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華夏視聽

CATHAY MEDIA AND EDUCATION GROUP INC.

華夏視聽教育集團

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1981)

MAJOR TRANSACTION AND CONNECTED TRANSACTION

DISPOSAL OF BEIJING SHUIMU HUAXIA EDUCATION & TECHNOLOGY CO., LTD.

THE DISPOSAL

Reference is made to the announcements of the Company dated 20 December 2020, 28 January 2021 and 7 April 2021 in relation to the Acquisition. On 19 December 2020, Bicheng Art (a wholly-owned subsidiary of the Company, as the Transferee) entered into the Acquisition Agreement with the Transferor (a limited partnership enterprise controlled by the Founder), pursuant to which the Transferor conditionally agreed to sell, and Bicheng Art conditionally agreed to acquire, the entire equity interest in the Target Company for an aggregate consideration of RMB300 million. The Acquisition was completed on 6 April 2021 after the successful registration of the transfer of the entire equity interest in the Target Company by the Transferor to Bicheng Art. Up to the date of this announcement, an aggregate consideration of RMB165 million has been paid by Bicheng Art to the Transferor under the terms of the Acquisition Agreement.

Taking into account that the tightening regulatory requirements for off-campus training (including non-curriculum-based tutoring) released since the fourth quarter of 2021, and the New Regulations released on 3 March 2022 in the PRC, together with the notices of temporary closure of offline off-campus training institutions due to COVID-19 issued by certain municipal and provincial government authorities in March 2022, may have a potential adverse impact on the operations, results and performance of the Target Group, Bicheng Art and the Founder agreed to unwind the Acquisition Agreement. On 28 March 2022, Bicheng Art (as the vendor), the Founder, Ms. You and Qingdao Yangjin (together as the purchasers) and the Target Company entered into the Unwind Agreement, pursuant to which (i) Bicheng Art conditionally agreed to sell, and the Founder, Ms. You and Qingdao Yangjin conditionally agreed to acquire the entire equity interest in the Target Company at the consideration equivalent to the partly paid Acquisition Consideration of RMB165 million, and (ii) the parties have agreed to the settlement arrangement relating to the outstanding amount of the Loan granted to the Target Company.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, the Founder, being a director of the Target Company, is a connected person of the Company at the subsidiary level. As Ms. You is the spouse of the Founder and Qingdao Yangjin is a limited partnership entity of which its general partner is the Founder, Ms. You and Qingdao Yangjin are therefore associates of the Founder under Rule 14A.12 of the Listing Rules and hence connected persons of the Company. Accordingly, the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (i) the Founder is a connected person at the subsidiary level and Ms. You and Qingdao Yanjin are his associates, (ii) the Board has approved the Disposal, and (iii) the Directors (including the independent non-executive Directors) have also confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal is more than 25% and all of them are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under the Listing Rules.

None of the Directors had material interests in the Disposal and hence no Director is required to abstain from voting on the Board resolutions approving the Unwind Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Disposal. As such, no Shareholders would be required to abstain from voting in favour of the resolution approving the Disposal. As at the date of this announcement, the Controlling Shareholders control 1,160,934,000 Shares, which represents approximately 70.02% of the total number of issued shares of the Company. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting of the Company to approve the terms of, and the transactions contemplated under, the Unwind Agreement upon satisfaction of the conditions set out under Rule 14.44 of the Listing Rules.

A circular (for information purposes only) containing, inter alia, further details of the Disposal is expected to be despatched to the Shareholders within 15 business days of this announcement.

BACKGROUND

Reference is made to the announcements of the Company dated 20 December 2020, 28 January 2021 and 7 April 2021 in relation to the Acquisition (the “**Announcements**”). Unless otherwise specified, capitalised terms used herein shall have the same meanings as those in the Announcements.

On 19 December 2020, Bicheng Art (a wholly-owned subsidiary of the Company, as the Transferee) entered into the Acquisition Agreement with the Transferor (a limited partnership enterprise controlled by the Founder), pursuant to which the Transferor conditionally agreed to sell, and Bicheng Art conditionally agreed to acquire, the entire equity interest in the Target Company for an aggregate consideration of RMB300 million. The Target Group operates the Shuimuyuan Business. On 6 April 2021, the Acquisition was completed after the successful registration of the transfer of the entire equity interest in the Target Company by the Transferor to Bicheng Art. Upon completion of the Acquisition, the Company indirectly holds the entire equity interest in the Target Company, and the consolidated financial statements of the Target Company have been consolidated into the financial statements of the Group.

Pursuant to the Acquisition Agreement, the Acquisition Consideration is to be settled in four instalments. Each instalment is subject to the satisfaction of certain conditions precedent. For details, please refer to the announcement of the Company dated 20 December 2020. Up to the date of this announcement, an aggregate of RMB165 million (being the deposit of RMB60 million and the first instalment payment of RMB105 million) has been paid by Bicheng Art to the Transferor pursuant to the terms of the Acquisition Agreement.

Since the fourth quarter of 2021, several PRC government authorities have released certain regulatory requirements which primarily aim to tighten the regulation of off-campus training (including non-curriculum-based tutoring). In March 2022, the Relevant PRC Authorities issued the New Regulations to regulate non-curriculum-based off-campus training institutions. As the Target Group provides art training services to art entrance exam students under the brand of Shuimuyuan, such services being non-curriculum-based tutoring, it will be subject to these latest regulatory requirements, in particular the New Regulations. Further, in March 2022, certain municipal and provincial government authorities in the PRC have announced the temporary closure of offline off-campus training institutions due to COVID-19. Having considered the potential impact of these latest regulatory requirements and the temporary closure of offline off-campus training institutions due to COVID-19, the Directors are of the view that the Shuimuyuan Business and its operations, results and performance will be adversely affected. For details, please refer to the “Reasons for and benefits of the Disposal” section in this announcement.

After arms-lengths negotiations, Bicheng Art and the Founder have agreed to unwind the Acquisition Agreement, and on 28 March 2022, Bicheng Art (as the vendor), the Founder, Ms. You and Qingdao Yangjin (together as the purchasers) and the Target Company entered into the Unwind Agreement, pursuant to which (i) Bicheng Art conditionally agreed to sell, and the Founder, Ms. You and Qingdao Yangjin conditionally agreed to acquire the entire equity interest in the Target Company at the consideration equivalent to the partly paid Acquisition Consideration of RMB165 million, and (ii) the parties have agreed to the settlement arrangement relating to the outstanding amount of the Loan granted to the Target Company by Nanjing Lanchou (a consolidated affiliated entity of the Company).

Having considered the potential impact of the tightening regulatory requirements and the uncertainty of the COVID-19 situation on the Target Group’s operations, results and performance, the Directors (including the independent non-executive Directors) believe that the termination of the Acquisition Agreement and the Disposal is in the interests of the Company and the Shareholders as a whole.

THE DISPOSAL

The principal terms of the Unwind Agreement are summarised below:

Date: 28 March 2022

Parties:

- (a) Bicheng Art (a wholly-owned subsidiary of the Company), as the vendor;
- (b) The Founder;
- (c) Ms. You;
- (d) Qingdao Yangjin, together with the Founder and Ms. You, as the purchasers; and
- (e) The Target Company.

Subject

Pursuant to the Unwind Agreement, Bicheng Art conditionally agreed to sell, and the Founder, Ms. You and Qingdao Yangjin conditionally agreed to acquire the entire equity interest in the Target Company at the consideration equivalent to the partly paid Acquisition Consideration of RMB165 million.

The Target Group provides art training services to art entrance exam students under the brand of Shuimuyuan. Shuimuyuan is a leading art entrance exam training institution in China and one of the largest art entrance exam training institutions in China in terms of number of students. For details of Shuimuyuan, please refer to the announcement of the Company dated 20 December 2020.

Consideration

The total consideration for the Disposal is RMB165 million, which shall be transferred by the Founder to the designated bank account of Bicheng Art in the following manner:

- (a) RMB30 million within five business days from the date of signing of the Unwind Agreement;
- (b) RMB20 million within 30 days from the date of signing of the Unwind Agreement;
- (c) RMB25 million on or before 15 August 2022;
- (d) RMB25 million on or before 15 December 2022;
- (e) RMB30 million on or before 31 December 2023; and
- (f) RMB35 million on or before 31 December 2024.

Basis of consideration of the Disposal

The consideration of the Disposal is equivalent to the partly paid Acquisition Consideration of RMB165 million pursuant to the Acquisition Agreement, which was determined after arm's length negotiations between Bicheng Art and the Founder with the intention to put the parties back to the position prior to the Acquisition. Having considered the potential impact of tightening regulatory requirements and the uncertainty of the COVID-19 situation on the Target Group's operations, results and performance, the Directors (including the independent non-executive Directors) are of the view that the consideration for the Disposal is fair and reasonable.

The Loan

On 1 April 2021, Nanjing Lanchou (a consolidated affiliated entity of the Company, as the lender) and the Target Company (as the borrower) entered into the Loan Agreement, pursuant to which Nanjing Lanchou granted a loan in the principal amount of RMB20 million to the Target Company as the working capital of the Target Group. As at the date of the Unwind Agreement, the outstanding amount of the Loan amounted to RMB12,674,805. It is agreed under the Unwind Agreement that the Target Company shall transfer the outstanding amount of the Loan to the designated bank account of Nanjing Lanchou on or before 31 December 2022 to settle the Loan and the Founder provides joint and several guarantee to Bicheng Art for the performance of the Target Company of its repayment obligations under the Loan.

The transfer of equity interest in the Target Company and completion of the Disposal

Within five business days from the date of settlement of the consideration in an aggregate amount of RMB30 million as stated in (a) in the above "Consideration" section, (i) Bicheng Art shall transfer 45% equity interest in the Target Company to Qingdao Yangjin, and 33% and 22% equity interest in the Target Company to the Founder and Ms. You, respectively, and Bicheng Art shall cooperate with the Founder in completing the relevant registration procedures for change of shareholders of the Target Company; and (ii) Bicheng Art, the Founder, Ms. You and Qingdao Yangjin and the Target Company shall cooperate with each other and take necessary actions to ensure that all directors on the board of directors of the Target Company nominated by Bicheng Art have resigned from their position as directors of the Target Company. Upon the successful registration of the said transfer, Bicheng Art will cease to control the board of directors of the Target Company, the Target Company will cease to be a subsidiary of the Company and, accordingly, the financial statements of the Target Group will no longer be consolidated into the financial statements of the Group.

Share pledges

Upon the successful registration of the transfer of the entire equity interest in the Target Company to the Founder, Ms. You and Qingdao Yangjin (the date of which shall be referred to as the "**Transfer Date**");

- (1) the Founder shall pledge an aggregate of 30% equity interest in the Target Company to Bicheng Art (the "**Founder Share Pledges**"), such pledges shall be given as security for the payment obligations under paragraphs (c) and (d) in the above "Consideration" section; and
- (2) Qingdao Yangjin shall pledge an aggregate of 40% equity interest in the Target Company to Bicheng Art (the "**Qingdao Yangjin Share Pledges**"), such pledges shall be given as security for the payment obligations under paragraphs (e) and (f) in the above "Consideration" section.

Within five business days from the Transfer Date, the Target Company shall register the Founder Share Pledges and the Qingdao Yangjin Share Pledges with the relevant authorities at the place of incorporation of the Target Company.

The respective Founder Share Pledges and the Qingdao Yangjin Share Pledges shall be released within 10 business days from each settlement of the respective payment obligations as stated in paragraphs (1) and (2) above.

FINANCIAL EFFECT OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

A summary of the unaudited financial information of the Target Group prepared in accordance with the HKFRS for the two years ended 31 December 2020 and 2021 is set out below:

	For the year ended 31 December	
	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Revenue	205,481	274,359
Net profit before taxation	21,742	26,485
Net profit after taxation	16,307	20,262

The unaudited net assets of the Target Group as at 31 December 2021 was approximately RMB197.0 million.

It is expected that the Group will record a loss on the Disposal of approximately RMB19.3 million. Such loss is estimated based on the gross proceeds from the Disposal of RMB165.0 million less the unaudited net asset value of the Target Group of approximately RMB197.0 million as at 31 December 2021, and after deducting the Loan of approximately RMB12.7 million. Such loss from the Disposal expected by the Company is unaudited and may be different upon the completion of the Disposal, which is subject to audit and disclosure in the subsequent annual report of the Company. Upon completion of the Disposal, the financial statements of the Target Group thereafter will no longer be consolidated into the financial statements of the Group.

It is expected that the net proceeds from the Disposal will be used for other potential investments and/or business opportunities that may arise and as general working capital of the Group. In any event, the Board does not envisage that the Disposal will create any significant adverse impact on the Group's financial position.

INFORMATION ON THE PARTIES

The Group is principally engaged in higher education (media and arts) and vocational education, media, arts and vocational training, as well as television series and film production and investment in the PRC.

Bicheng Art is a company established in the PRC with limited liability and a wholly-owned subsidiary of Cathay Media HK. Bicheng Art is principally engaged in investment holding and consulting.

The Founder is a natural person in the PRC. After the Acquisition and up to the date of this announcement, the Founder has remained in his position as a director of the Target Company.

Ms. You is a natural person in the PRC and the spouse of the Founder.

Qingdao Yangjin is a limited partnership entity established in the PRC and the general partner of Qingdao Yangjin is the Founder. Qingdao Yangjin is an investment holding entity.

The Target Company is a limited liability company to be incorporated under the laws of the PRC. It is an investment holding company and the principal business of its subsidiaries is the provision of art training services to art entrance exam students under the brand of Shuimuyuan.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As provided in the announcement of the Company dated 20 December 2020 in relation to the Acquisition, the Directors at that time believed that the Acquisition presents an excellent opportunity to further expand in the media and arts training areas, which complements the business of higher education (media and arts) of the Group.

However, since the fourth quarter of 2021, several PRC government authorities have released certain regulatory requirements which primarily aim to tighten the regulation of off-campus training (including non-curriculum-based tutoring). On 3 March 2022, the Relevant PRC Authorities issued the New Regulations which impose a number of regulatory requirements on the operation of non-curriculum-based off-campus training institutions. These latest regulatory requirements include, among others, restrictions on pricing of tuition fees, prepayment of tuition fees, advertisements for student recruitment, tutoring hours, qualifications of practitioners and operating venues. Since the Target Group provides art training services to art entrance exam students under the brand of Shuimuyuan, such services being non-curriculum-based tutoring, it will be subject to these latest regulatory requirements, in particular the New Regulations. The Group expects that these latest regulatory requirements may affect the revenue growth and may increase the operating costs of the Target Group. In addition, in March 2022, certain provincial and municipal government authorities in the PRC announced the temporary closure of offline off-campus training institutions due to COVID-19, which may affect the operations of the Target Group. Taking into account the potential adverse impact of the latest regulatory requirements on off-campus training institutions and the uncertainty of the COVID-19 situation on the Shuimuyuan Business, regardless of whether the Target Company is able to meet the Guaranteed Net Profit of RMB24 million for the year ended 31 December 2021, the Directors believe that the Unwind Agreement, the Disposal and the recovery of the partly paid Acquisition Consideration and the outstanding amount of the Loan are in the interests of the Company and the Shareholders as a whole. Further, through the Disposal, the Group is not required to pay the balance of the Acquisition Consideration (i.e. RMB135 million) and may reallocate its financial and other resources to other businesses which are considered to have higher development potential, in order to generate more return to the Shareholders.

Based on the above, the Directors (including all of the independent non-executive Directors) consider that, the Disposal is fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. None of the Directors has any material interest in the Disposal, as such no Director would be required to abstain from voting on the board resolution approving the Disposal.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, the Founder, being a director of the Target Company, is a connected person of the Company at the subsidiary level. As Ms. You is the spouse of the Founder and Qingdao Yangjin is a limited partnership entity of which its general partner is the Founder, Ms. You and Qingdao Yangjin are therefore associates of the Founder under Rule 14A.12 of the Listing Rules and hence connected persons of the Company. Accordingly, the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (i) the Founder is a connected person at the subsidiary level and Ms. You and Qingdao Yanjin are his associates, (ii) the Board has approved the Disposal, and (iii) the Directors (including the independent non-executive Directors) have also confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal is more than 25% and all of them are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under the Listing Rules.

None of the Directors had material interests in the Disposal and hence no Director is required to abstain from voting on the Board resolutions approving the Unwind Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Disposal. As such, no Shareholders would be required to abstain from voting in favour of the resolution approving the Disposal. As at the date of this announcement, the Controlling Shareholders control 1,160,934,000 Shares, which represents approximately 70.02% of the total number of issued shares of the Company. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting of the Company to approve the terms of, and the transactions contemplated under, the Unwind Agreement upon satisfaction of the conditions set out under Rule 14.44 of the Listing Rules.

A circular (for information purposes only) containing, inter alia, further details of the Disposal is expected to be despatched to the Shareholders within 15 business days of this announcement.

DEFINITIONS

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

“Acquisition”	the acquisition of the entire equity interest in the Target Company pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 19 December 2020 entered into by the Transferor and the Transferee in relation to the Acquisition, details of which are set out in the Announcements
“Acquisition Consideration”	the total consideration of the Acquisition in the amount of RMB300 million
“Bicheng Art”	Bicheng Art Consulting (Nanjing) Co., Ltd (碧城藝術諮詢(南京)有限公司), a company established in the PRC on 29 July 2019, a wholly-owned subsidiary of our Company and the Transferee under the Acquisition Agreement
“Board”	the board of Directors
“Cathay Media HK”	Cathay Media Group (Hong Kong) Limited (華夏視聽傳媒集團(香港)有限公司), a company incorporated in Hong Kong on 27 January 2017 and a wholly-owned subsidiary of our Company
“Cathay Media Holding”	Cathay Media Holding Inc., a company incorporated in the British Virgin Islands, and is wholly-owned by Winning Global
“China” or “PRC”	the People’s Republic of China and for the purposes of this announcement only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Company”	Cathay Media and Education Group Inc. (華夏視聽教育集團) (formerly known as Cathay Media Group Inc. (華夏視聽傳媒集團)), an exempted company incorporated in the Cayman Islands with limited liability on 4 January 2017
“Controlling Shareholder”	Cathay Media Holding and Mr. Pu
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of our Company
“Disposal”	the disposal of the entire equity interest of the Target Company by Bicheng Art to the Founder, Ms. You and Qingdao Yangjin

“Founder”	Mr. Ma Xiaochuan (馬小川), a PRC national and a director of the Target Company
“Group”	the Company, its subsidiaries and the consolidated affiliated entities from time to time
“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan”	the loan in the principal amount of RMB20 million granted by Nanjing Lanchou to the Target Company pursuant to the Loan Agreement
“Loan Agreement”	the loan agreement dated 1 April 2021 entered into between Nanjing Lanchou as the lender and the Target Company as the borrower in relation to the grant of the Loan
“Mr. Pu”	Mr. Pu Shulin (蒲樹林), the founder, executive Director, chief executive officer, chairman of the Board and the Controlling Shareholder
“Ms. You”	Ms. You Xiaofei (由曉菲), the spouse of the Founder
“Nanjing Lanchou”	Nanjing Lanchou Corporate Management Co., Ltd. (南京藍籌企業管理有限公司), a company established in the PRC on 26 October 2017 and a consolidated affiliated entity of the Company
“New Regulations”	Announcement on Regulating Non-curriculum-based Off-campus Training 《關於規範非學科類校外培訓的公告》
“Qingdao Yangjin”	青島央金文化藝術合夥企業(有限合夥)(Qingdao Yangjin Culture and Art Partnership (Limited Partnership)*), a limited partnership established under the laws of the PRC
“Relevant PRC Authorities”	the Ministry of Education of the PRC, the National Development and Reform Commission and the State Administration for Market Regulation
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary share(s) in the share capital of the Company with a par value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Share(s)

“Shuimuyuan Business”	the provision of art training services to art entrance exam students under the brand of Shuimuyuan. For details of the brand of Shuimuyuan, please refer to the announcement of the Company dated 20 December 2020.
“Target Company”	Beijing Shuimu Huaxia Education & Technology Co., Ltd.* (北京水木華夏教育科技有限公司), a limited liability company established and existing under the laws of the PRC
“Target Group”	the Target Company and its subsidiaries
“Unwind Agreement”	the agreement dated 28 March 2022 entered into by Bicheng Art, the Founder, Ms. You and Qingdao Yangjin in relation to the Disposal
“Winning Global”	Winning Global Ventures Limited, a company incorporated in the British Virgin Islands and is controlled by Mr. Pu as a settlor through a discretionary trust
“%”	percent

By order of the Board
Cathay Media and Education Group Inc.
Pu Shulin
Chairman and executive Director

China, 28 March 2022

As at the date of this announcement, the executive directors are Mr. Pu Shulin, Mr. Sun Haitao, Mr. Wu Ye and Mr. Yan Xiang and the independent non-executive directors are Mr. Zhang Jizhong, Mr. Lee Cheuk Yin Dannis and Mr. Huang Yu.

* *For identification purposes only*