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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.**

Capitalised terms used on this cover page have the same meanings as defined in the section headed “Definitions” in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 5 to 15 of this circular.

The Unwind Agreement and the Disposal have been approved by written approval obtained from Cathay Media Holding Inc., the Controlling Shareholder, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being dispatched to the Shareholders for information only.

25 May 2022

CONTENTS

	<i>Page</i>
DEFINITIONS.....	1
LETTER FROM THE BOARD	5
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	16
APPENDIX II – GENERAL INFORMATION.....	18

DEFINITIONS

“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 Acquisition Announcements
“Acquisition Announcements”	Announcements of the Company dated 20 December 2020, 28 January 2020 and 7 April 2021 in relation to the Acquisition
“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 the 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 the 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 circular 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

DEFINITIONS

“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	Cathay Media Holding and Mr. Pu
“Director(s)”	the director(s) of the 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
“Latest Practicable Date”	19 May 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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

DEFINITIONS

“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》)
“Prospectus”	the prospectus of the Company dated 30 June 2020
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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

DEFINITIONS

“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

English names of the PRC-established companies/entities in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

In this circular, RMB has been converted to HK\$ at the rate of RMB1 = HK\$1.230 for illustration purposes only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

LETTER FROM THE BOARD



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)

Executive Directors:

PU Shulin (Chairman and Chief Executive Officer)
SUN Haitao
WU Ye
YAN Xiang

Independent non-executive Directors:

ZHANG Jizhong
LEE Cheuk Yin Dannis
HUANG Yu

Registered office:

190 Elgin Avenue, George Town
Grand Cayman KY1-9008
Cayman Islands

Head office:

22/F, Block 12, Wanda Plaza
No. 93 Jianguo Road
Chaoyang District, Beijing
China

Principal Place of Business in

Hong Kong:

Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

25 May 2022

To the Shareholders

**MAJOR TRANSACTION AND CONNECTED TRANSACTION
DISPOSAL OF BEIJING SHUIMU HUAXIA EDUCATION &
TECHNOLOGY CO., LTD.**

INTRODUCTION

Reference is made to the announcement of the Company dated 28 March 2022 in relation to the Disposal and the Acquisition Announcements.

The purpose of this circular is to provide you with information regarding, among other things, (i) further details in relation to the the Disposal; and (ii) other information as required under the Listing Rules.

LETTER FROM THE BOARD

BACKGROUND

On 19 December 2020, Bicheng Art (a wholly-owned subsidiary of the Company, as the Transferee (as defined in the Acquisition Announcements)) entered into the Acquisition Agreement with the Transferor (as defined in the Acquisition Announcements, a limited partnership enterprise controlled by the Founder), pursuant to which the Transferor (as defined in the Acquisition Announcements) 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 (as defined in the Acquisition Announcements) 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 the Unwind Agreement, 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 circular.

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).

LETTER FROM THE BOARD

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;

LETTER FROM THE BOARD

- (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. The Company is of the view that the tightening regulatory requirements and the uncertainty of the COVID-19 situation have and are expected to adversely affect the Target Group's operations, results and performance. To the knowledge of the Group, the valuations of certain listed companies which provide after school tutoring services in the PRC decreased significantly after the release of the "Double Reduction Policy" in the PRC since the third quarter of 2021. Accordingly, the Board expects that the valuation of the Target Group as at 28 March 2022 (i.e. the date of the Unwind Agreement) has substantially decreased as compared to that as at 19 December 2021 (i.e. the date of the Acquisition Agreement). Therefore, the Company believes that it would not be able to sell the entire equity interest in the Target Company to any third party other than the Founder at a total consideration equivalent to the Acquisition Consideration of RMB300 million or more and the Directors (including the independent non-executive Directors) are of the view that the consideration for the Disposal is fair and reasonable.

As explained above, the Company is of the view that the Unwind Agreement, the Disposal and the recovery of the partly paid Acquisition Consideration is more beneficial to the Company as a whole as compared to selling the Target Group to any other third party. After taking into account that the Founder does not have sufficient liquidity to immediately settle the total consideration of RMB165 million for the Disposal, the parties have agreed to settle the consideration for the Disposal in instalments and according to the schedule as stated in the "Consideration" section. Such settlement arrangement has been agreed by the parties through arms-length negotiation and based on the results of the due diligence investigation conducted by the Company against the Founder, Ms. You and Qingdao Yangjing (including (i) conducting online bankruptcy and litigation searches in the PRC on the Founder, Ms. You and Qingdao Yangjin; (ii) reviewing the bank statements of the Founder and Ms. You and the records of the wealth management products held by them (showing the relevant principal amounts and corresponding maturity dates); (iii) reviewing records of the Founder's personal assets (such as an investment property owned by the Founder) and checking the current market value of similar properties; (iv) reviewing the cash position of the Shuimuyuan Business as at 28 February 2022 and the track record of the Founder when he managed the Shuimuyuan Business for the years ended 31 December 2019, 2020 and 2021; and (v) obtaining confirmation from the Founder that he and Ms. You have no material liabilities and personal debts). Based on the results of the due diligence investigation which shows that the value of the Founder's assets is larger than the total consideration for the Disposal and the Founder's confirmation that he

LETTER FROM THE BOARD

and Ms. You have no material liabilities and personal debts, the Company is of the view that the due diligence investigation is sufficient as the Company could assess the Founder's immediate available funds, his financial situation, the repayment ability of the Founder and the timeline when the Founder could make the relevant payment, which are the factors that the Company had taken into consideration when determining the settlement arrangement. Based on the above and also taking into account the Founder Share Pledges and Qingdao Yangjin Share Pledges (as disclosed in the section "Share pledges" in this Circular) and the guarantee provided by the Target Company and Qingdao Yangjin in favour of Bicheng Art for any consideration payable by the Founder to Bicheng Art (as disclosed in the section "Share pledges" in this Circular) which minimize the risk of the Company not receiving the consideration of the Disposal as the Company could enforce these pledges and guarantee, the Company considers that the settlement arrangement is fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

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.

To the Company's knowledge, the outstanding amount of the Loan of RMB12,674,805 was primarily used for the expansion of the Jinan campus of the Shuimuyuan Business, which included the purchase of certain properties. However, such expansion plan was subsequently cancelled due to the tightening regulatory requirements and the Disposal, and the Target Group is in the process of disposing such properties and will settle the outstanding amount of the Loan using the proceeds of such disposal once the disposal of the relevant properties is completed. The completion of the disposal of such properties is expected to be on or before 31 December 2022. Therefore, the Directors believe that the Target Company will be able to repay the outstanding amount of the Loan on or before 31 December 2022 and the parties have agreed to set such date as the due date. In addition, given that the Founder provides joint and several guarantee to Bicheng Art for the performance of the Target Company of its repayment obligations under the Loan under the Unwind Agreement, the Company believes that in any event, if the Target Company is in default of the outstanding Loan, the Company will be able to rely on such personal guarantee made by the Founder and hence, the Directors are of the view that the Company's interests over the Loan are sufficiently safeguarded.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is no, and in the twelve months prior to the entry into the Unwind Agreement, there has been no, material loan arrangement between (a) the Founder, Ms. You and Qingdao Yangjin, any of their directors and legal representatives and/or any ultimate

LETTER FROM THE BOARD

beneficial owner(s) of the Founder, Ms. You and Qingdao Yangjin who can exert influence on the transaction; and (b) the Company, any connected person at the Company's level and/or any connected person at the subsidiary level (to the extent that such subsidiary/subsidiaries is/are involved in the transaction).

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 15% and 15% of equity interest in the Target Company to Bicheng Art (the "**Founder Share Pledges**") to secure the third and fourth payment obligations under (c) and (d) in the above "Consideration" section (which represents 15% and 15% of the total consideration of the Disposal) respectively. Such pledges shall be released within 10 business days from the settlement of the third and fourth payment obligations, respectively; and
- (2) Qingdao Yangjin shall pledge 20% and 20% of equity interest in the Target Company to Bicheng Art (the "**Qingdao Yangjin Share Pledges**") to secure the fifth and sixth payment obligations under (e) and (f) in the above "Consideration" section (which represents 20% and 20% of the total consideration of the Disposal) respectively. Such pledges shall be released within 10 business days from the settlement of the fifth and sixth payment obligations, respectively.

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.

LETTER FROM THE BOARD

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.

As (i) the equity interest in the Target Company subject to the share pledges is proportionate to the consideration receivable from the Founder which the share pledges secure, and (ii) each pledge shall only be released upon the fulfilment of the respective payment obligations, the Directors are of the view that the share pledges are sufficient to safeguard the Company's interests over the consideration receivable from the Founder.

In addition, the Target Company and Qingdao Yangjin provide joint and severable guarantee in favour of Bicheng Art pursuant to which the Target Company and Qingdao Yangjin are jointly and severally liable for any consideration payable by the Founder to Bicheng Art if the Founder breaches his obligation to pay the total consideration pursuant to the Unwind Agreement.

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>
	<i>(unaudited)</i>	<i>(unaudited)</i>
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.

LETTER FROM THE BOARD

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. As at the Latest Practicable Date, the Company has not identified any such potential investments or business opportunities. 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 circular, 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 is an investment holding entity. The Founder is the general partner and ultimate beneficial owner of Qingdao Yangjin.

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

LETTER FROM THE BOARD

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 particular, the New Regulations imposed a number of regulatory requirements on the operation of the non-curriculum-based off-campus training institutions and institutions would need to make certain changes to their operations, staffing and/or operating venues in order to comply with such requirements, which would cause substantial increase in the operating costs of such institution. For example, these latest regulatory requirements include, among others, (i) imposing minimum academic qualification requirements for full time and part time practitioners (i.e. institutions may only employ practitioners with a cultural and art-related professional degree or an intermediate title or above and these practitioners should only teach in areas related to their professional qualifications), in order to comply with the such requirements, the Target Group will have to offer higher compensation to attract and retain practitioners who possess the necessary qualifications, and (ii) other requirements in relation to the operating venue (such as a prescribed area-per-student requirement and restriction against using shared or mobile venues), in order to comply with such requirements, the Target Group will have to lease additional properties as operating venues. All these additional measures will 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, as a result, the Target Group has temporarily suspended the offline training services in its campuses in Beijing, Hangzhou and Jinan since the issue of the respective announcements in March 2022. As at the Latest Practicable Date, due to the latest lock-down arrangement in Beijing and other COVID-19-related restrictions in the PRC, (i) the Target Group is unable to hold the trial lessons for potential students for student recruitment purposes and training courses for students prior to boot camp for the national college art entrance exams originally scheduled to be held in Beijing (where the Shuimuyuan Business' largest campus and learning center are situated) during the 1 May Labour Day holidays, and (ii) in order to continue with the operation of the Shuimuyuan Business, the Target Group is required to find temporary campuses and/or learning centers in different cities where students are located to continue with the student recruitment process and the provision of off-campus training services. Such alternative measures will incur additional recruitment costs and expenses to 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.

LETTER FROM THE BOARD

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 the Unwind Agreement, 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 Yangjin 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 the Unwind Agreement, 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.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that, the terms of the Unwind Agreement are and the Disposal is fair and reasonable, and that the Disposal is on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Although a general meeting will not be convened by the Company to approve the Unwind Agreement and the Disposal, if such a general meeting were to be convened by the Company, the Board would have recommended the Shareholders to vote in favour of the resolutions to approve the Unwind Agreement and the Disposal.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Cathay Media and Education Group Inc.
Pu Shulin
Chairman and executive director

FINANCIAL INFORMATION

Financial information of the Group for the years ended 31 December 2018, 2019, 2020 and 2021 is disclosed in the following documents, which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cathaymedia.com):

- Prospectus of the Company (for financial information for the years 2018 and 2019) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0630/2020063000071.pdf>)
- annual report of the Company for the year ended 31 December 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042702058.pdf>)
- annual report of the Company for the year ended 31 December 2021 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0426/2022042600063.pdf>).

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has the following indebtedness:

	As at 31 March 2022 RMB'000 (unaudited)
Lease liabilities	202,753
• Non-current	184,306
• Current	18,447

Saved as aforesaid or as otherwise disclosed herein, and apart from intragroup liabilities, at the close of business on 31 March 2022, the Group did not have any debt securities, other borrowings or loan capital issued and outstanding, agreed to be issued, or authorised or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments or guarantees.

MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statement of the Group were made up.

WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the existing cash and bank balances and the present internal resources of the Group and the consideration expected to be received, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As at the Latest Practicable Date, the Group's business included the provision of higher education (media and arts) and vocational education, media, arts and vocational training, and TV/film production and investment. On one hand, the Group leverages the reputation and recognition in China which its TV/film production and investment business brings to it to connect its media and arts independent collage (南京傳媒學院, "CUCN") with the industry. On the other hand, it leverages its resources in the TV/film production and investment industry and introduces industry leaders to join as faculty advisers at CUCN and provide a large number of internship and employment opportunities for students of CUCN. CUCN serves as a source for the recruitment of talent and supply of creative content for the TV/film production industry. The Group believes there is market potential in the field of quality education and content related to media and arts. Therefore, it plans to continue to maintain the Group's market position of its application-oriented higher education (which focuses on media and arts) and improve its teaching quality, while exploring more opportunities of vocational education primarily in the fields of media, arts and TV/film production.

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 and in line with the Group's aforementioned business strategy. However, after 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, 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.

In addition, 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. With the capital realized, the Group will be able to continue to improve teaching quality of its higher education (media and arts) and vocational education business, and produce and invest in high-quality content TV/film series and to explore more opportunities for vocational education and other new businesses such as audio and live streaming e-commerce businesses. The Company is optimistic about the future prospect and growth potential of such business and expects that such business will continue to be the driver of the sustainable growth of the Group going forward.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations within the meaning of Part XV of the SFO, which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) were as follows:

Interest in the Company

Name of Director	Nature of interest	Number of Shares	Approximate percentage of holding ⁽¹⁾
Mr. Pu	Founder of a discretionary trust	1,160,934,000	70.02%

Note:

(1) The calculation is based on the total number of 1,657,818,000 Shares in issue as at the Latest Practicable Date.

Interest in associated corporation

Associated corporation	Name of Director	Nature of interest	Number of shares/amount of contribution to registered capital	Interest in associated corporation
Cathay Media Holding Inc.	Mr. Pu	Interest of controlled corporation	1	100%

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, none of the Directors or chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the following persons (other than the Directors and chief executives whose interests have been disclosed in this circular), had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of holding⁽¹⁾
Mr. Pu ⁽²⁾	Founder of a discretionary trust	1,160,934,000	70.02%
Cathay Media Holding Inc. ⁽²⁾	Beneficial owner	1,160,934,000	70.02%
Media One International (PTC) Limited ⁽²⁾	Trustee	1,160,934,000	70.02%
Winning Global Ventures Limited ⁽²⁾	Interest of controlled corporation	1,160,934,000	70.02%
Areo Holdings Limited	Interest of controlled corporation	88,874,000	5.35%
Highland Pines Limited	Beneficial owner	88,874,000	5.35%

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of holding ⁽¹⁾
Lam Lai Ming	Interest of controlled corporation	88,874,000	5.35%
Li Gabriel	Interest of controlled corporation	88,874,000	5.35%

Notes:

- (1) The calculation is based on the total number of 1,657,818,000 Shares in issue as at the Latest Practicable Date.
- (2) Cathay Media Holding Inc. is wholly-owned by Winning Global Ventures Limited. Mr. Pu, as settlor, controls Winning Global Ventures Limited through a discretionary trust.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person or corporation (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been, since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. DIRECTORS' INTERESTS IN CONTRACTS AND ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors was materially interested, whether directly or indirectly, in any subsisting contract or arrangement which was significant in relation to the business of the Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which did not expire or was not determinable by the relevant member of the Group within one year without payment of compensation other than statutory compensation.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

9. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Company or its subsidiaries which are or may be material:

- (a) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Highland Pines Limited, Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which Highland Pines Limited agreed to subscribe for Shares at the relevant offer price in the amount of the Hong Kong dollar equivalent of US\$40,000,000. Further information on this cornerstone investment agreement is set forth in the section headed “Cornerstone Investment” in the Prospectus;
- (b) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Snow Lake China Master Fund, Ltd. and Snow Lake China Master Long Fund, Ltd. (collectively the “**Snow Lake Funds**”), Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which the Snow Lake Funds agreed to subscribe for Shares at the relevant offer price in the amount of the Hong Kong dollar equivalent of US\$20,000,000. Further information on this cornerstone investment agreement is set forth in the section headed “Cornerstone Investment” in the Prospectus;
- (c) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Foresight Orient Global Superior Choice SPC – Global Superior Choice Fund 1 SP (“**GSC Fund 1**”) and Foresight Orient Global Superior Choice SPC – Vision Fund 1 SP (“**Vision Fund 1**”), Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which GSC Fund 1 and Vision Fund 1 agreed to subscribe for Shares at the relevant offer price in the amount of the Hong Kong dollar equivalent of US\$10,000,000. Further information on this cornerstone investment agreement is set forth in the section headed “Cornerstone Investment” in the Prospectus;

- (d) a cornerstone investment agreement dated June 25, 2020 entered into between the Company, Oceanic Wisdom Limited, Macquarie Capital Limited and China Merchants Securities (HK) Co., Limited pursuant to which Oceanic Wisdom Limited agreed to subscribe for Shares at the relevant offer price in the amount of the Hong Kong dollar equivalent of US\$2,500,000. Further information on this cornerstone investment agreement is set forth in the section headed “Cornerstone Investment” in the Prospectus; and
- (e) the underwriting agreement, dated 29 June 2020, relating to the Hong Kong public offering of the Company, entered into by, among others, the joint global coordinators, the Hong Kong underwriters, our Controlling Shareholders and the Company. Further information on this underwriting agreement is set forth in the section headed “Underwriting” in the Prospectus.

10. GENERAL

- (a) The registered office of the Company is at 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands.
- (b) The principal share registrar and transfer office of the Company is Walkers Corporate Limited at Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.
- (c) The Hong Kong share registrar is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) The joint secretaries of the Company are Mr. Sun Haitao and Ms. Yuk Yin Ivy Chow. Ms. Chow is a member of The Hong Kong Chartered Governance Institute (formerly The Hong Kong Institute of Chartered Secretaries) (since April 1998) and a fellow of The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators) in the United Kingdom (since December 2012) in the United Kingdom. Ms. Chow has also been an ordinary member of the Hong Kong Securities and Investment Institute since November 2012.
- (e) The English language text of this circular shall prevail over the Chinese language text in case of inconsistency.

11. DOCUMENTS AVAILABLE ONLINE

Copies of the following documents will be published on the Stock Exchange’s website at www.hkexnews.hk and the Company’s website at www.cathaymedia.com up to and including the date which is 14 days from the date of this circular:

- (a) the Unwind Agreement; and
- (b) this circular.