawn up so as to give a true and fair view of the state of affairs of the company and of the group as at June 30, 2005 and of the results of the group, changes in equity of the company and the group and cash flows of the group for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE DIRECTORS



Mr. Chew Hua Seng



Mr. Henry Tan Song Kok

October 10, 2005

STATISTICS OF SHAREHOLDINGS

As At 20 September 2005

Size of Shareholdings	No. of Shareholders	Percentage	No. of Shares Held	Percentage
1-999	3	0.32%	827	0.00%
1,000-10,000	494	53.35%	3,003,000	0.59%
10,001-1,000,000	403	43.52%	24,568,000	4.84%
1,000,001 and above	26	2.81%	480,443,747	94.57%
	926	100%	508,015,574	100%

Authorised share capital	: S\$20,000,000
Issued share capital	: S\$12,700,389.35
Number of shares	: 508,015,574
Class of shares	: ordinary shares of S\$0.025
Voting rights	: one vote per share

Based on information available to the Company as at 20 September 2005, approximately 41.48% of the issued ordinary shares of the Company is held by the public and, therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

Top Twenty Shareholders As At 20 September 2005

S/No.	Name	No. of Shares	Percentage
1	HSBC (SINGAPORE) NOMS PTE LTD	189,190,000	37.24%
2	RAFFLES NOMINEES PTE LTD	51,232,300	10.08%
3	DBS NOMINEES PTE LTD	36,042,300	7.09%
4	CITIBANK NOMS S'PORE PTE LTD	35,347,900	6.96%
5	GOH THIAM POH	27,400,000	5.39%
6	PHILLIP SECURITIES PTE LTD	26,456,574	5.21%
7	UNITED OVERSEAS BANK NOMINEES	19,067,700	3.75%
8	DORIS CHUNG GIM LIAN	15,420,000	3.04%
9	CHEN WEIPING	13,000,000	2.56%
10	CHEW HUA SENG	10,680,000	2.10%
11	MORGAN STANLEY ASIA (S'PORE)	8,460,000	1.67%
12	CIMB-GK SECURITIES PTE. LTD.	7,036,000	1.38%
13	HL BANK NOMINEES (S) PTE LTD	6,400,000	1.26%
14	CITIBANK CONSUMER NOMS PTE LTD	5,960,000	1.17%
15	LIM & TAN SECURITIES PTE LTD	4,632,000	0.91%
16	HONG LEONG FINANCE NOMINEES PL	4,159,000	0.82%
17	YAP MAY IMM GILLIAN	3,920,000	0.77%
18	THE ASIA LIFE ASSURANCE SOCIETY LTD-PAR FUND	3,801,000	0.75%
19	MERRILL LYNCH (S'PORE) P L	3,259,973	0.64%
20	DB NOMINEES (S) PTE LTD	1,927,000	0.38%
		473,391,747	93.18%

STATISTICS OF SHAREHOLDINGS

As At 20 September 2005

Substantial Shareholders

As shown in the Register of Substantial Shareholders

	Name of Shareholders	No of Shares	
		Direct Interest	Deemed Interest
1	Chew Hua Seng (1) (2)	53,880,000	145,420,000
2	Chung Gim Lian, Doris (1) (2)	15,420,000	183,880,000
3	Gay Chee Cheong	27,800,000	–
4	Credit Suisse Trust Limited as Trustee of the Humble Trust	130,000,000	–
5	Goh Thiam Poh	27,400,000	–
6	Lloyd George Investment Management (Bermuda) Ltd	–	41,983,000

Notes:

- 1 Chung Gim Lian, Doris is the spouse of Chew Hua Seng. In this respect, Chung Gim Lian, Doris is deemed to have an interest in the shareholdings of Chew Hua Seng and vice versa.
- 2 Chew Hua Seng and Chung Gim Lian are deemed interested in the shares held by Credit Suisse Trust Limited as Trustee of the Humble Trust, which is a family trust.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Raffles Education Corporation Limited will be held on 31 October 2005 at 10.30 a.m. at 11 Beach Road, #06-04/05, Singapore 189675, to transact the following businesses:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the financial year ended 30 June 2005 together with the Auditors' Report thereon. **[Resolution 1]**
2. To declare a final dividend of 1 cent per ordinary share for the financial year ended 30 June 2005. **[Resolution 2]**
3. To approve the proposed Directors' fees of S\$60,000/- for the financial year ended 30 June 2005. **[Resolution 3]**
4. To re-elect Mr Gay Chee Cheong who is retiring pursuant to Article 91 of the Company's Articles of Association. **[Resolution 4]**
5. To re-appoint Messrs Deloitte & Touche, as the Company's Auditors and to authorise the Directors to fix their remuneration. **[Resolution 5]**
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Ordinary Resolutions with or without any modifications:-

7. Authority to allot and issue shares up to fifty percent (50%) of issued capital

"THAT pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be and are hereby authorized to issue and allot new shares in the Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion, deem fit, PROVIDED ALWAYS that the aggregate number of shares to be issued pursuant to this Resolution shall not exceed 50% of the issued share capital of the Company, of which the aggregate number of shares to be issued other than on a pro-rata basis to shareholders of the Company shall not exceed 20% of the issued share capital of the Company, and, unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the Company's next Annual General Meeting is required by law or by the Articles of Association of the Company to be held, whichever is the earlier." **[Resolution 6]**
[See Explanatory Note (i)]
8. Authority to grant options and issue shares under the RAFFLES EDUCATION CORPORATION Employees' Share Option Scheme (Year 2001)

"THAT pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the RAFFLES EDUCATION CORPORATION Employees' Share Option Scheme (Year 2001) ("the Scheme") (including options over shares at a subscription price per share set at a discount to the market price of the shares provided that the maximum discount should not in any case exceed 20% of the market price and the subscription price should not be less than the par value of the share) and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent (15%) of the issued share capital of the Company from time to time." **[Resolution 7]**
[See Explanatory Note (ii)]

NOTICE OF ANNUAL GENERAL MEETING

BY ORDER OF THE BOARD

Lim Tiong Beng (Mr)
Company Secretary

Singapore,
14 October 2005

Note:

A Member is entitled to appoint a proxy to attend and vote in his place. A proxy need not be a Member of the Company. Members wishing to vote by proxy at the meeting may use the proxy form enclosed. The completed proxy form must be lodged at the Registered Office of the Company at 11 Beach Road #01-02, Singapore 189675 not less than 48 hours before the time appointed for the Meeting.

Note to item no. 4

Mr Gay Chee Cheong is a member of Audit and Nomination committees. He will continue in the said capacities upon-re-election as a Director for the Company.

EXPLANATORY NOTES ON SPECIAL BUSINESS TO BE TRANSACTED:

- (i) In the proposed Resolution 6, the percentage of issued share capital is calculated based on the issued share capital at the time of the passing of the resolution approving the mandate after adjusting for:- (a) new shares arising from the conversion or exercise of convertible securities; (b) new shares arising from the exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of the resolution approving the mandate; and (c) any subsequent consolidation or subdivision of shares. The proposed Resolution 6, if passed, will empower the Directors of the Company from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue new shares in the Company (whether by way of rights, bonus or otherwise). The number of shares which the Directors may issue under this Resolution shall not exceed 50% of the issued share capital of the Company. For issue of shares other than on a pro-rata basis to all shareholders of the Company, the aggregate number of shares to be issued shall not exceed 20% of the issued share capital of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.
- (ii) The proposed Resolution 7, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares up to an amount in aggregate not exceeding 15% of the issued share capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

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PROXY FORM

RAFFLES EDUCATION CORPORATION LIMITED

(Incorporated in the Republic of Singapore)

I/We _____

of _____

being a *member/members of Raffles Education Corporation Limited, hereby appoint

Name	Address	NRIC / Passport No.	Proportion of Shareholdings (%)
and/or (delete as appropriate)			

as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 31 October 2005 at 10:30 am at 11 Beach Road, #06-04/05, Singapore 189675 and at any adjournment thereof.

The proxy is required to vote as indicated with an "X" on the resolutions set out in the Notice of Meeting and summarised below. If no specific direction as to voting is given, the proxy/proxies may vote or abstain at his discretion.

No.	Resolution	For	Against
1.	To receive and adopt the Directors' Report and Audited Accounts for the financial year ended 30 June 2005 together with the Auditors' Report thereon.		
2.	To declare a final dividend of 1 cent per ordinary share for the financial year ended 30 June 2005.		
3.	To approve the proposed Directors' Fees of S\$60,000/- for the financial year ended 30 June 2005. [2004 : \$100,000/-]		
4.	To re-elect Mr Gay Chee Cheong as a Director.		
5.	To re-appoint Messrs Deloitte & Touche as the Company's Auditors and to authorise the Directors to fix their remuneration.		
6.	Authority to allot and issue shares up to fifty percent (50%) of issued share capital.		
7.	Authority to grant options and issue shares under the RAFFLES EDUCATION CORPORATION Employees' Share Option Scheme (Year 2001).		

Signed this _____ day of _____ 2005

Total No. of Shares in:	No. of Shares
1) CDP Register	
2) Register of Members	

Signature(s) of Member(s)/Common Seal



Notes:

- a) Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion (expressed as a percentage of the whole) of his shareholding to be represented by each proxy.
- b) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if such appointor is a corporation under its common seal or under the hand of its attorney.
- c) An instrument appointing a proxy must be deposited at the registered office of the Company, 11 Beach Road #01-02, Singapore 189675 not less than 48 hours before the time appointed for holding the meeting.
- d) The Company shall be entitled to reject a Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of shares entered in the Depository Register, the Company may reject a Proxy Form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

RafflesEducationCorp

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www.raffles-education-corporation.com

