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CHINA E-LEARNING GROUP LIMITED

中國網絡教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08055)

DISCLOSEABLE TRANSACTION DISPOSAL OF SUBSIDIARIES AND TRANSFER OF OWNERSHIP OF ONLINE TICKETING SYSTEM

THE DISPOSAL

On 31 October 2013 (after trading hours), the Company entered into the Agreement with the Purchaser pursuant to which the Company has agreed to sell, and the Purchaser has agreed to purchase, the Sale Shares at the Disposal Consideration. The Disposal Consideration was determined based on the fair values of the Subsidiaries assessed by the Independent Professional Valuer jointly appointed by the parties to the Agreement.

THE TRANSFER

Under the Agreement, the Company also agreed to transfer its rights and ownership of the Online Ticketing System and its rights and obligations under the Software Development Contract to the Purchaser at the Transfer Consideration. The Transfer Consideration was determined based on the fair value of the Online Ticketing System assessed by the Independent Professional Valuer jointly appointed by the parties to the Agreement.

On 27 February 2014, the Independent Professional Valuer issued its reports on the fair values of the Subsidiaries and the Online Ticketing System.

As the applicable percentage ratios are more than 5% but less than 25%, the Disposal and the Transfer together constitute a discloseable transaction of the Company under the GEM Listing Rules and is therefore subject to the reporting and announcement requirements under the GEM Listing Rules.

Reference is made to the announcement dated 31 October 2013 (the “**Announcement**”) issued by the Company. Terms defined in the Announcement shall have the same meanings when used herein, unless the context requires otherwise.

THE DISPOSAL

On 31 October 2013 (after trading hours), the Company entered into the Agreement with the Purchaser pursuant to which the Company has agreed to sell, and the Purchaser has agreed to purchase, the Sale Shares at the Disposal Consideration. The Disposal Consideration was determined based on the fair values of the Subsidiaries assessed by the Independent Professional Valuer jointly appointed by the parties to the Agreement. On 27 February 2014, the Independent Professional Valuer issued its reports on the fair values of the Subsidiaries and the Online Ticketing System. The principal terms of the Agreement are set out below.

Date: 31 October 2013

Parties: (i) the Company (as vendor); and
(ii) the Purchaser (as purchaser)

The Purchaser is principally engaged in investment business. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are Independent Third Parties.

Subject matter

Pursuant to the Agreement, the Company has agreed to sell and the Purchaser has agreed to purchase the Sale Shares, representing the entire issued share capital of the Subsidiaries, namely Everjoy International and Everjoy Technology.

Disposal Consideration

The Disposal Consideration payable by the Purchaser for the Disposal is RMB20,600,000 (equivalent to approximately HK\$26,368,000). The Disposal Consideration is based on the fair values of the Subsidiaries assessed by the Independent Professional Valuer.

The Disposal Consideration for the Disposal will be payable in cash by the Purchaser to the Company or the third party's bank account as designated by the Company within five business days after satisfaction of the Conditions Precedent as set out below.

VALUATION OF THE SUBSIDIARIES

Valuation basis

According to the Valuation Report, Roma has adopted an income-based approach (under which the DCF Method has been adopted) in assessing the fair values of the Subsidiaries.

Principal Assumptions

The principal assumptions upon which the valuation on the Subsidiaries is based are as follows:

- The fair value of the Subsidiaries was estimated based on the income-based approach. In particular, the discounted cash flow method was adopted to restate all future cash flows generated by the Subsidiaries in present value terms.
- Projected revenues of Everjoy International were based on estimated underwriting incomes from future ticket sales as provided by the management of the Company. The underwriting incomes were estimated with reference to historical commission rates charged to event organizers, estimated number of events to be participated and the expected ticket sales corresponding to each estimated event. The revenues were projected to decrease each year from 2014 to 2016 due to expected decrease in number of event to be participated.

- Projected revenues of Everjoy Technology were based on estimated commission incomes generated from supporting and upgrading the Online Ticketing System as provided by the management of the Company. The commission incomes were estimated based on the commission rate agreed between Everjoy International and Everjoy Technology, and the estimated revenues of Everjoy International. The revenues were projected to decrease each year from 2014 to 2016 due to expected decrease in revenues of Everjoy International.
- Projected direct costs and operating expenses were estimated with reference to historical information. Income tax rate of 25%, being the corporate tax rate in China, was adopted to estimate income tax expenses.
- As advised by the management of the Company, no material working capital and capital expenditure would be incurred within the projection period.
- A long-term growth rate of 0% was adopted for years on or after 2017.
- The discount rates adopted were the estimated weighted average costs of capital (“WACC”) of the Subsidiaries, which were 24.04% and 26.36% for Everjoy International and Everjoy Technology respectively.
- A marketability discount of 30% was adopted to reflect the lack of marketability of the ownership interest in the Subsidiaries.
- It was assumed that the future operations and developments of the Subsidiaries would be in line with the financial projection.
- It was assumed that the financial projections provided by the management of the Company could well reflect future market conditions and economic fundamentals, and would be materialized.
- It was assumed that no hidden assets and liabilities, other than those contained in the statements of financial position of the Subsidiaries, were present as at the date of valuation.
- It was assumed that all relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Subsidiaries operate or intend to operate would be successfully obtained or renewed upon expiry with minimal costs.
- It was assumed that there would be sufficiently supply of technical staff in the industry in which the Subsidiaries operate, and the Subsidiaries would be able to retain competent management, key personnel and technical staff to support ongoing operations and developments.
- It was assumed that there would be no major change in current taxation laws in the localities in which the Subsidiaries operate or intend to operate, and the rates of tax payable shall remain unchanged and the Subsidiaries would comply with all applicable laws and regulations.
- It was assumed that there would be no major change in the political, legal, economic or financial conditions in the localities in which the Subsidiaries operate or intend to operate.
- It was assumed that interest rates and exchange rates in the localities for the operation of the Subsidiaries would not differ materially from those presently prevailing.

Roma is a professional valuer. It has given and has not withdrawn its written consent to the issue of this announcement with the inclusion of its statements and the information extracted from the Valuation Report and the references to its name in the form and context in which it is respectively included. The Valuation Report was issued on 27 February 2014 and it was made by Roma for incorporation in this announcement.

Roma is not interested beneficially or non-beneficially in any shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Source of information

The Valuation Report is issued by Roma based on the assumptions disclosed above and the information provided by the management of the Company. Roma has also reviewed the financial information and other pertinent data concerning the Subsidiaries provided by the Company's management and representatives.

Auditors' report on the DCF Method

The Company has not appointed any financial advisor for giving advice on the Disposal or the valuation of the Subsidiaries. According to GEM Listing Rule 19.62(2), the Auditors are required to report on the accounting policies and calculations of the DCF Method on which the Valuation Report is based.

The Auditors note that the DCF Method in the Valuation Report does not involve the adoption of any accounting policies and therefore the Auditors have not given any opinion on any accounting policies in respect of the Valuation Report. The Auditors also have not expressed any opinion on the appropriateness and validity of the bases and assumptions on which the DCF Method, and thus the Valuation Report, are based.

The Auditors conducted their works in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by Hong Kong Institute of Certified Public Accountants. The Auditors have examined the arithmetical accuracy of the Valuation and are of the opinion that the DCF Method in the Valuation Report, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the Directors.

The Auditors are certified public accountants. They have given and have not withdrawn their written consent to the issue of this announcement with the inclusion of their statements and the information extracted from their comfort letter dated 27 February 2014 issued to the Company for their report on the DCF Method and the references to their name in the form and context in which it is respectively included. The Auditors are not interested beneficially or non-beneficially in any shares in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Conditions Precedent

The Disposal Consideration shall be paid, and the Sale Shares shall be transferred, within 5 business days after the satisfaction of the following Conditions Precedent:

1. the valuation reports on the Subsidiaries have been issued by an independent professional valuer jointly appointed by the parties to the Agreement;
2. the Stock Exchange has approved the circular of the Company to be issued to the Shareholders (if required); and
3. the Shareholders have approved the transactions contemplated under the Agreement in general meeting (if required).

Completion

The Completion shall take place on the day of the Purchaser's full payment of the Disposal Consideration to the Company. The Board expects that the Completion will take place in early March of 2014. Immediately after the Completion, both Everjoy International and Everjoy Technology will cease to be the subsidiaries of the Company. All the outstanding loans and borrowings owing by the Subsidiaries to the Company shall continue to be valid after the Completion.

Status of Profit Guarantees

As disclosed in the Company's circular dated 29 June 2012 in respect of the Company's acquisition of the Subsidiaries, (i) the vendor of Everjoy International guarantees that the aggregated audited net profit after tax of Everjoy International for the two years ended 31 December 2012 will be not less than HK\$24,000,000; and (ii) the vendor of Everjoy Technology guarantees to the Company that the aggregated audited net profits after tax of Everjoy Technology for the two years ended 31 December 2012 will be not less than HK\$2,500,000. The considerations for the Company's acquisition of the Subsidiaries will be adjusted and reduced if the Profit Guarantees are not met.

As the aggregated audited net profit after tax of the Subsidiaries for the year ended 31 December 2011 have partially met the Profit Guarantees, the Company has issue (i) the Profit-linked EICN in the principal amount of HK\$8,635,956 to the vendor of Everjoy International and (ii) the Profit-linked ETCN in the principal amount of HK\$2,611,906 to the vendor of Everjoy Technology.

As the Subsidiaries have not recorded any net profit after tax for the year ended 31 December 2012 and therefore failed to meet the Profit Guarantees, the Company is no longer required to issue any further Profit-linked EICN or Profit-linked ETCN. As a result, the considerations for the Company's acquisition of the Subsidiaries are deemed to be adjusted and reduced to HK\$60,235,956 for Everjoy International and HK\$17,611,906 for Everjoy Technology, which have been settled by the Company in full.

THE TRANSFER

Under the Agreement, the Company also agreed to transfer its rights and ownership of the Online Ticketing System and its rights and obligations under the Software Development Contract to the Purchaser at the Transfer Consideration in the amount of RMB2,800,000 (equivalent to approximately HK\$3,584,000). The Transfer Consideration was determined based on the fair value of the Online Ticketing System assessed by the Independent Professional Valuer by adoption of the cost-based approach, that is, the cost for reproducing or replacing the assets in accordance with the market prices of similar assets.

Completion of the Transfer is also subject to the same Conditions Precedent as set out above. The Transfer Consideration for the Transfer will be payable in cash by the Purchaser to the Company or the third party's bank account as designated by the Company within five business days after satisfaction of the Conditions Precedent.

INFORMATION OF THE COMPANY AND THE SUBSIDIARIES

The Group is principally engaged in the provision of an internet platform for the facilitation of education program in Chinese medicine and other advisory and training programs.

Everjoy International is a company incorporated in the BVI on 24 February 2003 and is wholly and beneficially owned by the Company. Its principal business is the distribution of event tickets to its sub-distributors. It has a distribution network, connections and knowledge of entertainment industry. The tickets sold so far are only related to football matches, concerts and cultural performances.

Everjoy Technology is a company incorporated in the BVI on 3 November 2009 and is wholly and beneficially owned by the Company. It is principally engaged in the design, development and improvement of a software system in an integrated environment for the booking and management of event tickets under the Online Ticketing System. Everjoy Technology is Everjoy International's technical support partner and is responsible for carrying out the work of upgrading the Online Ticketing System from the first generation to the second generation.

On 2 August 2011, the Company entered into the Software Development Contract with China Energy Worldwide Investment Limited for the software research and development in respect of the upgrading of the Online Ticketing System.

The table below summarises the financial statements of the Subsidiaries for the two years ended 31 December 2012 and the unaudited financial information of the Subsidiaries for the 6-month period ended 30 June 2013:

Everjoy International

	For the 6-month period ended 30 June 2013	For the year ended 31 December 2012	For the year ended 31 December 2011
Total assets	RMB9,725,000 (equivalent to approximately HK\$12,448,000) (as at 30 June 2013)	HK\$8,839,000	HK\$8,839,000
Net assets	RMB 9,715,000 (equivalent to approximately HK\$12,435,000) (as at 30 June 2013)	HK\$8,827,000	HK\$8,827,000
Profit (before taxation)	RMB 2,562,000 (equivalent to approximately HK\$3,279,000)	HK\$Nil	HK\$8,636,000
Profit (after taxation)	RMB 2,562,000 (equivalent to approximately HK\$3,279,000)	HK\$Nil	HK\$8,636,000

Everjoy Technology

	For the 6-month period ended 30 June 2013 RMB	For the year ended 31 December 2012	For the year ended 31 December 2011
Total assets	RMB1,085,000 (equivalent to approximately HK\$1,389,000) (as at 30 June 2013)	HK\$988,000	HK\$988,000
Net assets	RMB1,068,000 (equivalent to approximately HK\$1,367,000) (as at 30 June 2013)	HK\$966,000	HK\$966,000
Profit (before taxation)	RMB285,000 (equivalent to approximately HK\$365,000)	HK\$Nil	HK\$1,088,000
Profit (after taxation)	RMB285,000 (equivalent to approximately HK\$365,000)	HK\$Nil	HK\$1,088,000

The appraised fair values of the Subsidiaries and the Online Ticketing System as at 30 November 2013 as assessed by Roma are summarised as follows.

	Everjoy International	Evejoy Technology	Online Ticketing System
Appraised fair values as at 30 November 2013	RMB18,500,000 (equivalent to HK\$23,680,000)	RMB2,100,000 (equivalent to HK\$2,688,000)	RMB2,800,000 (equivalent to HK\$3,584,000)

USE OF PROCEEDS AND EXPECTED FINANCIAL EFFECT OF THE DISPOSAL AND THE TRANSFER

The Board estimates that the net proceeds from the Disposal and the Transfer (after deduction of relevant costs and expenses) will amount to approximately HK\$29,432,000. It is intended that part of the proceeds from the Disposal and the Transfer in the sum of HK\$13,760,000 will be applied to repay the outstanding principal amount and accrued interest under CN2011D (assuming that the holders of CN2011D will not exercise any of the conversion right attaching thereto before the maturity date, that is, 6 March 2014), and the balance in the sum of approximately HK\$15,672,000 will be applied for the general working capital of the Group.

By reference to the unaudited total net assets of the Subsidiaries in the total amount of RMB10,783,000 (equivalent to approximately HK\$13,802,000), the goodwill arising from the purchase of the Subsidiaries in the total amount of HK\$68,055,000 and Disposal Consideration, an estimated unaudited loss of approximately HK\$56,008,000 is expected to be accrued to the Company as a result of the Disposal.

By reference to the carrying amount of the Online Ticketing System in the amount of approximately HK\$14,700,000 as at 30 November 2013 and the Transfer Consideration, a loss of approximately HK\$11,116,000 is expected to be accrued to the Company as a result of the Transfer. The total loss of approximately HK\$67,124,000 is therefore expected to be accrued to the Company as a result of both the Transfer and the Disposal.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND THE TRANSFER

The performance of the Subsidiaries has been unsatisfactory since the Group's acquisition of the Subsidiaries on 20 December 2012. The profit made by the Subsidiaries during the first six months in the year 2013 was far below the expectation of the Board. It is also expected that the profit of the Subsidiaries will not be greatly improved unless substantial financial resources are injected by the Company to them. In view of the above, the Board has decided to dispose of the Subsidiaries and the Online Ticketing System and to devote resources to its existing business and any other potential businesses, if any. The Group will continue to look for other attractive investments in the PRC and locally with a view to diversifying the businesses and generating positive cash flow and earnings for the Group in the long run.

The Directors believe that the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As the applicable percentage ratios are more than 5% but less than 25%, the Disposal and the Transfer together constitutes a discloseable transaction of the Company under the GEM Listing Rules and is therefore subject to the reporting and announcement requirements under the GEM Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Agreement”	the shares transfer agreement dated 31 October 2013 and entered into between the Company as vendor and the Purchaser as purchaser in relation to the Disposal and the Transfer
“Auditors”	Parker Randall CF (H.K.) CPA Limited, the Company's auditors, which are certified public accountants
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of Directors
“business day”	any day, other than a Saturday or Sunday, on which banks in Hong Kong generally provide their banking services
“BVI”	the British Virgin Islands
“Company”	China E-Learning Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM

“Completion”	the completion of the Disposal and the Transfer under the Agreement
“Conditions Precedent”	the conditions precedent to Completion under the Agreement
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“CN2011D”	the convertible notes issued by the Company on 6 September 2011 with an aggregate outstanding principal amount of HK\$12,800,000 as at the date of this announcement and conferring rights to convert into a total of 25,600,000 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“DCF Method”	discounted future estimated cash flow method, the basis on which the Valuation Report is made
“Directors”	directors of the Company
“Disposal”	the disposal of the Sale Shares by the Company to the Purchaser pursuant to the Agreement
“Disposal Consideration”	RMB20,600,000 (equivalent to approximately HK\$26,368,000), being the total consideration payable by the Purchaser to the Company for the Disposal
“Everjoy International”	Everjoy International Media Corporation, a company incorporated in the BVI with limited liability
“Everjoy Technology”	Everjoy Technology Development Corporation, a company incorporated in the BVI with limited liability
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a third party independent of the Company and its connected persons
“Independent Professional Valuer” or “Roma”	Roma Appraisals Limited, being an independent professional valuer jointly appointed by the parties to the Agreement
“Online Ticketing System”	Automated Online Ticketing Sales Platform Software* (網路線上票務自動銷售平臺系統) for selling of tickets of cultural, entertainment and sports events
“PRC”	the People’s Republic of China
“Profit Guarantees”	the profit guarantees provided by the respective vendor of Everjoy International and Everjoy Technology to the Company under the agreements pursuant to which the Company acquired the Subsidiaries

* for identification purpose only

“Profit-Linked EICN”	the convertible notes in the principal amount of up to HK\$24,000,000 issued or to be issued by the Company to Mr. Lee Chi Kong for settlement of part of the consideration for the Company’s acquisition of Everjoy International
“Profit-Linked ETCN”	the convertible notes in the principal amount of up to HK\$6,000,000 issued or to be issued by the Company to Ms. Hong Kit Yin Stella for settlement of part of the consideration for the Company’s acquisition of Everjoy Technology
“Purchaser”	Glowing City Holdings Limited, a company incorporated in the BVI with limited liability
“Sale Shares”	1 share of US\$1.00 in the issued share capital of Everjoy International, being its entire issued share capital; and 50,000 shares of US\$1.00 each in the issued share capital of Everjoy Technology, being its entire issued share capital
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Software Development Contract”	the software development contract dated 2 August 2011 made between the Company and China Energy Worldwide Investment Limited, a company incorporated in Seychelles, for the upgrading and maintenance of the Online Ticketing System
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries”	Everjoy International and Everjoy Technology
“Transfer”	the transfer of the Online Ticketing System and its right, title and interest in certain intellectual property by the Company to the Purchaser pursuant to the Agreement
“Transfer Consideration”	RMB2,800,000 (equivalent to approximately HK\$3,584,000), being the consideration payable by the Purchaser to the Company for the Transfer
“Valuation Report”	the valuation report dated 27 February 2014 issued by Roma in respect of the fair values of the Subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

The RMB amounts shown in this announcement have been translated into the Hong Kong dollars amounts at an exchange rate of RMB1=HK\$1.28 for illustration purpose only. Such exchange rate does not constitute a representation that any amount of RMB or Hong Kong dollars have been could have been or may be converted at such rate.

By Order of the Board
China E-learning Group Limited
Yuan Wei
Executive Director

Hong Kong, 27 February, 2014

As at the date of this announcement, the Board comprises one executive Director, namely Mr. Yuan Wei; one non-executive director, Mr. Li Xiangjun; and three independent non-executive Directors, namely Dr. Huang Chung Hsing, Mr. Li Qunsheng and Ms. Li Ya Ru Nancy.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 announcement 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 announcement misleading.

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