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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)

(Stock Code: 839)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF LONG LINK INVESTMENT LIMITED
INVOLVING ISSUE OF SHARES TO VENDOR
UNDER GENERAL MANDATE**

THE ACQUISITION

The Board is pleased to announce that on 26 July 2021 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor, the Guarantor and Long Link Investment Limited (the Target Company) pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, 100% shares in Long Link Investment Limited.

The total valuation of the Target Company is not higher than RMB4,525,686,000 (equivalent to approximately HK\$5,430,823,000) in enterprise value, calculated as equity value adjusted for net cash guarantee as at 30 June 2021. The total consideration for the Acquisition is RMB2,445,800,000 (equivalent to approximately HK\$2,934,960,000).

The Consideration shall be satisfied (i) as to RMB1,675,800,000 (equivalent to approximately HK\$2,010,960,000) in cash; and (ii) as to approximately RMB770,000,000 (equivalent to approximately HK\$924,000,000) by the allotment and issue of 58,996,455 Consideration Shares (representing approximately 2.60% of the issued share capital of the Company as at the date of this announcement and approximately 2.53% of the issued share capital of the Company as enlarged by the Consideration Shares). The issue price of the Consideration Shares is HK\$15.6880 per share, determined as the average of the closing price of the five trading days before this announcement. The Consideration Shares will be subject to a three-month lock-up period from the respective issuing dates. The Consideration Shares will be allotted and issued pursuant to the General Mandate and is not subject to the approval of the shareholders of the Company when allotted and issued, shall rank pari passu with the shares of the Company in issue.

The Company will apply to the Stock Exchange for the listing of, permission to deal in, the Consideration Shares.

Upon completion, Long Link Investment Limited will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group's financial statements.

LISTING RULES IMPLICATIONS

As more than one of the applicable percentage ratios (as set out and calculated under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 5% but all of them are less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors of the Company should note that the completion of the Acquisition is subject to the fulfilment (or waiver, if applicable) of certain conditions precedent under the Acquisition Agreement, and the completion may or may not proceed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

THE ACQUISITION

The principal terms of the Acquisition Agreement are set out below.

Date: 26 July 2021 (after trading hours)

Parties: (a) the Purchaser;
(b) the Vendor;
(c) the Guarantor; and
(d) the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, the Guarantor and the Target Company and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules) as at the date of this announcement.

Subject matter

Pursuant to the Acquisition Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire 100% shares in the Target Company which directly owns 51% equity interest in the Target Entities and indirectly owns 51% school sponsorship interest in the Target School.

Consideration

The total Consideration of RMB2,445,800,000 (equivalent to approximately HK\$2,934,960,000) comprise RMB1,675,800,000 (equivalent to approximately HK\$2,010,960,000) to be settled in cash, and approximately RMB770,000,000 (equivalent to approximately HK\$924,000,000) to be settled by the allotment and issue of Consideration Shares in the following manner:

- (a) First payment:
 - (i) RMB1,675,800,000 (equivalent to approximately HK\$2,010,960,000) shall be paid in cash within 10 working days upon the satisfaction (or waiver, as the case may be) of the first payment conditions below; and
 - (ii) 38,309,387 Consideration Shares in settlement of RMB500,000,000 (equivalent to approximately HK\$600,000,000) will be issued and allotted to the Vendor within 15 working days upon the satisfaction (or waiver, as the case may be) of the first payment conditions below.

The first payment conditions include (amongst others) (i) the Vendor having obtained all the requisite consents and authorizations for the Acquisition, (ii) the Purchaser's nominees having been appointed to the board of directors and management of each of the Target Company and the Target Entities, and (iii) the Purchaser having obtained a copy of the share certificate in relation to the 100% shares of the Target Company.

(b) Second payment:

7,661,877 Consideration Shares in settlement of RMB100,000,000 (equivalent to approximately HK\$120,000,000) will be issued and allotted to the Vendor within 15 working days upon the satisfaction (or waiver, as the case may be) of the second payment conditions below.

The second payment conditions include (amongst others) (i) the Target School having obtained the building ownership certificate of certain properties, (ii) completed the amalgamation of the land registrations for the land-use right of certain lands, and (iii) having completed all necessary regulatory filings in relation to the change of directors of the Target Entities.

(c) Third payment:

13,025,191 Consideration Shares in settlement of RMB170,000,000 (equivalent to approximately HK\$204,000,000) will be issued and allotted to the Vendor within 15 working days upon the satisfaction (or waiver, as the case may be) of the third payment conditions below.

The third payment conditions include (amongst others) the Target School having obtained the building ownership certificate of certain properties within an agreed timeframe in the event this has not been fulfilled or waived as part of the second payment conditions.

Basis of Consideration

The Consideration was arrived at after arm's length negotiations among the Purchaser and the Vendor on normal commercial terms principally with reference to, among others, (a) the historical performance of the Target Group and its business review and outlook, (b) the total asset value of the Target Group, (c) its location and reputation, (d) the courses the Target Group offers, the employment opportunities and the prospects of the graduates, and (e) the observation by the Company regarding the recent market value of the groups of similar size and conducting similar business in nearby geographical area.

Net Cash Guarantee

Pursuant to the Acquisition Agreement, the Vendor guaranteed that the net cash of the Target Group as at 30 June 2021 shall not be less than RMB270,000,000 (equivalent to approximately HK\$324,000,000) (the “**Guaranteed Amount**”). In the event that the net cash of the Target Group as at 30 June 2021 shall fall short of the Guaranteed Amount, 51% of the difference between the Guaranteed Amount and the actual net cash shall set off against the cash consideration of RMB1,675,800,000 (equivalent to approximately HK\$2,010,960,000) at completion.

Consideration Shares

The Consideration Shares shall be allotted and issued pursuant to the General Mandate, credited as fully paid, and shall rank pari passu in all respects among themselves and with the shares of the Company in issue on the date of such allotment and issue, including the right to receive all dividends and distributions which may be declared, made or paid after such date and will be issued free and clean of all liens, encumbrances, equities or other third party rights. The allotment and issue of the Consideration Shares under the General Mandate is not subject to further approval of the shareholders of the Company.

An aggregate of 58,996,455 Consideration Shares will be allotted and issued to the Vendor in accordance with the schedule set out in the section headed “The Acquisition — Consideration” above, which represent approximately 2.60% of the issued share capital of the Company as at the date of this announcement and approximately 2.53% of the issued share capital of the Company as enlarged by the Consideration Shares (assuming that there is no change in the issued share capital of the Company from the date of this announcement to the completion of such issue save for the issue of the Consideration Shares).

The Consideration Shares shall not be sold, transferred, pledged or otherwise transferred by the Vendor within three months from their respective dates of allotment and issue.

The issue price of each Consideration Share is HK\$15.6880, determined based on the average closing price of HK\$15.6880 per Share as quoted on the Stock Exchange for the five (5) trading days immediately prior to the date of the Acquisition Agreement; and represents a premium of approximately 21.61% to the closing price of HK\$12.90 per Share as quoted on the Stock Exchange on 26 July 2021, being the date of the Acquisition Agreement; and a discount of approximately 6.03% to the average closing price of HK\$16.694 per Share as quoted on the Stock Exchange for the 20 trading days immediately prior to the date of the Acquisition Agreement.

Completion

Completion of the Acquisition Agreement shall take place on the cash payment day (i.e. within 10 working days upon the satisfaction of the first payment conditions). Immediately upon completion of the Acquisition and the registration of the transfers of the Target Company to the Purchaser, the Target Company will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group's financial statements.

INFORMATION ON THE PARTIES TO THE ACQUISITION AGREEMENT

The Purchaser

The Purchaser is a limited liability company established under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company and its principal business activity is investment holding.

The Vendor

The Vendor is a limited company established under the laws of the British Virgin Islands and is principally engaged in investment holding.

The Guarantor

The Guarantor is a limited liability company established under the laws of the British Virgin Islands and its principal business activity is investment holding.

The Company was informed by the Vendor that (i) the Guarantor and the Vendor are owned by a diverse group of investors who are independent third parties and (ii) none of the ultimate beneficial owners hold one-third or more of the shareholdings of the Vendor and the Guarantor. The Guarantor entered into the Acquisition Agreement primarily to give joint and several representations and warranties together with the Vendor and such arrangement is in the interest of the Company and its shareholders as a whole.

The Target Group

Long Link Investment Limited, the target company, is a limited liability company incorporated under the laws of Hong Kong and its principal business activity is investment holding. It directly holds 51% equity interest in the Target Entities and indirectly holds 51% sponsorship interest in the Target School.

Sichuan Jincheng Industrial Development Co., Ltd. (四川錦城實業發展有限公司), being one of the Target Entities, is a limited liability company established under the laws of PRC and its principal business activity is investment holding (as the sponsor of the Target School) and development of properties in the campus of the Target School. The Target School is a private undergraduate higher education college in Chengdu, Sichuan, the PRC.

Sichuan Jincheng Zhishan Technology Co., Ltd. (四川錦城至善科技有限公司), being one of the Target Entities, is a limited liability company established under the laws of PRC and its principal business activity is investment holding.

The Group

The Group is a leading global higher and vocational education group with footprints in China, Australia, and the United Kingdom (“UK”), aspiring to provide quality education through innovation. As at 28 February 2021, the Group’s school network consists of eleven universities and professional schools in China (including the top ranked and largest private university in the country and four schools in the Guangdong-Hong Kong-Macao Greater Bay Area), an accredited higher education institute in Sydney, Australia, and a US-UK dual degree awarding university in London, UK. The education management of the Group has obtained the certification of ISO-9000 international quality management system and the ISO-29990 international vocational education quality management system, and has been named among “China Best Managed Companies” by Deloitte for three consecutive years.

FINANCIAL INFORMATION OF THE TARGET GROUP

Based on the unaudited consolidated management accounts of the Target Group prepared pursuant to the Generally Accepted Accounting Principles of the PRC, the financial information of the Target Group for the two years ended 31 August 2019 and 2020 are as follows:

	Year ended 31 August	
	2019	2020
	<i>(Unaudited)</i> <i>RMB'000</i>	<i>(Unaudited)</i> <i>RMB'000</i>
Net profit (before tax)	160,434	171,150
Net profit (after tax)	160,226	170,835

The unaudited total assets and net asset value of the Target Group as at 31 December 2020 is approximately RMB2,910,939,000 and RMB1,972,611,000, respectively.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the issuance and allotment of all the Consideration Shares (assuming that there is no change in the issued share capital of the Company from the date of this announcement to the completion of such issue save for the issue of the Consideration Shares):

Shareholders	As at the date of this announcement		Immediately after all the issuance and allotment of the Consideration Shares	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Blue Sky	750,000,000	33.00	750,000,000	32.16
White Clouds	750,000,000	33.00	750,000,000	32.16
The Vendor	—	—	58,996,455	2.53
Other public shareholders	<u>772,952,000</u>	<u>34.00</u>	<u>772,952,000</u>	<u>33.15</u>
Total	<u>2,272,952,000</u>	<u>100.00</u>	<u>2,331,948,455</u>	<u>100.00</u>

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target School was founded in 2005. As an independent college co-sponsored with a “985 Project” university, the Target School has an outstanding reputation. On the recent list of “Top 100 GDI (Guangzhou Daily Data & Digital Institute) Applied University (Independent College)”, the Target School ranks first among private independent colleges in China. The admission scores of the Target School for the undergraduate liberal arts, undergraduate science, junior liberal arts and junior science in the college entrance exam 2020 was the highest among independent colleges in Sichuan Province, and the Target School admitted students from the first batch of undergraduate enrollment with national key universities for some majors.

With the mission to ‘Pioneer Excellence and Innovation in Education’, the Group has always been at the forefront of the private higher education sector in China. Through the Acquisition, the Group will bring advanced management experience, better teaching quality and more practical diversified courses into Sichuan Province to meet the high demand of local students for high-quality higher education and actively support the education development plan of the province. With more than 30 years of outstanding school operation experience and its leading position in the industry, the Group will help the Target School to further improve the quality of talent training, make positive contributions to China’s Western Development Strategy as well as the economic and social development in the

western region, especially Sichuan, and fulfill the mission and social responsibilities of the Group through integration and empowerment, resource sharing and coordinated development.

Having considered the strategic location, education quality, education reputation, scale and development potential of the Target Group, the Directors consider the Acquisition provides the Group with attractive growth potential in the PRC higher education market. The Directors also believe that the terms of the transaction contemplated under the Acquisition Agreement is 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 transaction contemplated under the Acquisition Agreement or is required to abstain from voting on the Board resolution for considering and approving the same.

APPLICATION FOR LISTING

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

EQUITY FUND RAISING ACTIVITIES BY THE COMPANY IN THE PAST TWELVE MONTHS

The Company has conducted the following fund-raising activities in the past 12 months immediately before the date of this announcement:

Date of announcement	Fund raising activities	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
10 August 2020 and 20 August 2020	Subscription of 130,000,000 new shares pursuant to the subscription agreement dated 10 August 2020 under general mandate granted by shareholders at the annual general meeting of the Company held on 14 February 2020	HK\$2,002.5 million	1) potential as well as announced acquisitions; and 2) expansion and development of the Group's existing and new campuses	HK\$1,301.6 million has been utilised to fund acquisitions and HK\$700.9 million has been utilised to fund expansion and development of the Group's existing and new campuses

Date of announcement	Fund raising activities	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
26 January 2021 and 3 February 2021	Subscription of 122,000,000 new shares pursuant to the subscription agreement dated 26 January 2021 under general mandate granted by shareholders at the annual general meeting of the Company held on 14 February 2020	HK\$2,012.6 million	1) potential acquisitions; and 2) expansion and development of the Group's new campuses in the Greater Bay Area	Approximately HK\$330 million has been utilised to fund expansion and development of the Group's new campuses in the Greater Bay Area The remaining unutilised proceeds of approximately HK\$1,682.6 million shall be used for potential acquisitions and/or expansion and development of the Group's new campuses in the Greater Bay Area

Saved as disclosed above, the Company has not carried out any equity fund raising activity in the twelve months immediately prior to the date of this announcement.

LISTING RULE IMPLICATIONS

As more than one of the applicable percentage ratios (as set out and calculated under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 5% but all of them are less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors of the Company should note that the completion of the Acquisition is subject to the fulfilment (or waiver, if applicable) of certain conditions precedent under the Acquisition Agreement, and the completion may or may not proceed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Acquisition”	the acquisition of 100% shares in the Target Company by the Purchaser pursuant to the Acquisition Agreement
“Acquisition Agreement”	the share purchase agreement dated 26 July 2021 entered into among the Purchaser, the Vendor, the Guarantor and the Target Company in respect of the Acquisition
“acting in concert”	has the meaning ascribed to it under the Code on Takeovers and mergers and Share Buy-backs of Hong Kong
“Blue Sky”	Blue Sky Education International Limited (藍天教育國際有限公司), a company incorporated in the British Virgin Islands with limited liability, beneficially interested in 750,000,000 Shares representing approximately 33.0% of the total issued share capital of the Company as at the date of this announcement. Blue Sky and parties acting in concert with it (including White Clouds) are interested in aggregate approximately 65.99% interest in the Shares as at the date of this announcement
“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 Special Administrative Region of the PRC 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
“Consideration”	the aggregate consideration of RMB2,445,800,000 (equivalent to approximately HK\$2,934,960,000) for the Acquisition

“Consideration Share(s)”	the 58,996,455 new Share(s) to be allotted and issued by the Company at the Issue Price to the Vendor as part of the Consideration
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors to allot, issue and deal with not more than 454,510,400 new Shares (prior to the next annual general meeting of the Company) at the annual general meeting of the Company on 23 February 2021
“Group”	the Company, its subsidiaries and its consolidated affiliated entities
“Guarantor”	JINXIN Medical Investment Group Limited, a limited company established under the laws of the British Virgin Islands
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Price”	the issue price of HK\$15.6880 per Consideration Share
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Purchaser”	Admiral One International Limited, a limited liability company established under the laws of the British Virgin Islands
“RMB”	Renminbi, the lawful currency of PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Long Link Investment Limited (隆興投資有限公司), a limited liability company established under the laws of Hong Kong
“Target Entities”	Sichuan Jincheng Industrial Development Co., Ltd. (四川錦城實業發展有限公司) and Sichuan Jincheng Zhishan Technology Co., Ltd. (四川錦城至善科技有限公司)
“Target Group”	the Target Company and the Target Entities

“Target School”	Jincheng College of Sichuan University (四川大學錦城學院) (to be known as Chengdu Jincheng College (成都錦城學院) after conversion), a private undergraduate higher education college located in Chengdu, the PRC
“White Clouds”	White Clouds Education International Limited (白雲教育國際有限公司), a company incorporated in the British Virgin Islands with limited liability, beneficially interested in 750,000,000 Shares representing approximately 33.0% of the total issued share capital of the Company as at the date of this announcement. White Clouds and parties acting in concert with it (including Blue Sky) are interested in aggregate approximately 65.99% interest in the Shares as at the date of this announcement
“Vendor”	Lyandy Investment Limited, a limited company established under the laws of the British Virgin Islands
“%”	per cent

For illustrative purpose of this announcement only, conversion of RMB into HK\$ is made at the following exchange rate: RMB1.00 = HK\$1.20.

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, 26 July 2021

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.