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KOOLEARN TECHNOLOGY HOLDING LIMITED

新東方在綫科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1797)

**(1) PROPOSED ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE
AND
(2) CONNECTED TRANSACTION IN RELATION TO
SUBSCRIPTION OF NEW SHARES**

**Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders**



SUBSCRIPTION OF NEW SHARES

Our Board is pleased to announce that the Company entered into the Subscription Agreement with the Subscribers on 8 September 2020 (after trading hours), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue to the Subscribers, an aggregate of 59,432,000 new Shares at the Subscription Price of US\$3.87 per Subscription Share (corresponding to approximately HK\$30.00 per Subscription Share), with an aggregate Subscription Amount of US\$230 million (corresponding to approximately HK\$1,783 million).

The Subscription Shares represent approximately: (a) 6.32% of the Company's current issued share capital; and (b) 5.95% of the Company's enlarged issued share capital immediately following the Closing (assuming no exercise of the Outstanding Share Options and no other change in the Company's issued share capital).

SPECIFIC MANDATE

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be obtained from the Independent Shareholders at the General Meeting.

APPLICATION FOR LISTING

We will make an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the Main Board of the Stock Exchange.

IMPLICATIONS OF THE LISTING RULES

New Oriental is our controlling shareholder, while Tigerstep is wholly-owned by Mr. Yu, a Director, and therefore, each of New Oriental and Tigerstep, being the Subscribers, is a connected person of the Company and the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Shareholders on the terms of the Subscription. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other items, (a) details of the Subscription; (b) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the transactions contemplated thereunder (including the grant of the Specific Mandate); (c) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Subscription, is expected to be despatched by the Company to the Shareholders on or before 29 September 2020.

Shareholders and potential investors should note that the Subscription is subject to the satisfaction of certain conditions and accordingly, the Subscription may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

SUBSCRIPTION OF NEW SHARES

The Subscription Agreement

Date: 8 September 2020

Parties: (a) the Company (as the issuer)
(b) New Oriental (as a Subscriber)
(c) Tigerstep (as a Subscriber)

Subscription: New Oriental: 51,680,000 new Shares at the Subscription Price of US\$3.87 per Subscription Share (corresponding to approximately HK\$30.00 per Subscription Share), for a Subscription Amount of US\$200 million (corresponding to approximately HK\$1,550.4 million)

Tigerstep: 7,752,000 new Shares at the Subscription Price of US\$3.87 per Subscription Share (corresponding to approximately HK\$30.00 per Subscription Share), for a Subscription Amount of US\$30 million (corresponding to approximately HK\$232.6 million)

The Subscription Shares

The Subscription Shares represent approximately:

	% issued share capital as at the date of this announcement	% issued share capital enlarged by the Subscription Shares only
New Oriental	5.50%	5.17%
Tigerstep	0.82%	0.78%
Total	6.32%	5.95%

Based on the closing price of the Shares of HK\$32.35 per Share on the Last Trading Day, the Subscription Shares have a market value of HK\$1,922.6 million, and the aggregate nominal value of the Subscription Shares is HK\$9,214.3.

Subscription Price

The Subscription Price of US\$3.87 corresponds to HK\$30.00 per Subscription Share and represents:

- (a) a discount of approximately 7.3% to the closing price of HK\$32.35 per Share as quoted on the Stock Exchange on 8 September 2020, being the Last Trading Day;
- (b) a discount of approximately 12.8% to the average closing price of approximately HK\$34.40 per Share for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 15.5% to the average closing price of approximately HK\$35.49 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 1,233.3% to the Company's audited consolidated net asset value per Share as at 31 May 2020 of approximately RMB1.98 (corresponding to approximately HK\$2.25).

The Subscription Price was determined after arm's length negotiations between the Company and the Subscribers with reference to recent market prices of the Shares.

Closing Conditions

Closing is conditional upon the following conditions being satisfied:

- (a) the approval of the Subscription and the transactions and other arrangements (as necessary) contemplated thereunder, including the grant of the Specific Mandate for the allotment and issue of the Subscription Shares, by the Independent Shareholders at the General Meeting; and
- (b) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Subscription Shares (and such listing and permission not being subsequently revoked prior to the closing of the Subscription).

In the event that the above conditions are not fulfilled on or before 31 December 2020 (or such later date as may be agreed between the parties), then the Subscription Agreement shall terminate with immediate effect (other than the surviving provisions and without prejudice to the rights and/or obligations of any Party in respect of any antecedent breach), and the Parties shall be released and discharged from their respective obligations under the Subscription Agreement.

Closing

Closing of the Subscription shall take place at 10.00 a.m. (Hong Kong time) on the date as the Company and the Subscribers agree in writing after the satisfaction of the Closing Conditions and before 31 December 2020 (or such later date as may be agreed between the parties).

On or before the date of the Closing, the Subscribers shall pay to the Company the aggregate Subscription Amount of US\$230 million in cash for the Subscription. On the date of the Closing, the Subscription Shares shall be allotted and issued to the Subscribers free from all liens, charges, security, interests, encumbrances and adverse claims.

SPECIFIC MANDATE

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be obtained from the Independent Shareholders at the General Meeting.

APPLICATION FOR LISTING

The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the Main Board of the Stock Exchange.

BACKGROUND OF THE COMPANY AND THE SUBSCRIBERS

The Group is principally engaged in the provision of online extracurricular education services in China, with a comprehensive portfolio of well-recognised brands and core expertise in after-school tutoring and test preparation.

New Oriental is a comprehensive education services provider that operates a network of schools, learning centres and bookstores across China, and is listed on the New York Stock Exchange (Ticker Symbol: EDU). New Oriental is our controlling shareholder.

Tigerstep is an investment holding company wholly-owned and controlled by Mr. Yu, the chairman of our Board and a non-executive Director.

	Shareholding as at the date of this announcement		Shareholding after completion of the Subscription	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
New Oriental	500,000,000	53.19%	551,680,000	55.20%
Tigerstep	15,858,832	1.69%	23,610,832	2.36%
Sub-total	515,858,832	54.88%	575,290,832	57.56%
Other non-public Shareholders ⁽¹⁾	108,530,017	11.55%	108,530,017	10.86%
Public Shareholders	315,576,753	33.57%	315,576,753	31.58%
Total	939,965,602	100.00%	999,397,602	100.00%

Note:

- (1) Following the Subscription, Mr. Yu will be interested in 40,306,117 Shares in aggregate (including through Tigerstep and through his interest in outstanding options; see below), representing: (a) 4.29% of the Company's current issued share capital; and (b) 4.03% of the Company's enlarged issued share capital immediately following the Closing (assuming no exercise of the Outstanding Share Options and no other change in the Company's issued share capital). Mr. Yu is also beneficially interested in options corresponding to 16,695,285 underlying Shares, none of which have been exercised as at the date of this announcement.

REASONS AND BENEFITS FOR THE SUBSCRIPTION

New Oriental is the largest provider of private educational services in China offering a wide range of educational programs, services and products to a varied student population throughout China. It is also the Company's parent company. Tigerstep is wholly-owned by Mr. Yu, the founder of New Oriental and the chairman of our Board. The Subscription will: (a) further strengthen and enhance the collaboration between the Company and New Oriental; (b) further align and strengthen the interests of our Group with that of New Oriental, Tigerstep, and Mr. Yu; (c) allow New Oriental to maintain its majority shareholding interest in the Company and allow the financial accounts of the Group to be consolidated into that of New Oriental; and (d) represents a valuable opportunity for the Company to raise funds to further strengthen its capital base and financial position, thereby laying down a more solid foundation for the Company to further its business development and accelerate its growth in the online education market.

The Directors consider the Subscription as an appropriate means to raise funds. It is a good opportunity to: (a) enhance the capital base of the Company; (b) enable the Company to maintain a sufficient positive cash position for the Group's operation; and (c) provide the Company with the financial flexibility necessary for the Group's continued business development and expansion.

The Company has also considered other forms of fund-raising methods, namely other means of equity financing (such as a rights issue or an open offer). These other means of equity financing, such as a rights issue, which the Company considers would, (i) incur additional costs, including but not limited to underwriting commission and other professional fees; and (ii) take a relatively longer timeframe when compared to the Subscription of new Shares, and would not be in the Company's best interests (as compared with this Subscription). While the Company has considered placing new shares to independent third-parties, the Directors are of the view that placings with New Oriental and Tigerstep would reinforce the Group's strategic alliances with New Oriental (our parent company) and Tigerstep (the entity controlled by our chairman and founder of New Oriental) respectively, providing an efficient means of raising capital for the Group's present needs, as well as strengthening our ties with our parent group and the chairman of our Board, who is not only a pioneer in the education industry, but has also led the New Oriental group and our Group for more than a decade and since the inception of the two respective groups. Accordingly, the Company has entered into Subscription Agreements with the Subscribers to provide the Group with further capital and for strategic alliance reasons.

The Directors (excluding: (i) the independent non-executive Directors whose opinions will be provided after taking into consideration the advice from the Independent Financial Adviser; and (ii) Mr. Yu who has abstained from voting on this transaction) consider that the Subscription Price and the other terms and conditions in the Subscription Agreement are fair and reasonable, and the Subscription is in the best interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The gross proceeds of the Subscription will be approximately HK\$1,783 million. The net proceeds, after deduction of all relevant expenses incidental to the Subscription, are estimated to be approximately HK\$1,781 million. We intend to apply the net proceeds of the Subscription in the following manner: (i) approximately 40% of the net proceeds of the Subscription will be used to continue to improve and implement our sales and marketing activities to expand our student base and increase student engagement; (ii) approximately 40% of the net proceeds of the Subscription will be used to invest in improvements and upgrades of our technology infrastructure; (iii) approximately 10% of the net proceeds of the Subscription will be used towards our teachers and teaching staff, including their recruitment and training; and (iv) the remaining of approximately 10% of the net proceeds of the Subscription will be used for our working capital and other general corporate purposes.

IMPLICATIONS OF THE LISTING RULES

New Oriental is our controlling shareholder, while Tigerstep is wholly-owned by Mr. Yu, a Director, and therefore, New Oriental and Tigerstep, being the Subscribers, are a connected person of the Company and an associate of a connected person of the Company, respectively, and the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Yu is interested in the Subscription and has abstained from voting at the Board meeting held to approve the Subscription.

FUNDRAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not carried out any other capital raising activities during the 12 months immediately preceding the date of this announcement.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Shareholders on the terms of the Subscription. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other items, (a) details of the Subscription; (b) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the transactions contemplated thereunder (including the grant of the Specific Mandate); (c) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription, is expected to be despatched by the Company to the Shareholders on or before 29 September 2020.

As at the date of this announcement, the Company does not believe that the Subscription will give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the release of this announcement, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible but in any event before the despatch of the circular.

Shareholders and potential investors should note that the Subscription is subject to the satisfaction of certain conditions and accordingly, the Subscription may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise.

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	a day (other than a Saturday or Sunday or public holiday and any other day on which a tropical cyclone warning no. 8 or above or a “black” rain warning signal is hoisted in Hong Kong) on which commercial banks are open for business in the city in which the specified office of the registrar is located and in Hong Kong
“China” or the “PRC”	the People’s Republic of China, and for the purposes of this announcement only, except where the context requires otherwise, excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Closing”	completion of the allotment and issue of the Subscription Shares under the Subscription Agreement
“Company”	Koolearn Technology Holding Limited (新東方在綫科技控股有限公司), a company incorporated in Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange with stock code 1797
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company

“General Meeting”	an extraordinary general meeting of the Company, or the annual general meeting of the Company (if earlier), to be held for the Shareholders, including the Independent Shareholders, to consider and, if thought fit, approve, among other things, the Subscription and the Specific Mandate
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board which comprises all the independent non-executive Directors, namely: Mr. Lin Zheyang, Mr. Tong Sui Bau; and Mr. Kwong Wai Sun Wilson, established to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the grant of Specific Mandate)
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out type 6 regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription
“Independent Shareholder(s)”	Shareholder(s) other than: (i) the Subscriber and its associates (if any); (ii) those who have a material interest in the Subscription or any other person who is required by the Listing Rules to abstain from voting on the resolutions approving the Subscription, the allotment and issue of the Subscription Shares and other transactions contemplated under the Subscription Agreement
“Last Trading Day”	8 September 2020, being the last trading day of the Shares on the Stock Exchange before the entry into of the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Yu”	YU Minhong, the chairman of the Board and a non-executive Director
“New Oriental”	New Oriental Education & Technology Group Inc., a company incorporated under the Laws of the Cayman Islands on 16 March 2006, the American depository shares of which are listed on the New York Stock Exchange under the symbol “EDU” and our Controlling Shareholder
“RMB”	Renminbi, the lawful currency of the PRC

“Share(s)”	ordinary share(s) in the share capital of the Company, currently with a par value of US\$0.00002 each
“Shareholder(s)”	holder(s) of our Share(s)
“Share Option Schemes”	the pre-IPO share option scheme adopted by our Company on 13 July 2018 and subsequently amended on 29 September 2018; and the post-IPO share option scheme adopted by our Company on 30 January 2019 and amended from time to time in accordance with Chapter 17 of the Listing Rules
“Specific Mandate”	the specific mandate to may be granted to the Directors by the requisite majority of the Independent Shareholders at the EGM for the allotment and issuance of the Subscription Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	New Oriental and Tigerstep, or any one of them, each being a subscriber of the Subscription Shares pursuant to the terms and conditions of the Subscription Agreement
“Subscription”	the subscription for the Subscription Shares by the Subscribers pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 8 September 2020 entered into between the Company and the Subscribers in relation to the Subscription
“Subscription Amount”	the aggregate cash consideration payable by the Subscriber(s) for the Subscription Shares at the Subscription Price
“Subscription Price”	US\$3.87 per Subscription Share (corresponding to HK\$30.00 per Subscription Share)
“Subscription Shares”	59,432,000 new Shares to be allotted and issued to the Subscribers pursuant to the Subscription Agreement
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tigerstep”	Tigerstep Developments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, and an associate of a connected person of the Company
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers

“US\$” U.S. Dollar, the lawful currency of the United States of America

% per cent

By order of the Board
Koolearn Technology Holding Limited
YU Minhong
Chairman

Hong Kong, 8 September 2020

Unless otherwise specified, the exchange rate adopted in this announcement for illustration purposes is (a) US\$1:HK\$7.752 (being the midpoint rate of USD to HKD set by the Hong Kong Monetary Authority under the Linked Exchange Rate System checked on 8 September 2020); and (b) RMB1:HK\$1.134 (being the midpoint rate of RMB to HKD published by the Bank of China as at 8 September 2020).

As of the date of this announcement, the Board of Directors comprises Mr. SUN Dongxu and, Mr. YIN Qiang as executive Directors; Mr. YU Minhong, Ms. SUN Chang, Mr. WU Qiang and Ms. LEUNG Yu Hua Catherine as non-executive Directors; and Mr. LIN Zheyang, Mr. TONG Sui Bau and Mr. KWONG Wai Sun Wilson as independent non-executive Directors.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.