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China Education Group Holdings Limited

中國教育集團控股有限公司

*(incorporated in the Cayman Islands with limited liability
and carrying on business in Hong Kong as “ChinaEdu 中教常春藤”)*

(Stock Code: 839)

**CONNECTED TRANSACTION —
ACQUISITION OF THE REMAINING 20% INTERESTS
IN A SCHOOL IN ZHENGZHOU**

The Board is pleased to announce that on 10 January 2020 (after trading hours), the Purchaser and the Vendors entered into the Agreement pursuant to which the Vendors agreed to sell and the Purchaser agreed to acquire the entire equity interests in the Target, which indirectly owned 20% interests in Zhengzhou School.

THE AGREEMENT

The principal terms of the Agreement are set out below.

Date of the Agreement

10 January 2020

Subject

Pursuant to the Agreement, the Vendors agreed to sell and the Purchaser agreed to acquire the entire equity interests in the Target, which indirectly owned 20% interests in Zhengzhou School, at a total consideration of RMB238,000,000 (equivalent to approximately HK\$266,560,000).

Parties to the Agreement

(a) the Purchaser

(b) the Vendors

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save as the Vendors are associates of a substantial shareholder of Shuren Education, Mr. Yu is a director of Shuren Education and the principal of Zhengzhou School, and Ms. Dong is the spouse (i.e. associate) of Mr. Yu, the Vendors and their ultimate beneficial owners are third parties independent of the Company.

Payment Terms

The total consideration shall be settled in cash as follows:

- (a) 20% of the total consideration (being RMB47,600,000 (equivalent to approximately HK\$53,312,000)) shall be paid to the Vendors within 10 working days after the signing of the Agreement and the date of resignation as director/executive director office of the Target and Shuren Education by Mr. Yu;
- (b) 30% of the total consideration (being RMB71,400,000 (equivalent to approximately HK\$79,968,000)) shall be paid to the Vendors within 10 working days from the date of completion of registration of the Purchaser as the registered owner of the Target with the relevant business registration department in the PRC;
- (c) 30% of the total consideration (being RMB71,400,000 (equivalent to approximately HK\$79,968,000)) shall be paid to the Vendors within 10 working days after the issuance of an audited report on the financial statements of Zhengzhou School for the year 2019; and
- (d) 20% of the total consideration (being RMB47,600,000 (equivalent to approximately HK\$53,312,000)) shall be paid to the Vendors within 10 working days after the fulfillment (or waiver) of the condition to obtain the relevant approvals or certificates from relevant government authorities in the PRC.

Completion

Completion of the Agreement shall take place upon the registration of the Purchaser as the registered owner of the Target with the relevant business registration departments in the PRC. Upon completion, each of Shuren Education and Zhengzhou School will be an 100%-owned consolidated affiliated entity of the Company.

Basis of Consideration

The consideration of the Transaction was arrived at after arm's length negotiations and after considering primarily, among other things, the historical turnover and the total asset value of the Target, its location and branding, the courses it offers, the employment opportunities and the prospects of the graduates, the number of students and enrollments of the school and the observation by the Company regarding the recent market value of schools of similar size.

INFORMATION ON THE VENDORS, THE PURCHASER, THE TARGET, SHUREN EDUCATION AND ZHENGZHOU SCHOOL

The Vendors

The Vendors are Mr. Yu and Ganzhou Yuze Enterprise Management Partnership (Limited Partnership) (贛州雨澤企業管理合伙企業(有限合伙)), a limited partnership established under the laws of the PRC held as to 99% by Mr. Yu and 1% by Ms. Dong. Mr. Yu is the principal of Zhengzhou School, a director of Shuren Education and the spouse of Ms. Dong. Each of Mr. Yu and Ms. Dong is a PRC resident.

The principal business activity of Ganzhou Yuze Enterprise Management Partnership (Limited Partnership) (贛州雨澤企業管理合伙企業(有限合伙)) is investment holding and consultancy.

The Purchaser

The Purchaser is a limited liability company established under the laws of the PRC and a wholly-owned subsidiary of Huafang Education and its principal business activity is investment holding.

The Target

The Target is a limited liability company established under the laws of the PRC and owned as to 0.01% by Mr. Yu and 99.99% by Ganzhou Yuze Enterprise Management Partnership (Limited Partnership) (贛州雨澤企業管理合伙企業(有限合伙)). The business of the Target is the ownership of the 20% equity interests in Shuren Education. Except for the 20% equity interests in Shuren Education, the Target does not have any other business or hold any other assets.

Shuren Education

Shuren Education is a limited liability company established under the laws of the PRC and owned as to 80% by the Purchaser and 20% by the Target as at the date of this announcement. The business of Shuren Education is the ownership of the entire school sponsorship interest of Zhengzhou School. Except for the ownership of the entire school sponsorship interest of Zhengzhou School, Shuren Education does not have any other business.

The 20% equity interests in Shuren Education were obtained by the Target at an original acquisition amount of RMB30,000,000 (equivalent to approximately HK\$33,600,000), and the Target was set up by the Vendors with registered and unpaid capital of RMB4,800,000 (equivalent to approximately HK\$5,376,000). The Directors are of the view that the original acquisition cost of 20% equity interests in Shuren Education incurred by the Target is not directly related to the determination of the consideration under the Agreement.

Zhengzhou School

Zhengzhou School was established in 2010 with the approval by Zhengzhou Education Bureau and has been incorporated into the provincial associate college entrance programme. Located in Zhengzhou City, Henan Province, the PRC with a site area of approximately 635 mu (畝), Zhengzhou School offers 14 diverse academic programmes, such as a series of specialised programmes in urban rail transit and motor vehicle engineering, operation, maintenance and services, as well as programmes in information technology and automotive electronic technology. In 2019/2020 academic year, the school has approximately 28,000 students and is one the largest private secondary vocational schools in China in terms of student enrollment.

Zhengzhou School is one of the very first secondary vocational schools in PRC to be ISO 29990 certified (in December 2019), for recognising its quality professional practice and outstanding education quality management. The school has diverse on-campus simulated training and practice centers, such as comprehensive rail transit practice field, practical training system for operation management of urban rail transit, training room for signal and turnouts of urban rail transit, and training room for overhaul of urban rail transit vehicles, etc., to provide complete, professional, and effective on-the-job training for its students and to satisfy the market demand for quality technicians and professionals in the urban rail transit industry.

Under the guidance and support of the state's macro policies, Chinese urban rail transit has begun to boom during the 13th Five-Year Plan period and as a result the job market has been in promising demand for rail transit graduates. Zhengzhou School has established cooperation with more than 15 large industry/corporate partners and with many large cities (such as Beijing, Shanghai, Shenzhen, Guangzhou and Tianjin) to further improve the internship and employment opportunities of its graduates and to satisfy increasing demand for its talents in the job market.

For the years ended 31 August 2018 and 31 August 2019, the net profit of the subject (i.e. Shuren Education and Zhengzhou School) prepared pursuant to the Generally Accepted Accounting Principles of the PRC is as follows:

	For the year ended 31 August	
	2018 <i>(in thousands)</i>	2019 <i>(in thousands)</i>
Unaudited net profit (before tax)	RMB72,365 (approximately HK\$81,049)	RMB107,801 (approximately HK\$120,737)
Unaudited net profit (after tax)	RMB70,856 (approximately HK\$79,359)	RMB104,594 (approximately HK\$117,145)

As at 31 August 2019, the unaudited total asset value and the net asset value of the subject (i.e. Shuren Education and Zhengzhou School) were approximately RMB719,334,000 (equivalent to approximately HK\$805,654,000) and RMB478,210,000 (equivalent to approximately HK\$535,595,000) respectively.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Directors consider that the acquisition will allow the Group to have 100% control over Zhengzhou School and, following the acquisition, the Group's profitability is expected to be further enhanced. Benefiting from the National Government's policies in supporting private vocational education, the acquisition also marks the Company's continuous confidence in Zhengzhou School, which has successfully and efficiently integrated into the Group's school network by delivering promising operational and financial improvement and having tremendous synergy and great potential for future development with the Group's PRC and overseas schools.

Having considered the aforesaid, the Directors consider that the transactions contemplated under the Agreement are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

None of the Directors has a material interest in the transactions contemplated under the Agreement or is required to abstain from voting on the Board resolution for considering and approving the same.

INFORMATION OF THE GROUP

The Company is an investment holding company. The Group is a leading listed education management enterprise, focusing on providing quality education through innovation. Currently, the Group operates ten schools in China and Australia. The Group is widely recognized for its proven ability to operate schools. Jiangxi University of Technology was ranked No. 1 in overall competitiveness in the Private University and College Ranking in China for nine consecutive years; Guangdong Baiyun University was ranked No. 1 in overall competitiveness in the Private University and College Ranking in Guangdong province for 12 consecutive years, while Baiyun Technician College was ranked No. 1 in educational competitiveness among technical schools in Guangdong province for seven consecutive years. In January 2020, the Group enrolled approximately 180,000 students.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Vendors own the entire equity interests in the Target, which owns 20% of the equity interests in Shuren Education, an 80%-owned consolidated affiliated entity of the Company. The Vendors are associates of a substantial shareholder of Shuren Education. Mr. Yu, being one of the Vendors, is also a director of Shuren Education. Therefore, the Vendors are connected persons of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Transaction constitutes a connected transaction for the Company.

As the applicable percentage ratios pursuant to Chapter 14 of the Listing Rules in respect of the Transaction are more than 0.1% but less than 5%, the Transaction will be subject to reporting and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Completion of the Transaction is subject to the fulfillment (or where applicable, waiver) of a number of conditions. As the Transaction may or may not proceed, shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

Unless otherwise specified in this announcement, capitalised terms used herein shall have the following meanings:

“Agreement”	the agreement entered into between the Purchaser and the Vendors dated 10 January 2020 in respect of the acquisition of the entire equity interests in the Target
“Board”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan
“Company”	China Education Group Holdings Limited (中國教育集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“consolidated affiliated entities”	the entities we control through the Contractual Arrangements, each a “consolidated affiliated entity”
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, an indirect wholly-owned subsidiary of the Company, Mr. Yu Guo, Mr. Xie Ketao and the relevant consolidated affiliated entities
“Director(s)”	the director(s) of the Company
“Group”, “we”, “us” or “our”	the Company, its subsidiaries and its consolidated affiliated entities
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Huafang Education”	Huafang Education Investment Group (Ganzhou) Company Limited (華方教育投資集團(贛州)有限公司), a limited liability company established under the laws of the PRC and is a consolidated affiliated entity of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Yu”	Mr. Yu Cuntao (于存濤), one of the Vendors
“Ms. Dong”	Ms. Dong Yanli (董艷麗), the spouse of Mr. Yu
“Purchaser”	Junshi Education Consulting (Ganzhou) Company Limited (君時教育諮詢(贛州)有限公司), a limited liability company established under the laws of the PRC and is a wholly-owned subsidiary of Huafang Education
“RMB”	Renminbi, the lawful currency of PRC
“Shuren Education”	Shuren Education Management Company Limited (樹仁教育管理有限公司), a limited liability company established under the laws of the PRC and is 80% owned by the Purchaser and 20% owned by the Target as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Target”	Ganzhou Meizhi Education Consulting Company Limited (贛州市美智教育諮詢有限公司), a limited liability company established under the laws of the PRC and is 100% owned by the Vendors
“Transaction”	the acquisition by the Purchaser of the entire equity interests in the Target pursuant to the Agreement
“Vendors”	Mr. Yu and Ganzhou Yuze Enterprise Management Partnership (Limited Partnership) (贛州雨澤企業管理合伙企業(有限合伙)), a limited partnership established under the laws of the PRC; and each a “Vendor”
“working days”	any day excluding Saturday, Sunday, statutory holidays and any days on which commercial banks in the PRC are closed for business

“Zhengzhou School”

Zhengzhou City Rail Transit School (鄭州城軌交通中等專業學校), a secondary vocational school located in Zhengzhou City, Henan Province, the PRC

“%”

per cent

For illustrative purpose of this announcement only, conversion of RMB into HK\$ is made at the following exchange rate: RMB1.00 = HK\$1.12.

The English names of the PRC entities referred to in this announcement are merely translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

By order of the Board
China Education Group Holdings Limited
Yu Guo Xie Ketao
Co-Chairmen

Hong Kong, 10 January 2020

As at the date of this announcement, the executive directors of the Company are Mr. Yu Guo, Mr. Xie Ketao, Dr. Yu Kai and Ms. Xie Shaohua, and the independent non-executive directors of the Company are Dr. Gerard A. Postiglione, Dr. Rui Meng and Dr. Wu Kin Bing.