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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)

PROPOSED ISSUE OF CONVERTIBLE NOTES AND RESUMPTION OF TRADING

SUBSCRIPTION AGREEMENTS

On 9 May 2014, the Company and the Subscribers entered into the Subscription Agreements pursuant to which the Subscribers have agreed to subscribe for, and the Company has agreed to issue, the Convertible Notes in the aggregate principal amount of HK\$42,399,932.

Assuming the conversion rights attaching to the Convertible Notes are exercised in full at the Conversion Price, a maximum of 326,153,321 Conversion Shares will be allotted and issued, representing approximately 19.65% of the entire issued share capital of the Company as at the date of this announcement and approximately 16.43% of the entire issued share capital as enlarged by the issue of the Conversion Shares.

The Conversion Shares, upon issue, shall rank pari passu in all respects with the Shares then in issue. The Company will allot and issue the Conversion Shares under the General Mandate.

As the issue of the Convertible Notes is subject to the fulfillment of certain Conditions Precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was halted at the request of the Company with effect from 10:58 a.m. on 9 May 2014 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 12 May 2014.

SUBSCRIPTION AGREEMENTS

On 9 May 2014, the Company and the Subscribers entered into the Subscription Agreements pursuant to which the Subscribers have agreed to subscribe for, and the Company has agreed to issue, the Convertible Notes in the aggregate principal amount of HK\$42,399,932, such that the subscription moneys payable in connection with the Subscription of such Convertible Notes would be set-off against the moneys payable by the Company for redeeming the CN2011A in accordance with the Payment Arrangement Deed and against the Indebtedness owing by the Company to the Existing P-note Holders at Completion.

The Subscription is conditional upon satisfaction of the Conditions Precedent as set out under the paragraph headed “Conditions Precedent to Completion” below.

Assuming the conversion rights attaching to the Convertible Notes are exercised in full at the Conversion Price, a maximum of 326,153,321 Conversion Shares will be allotted and issued, representing approximately 19.65% of the entire issued share capital of the Company as at the date of this announcement and approximately 16.43% of the entire issued share capital as enlarged by the issue of the Conversion Shares.

The Conversion Shares, upon issue, shall rank pari passu in all respects with the Shares then in issue. The Company will allot and issue the Conversion Shares under the General Mandate.

Details of the Subscription Agreements are set out below.

Date:

9 May 2014

Parties:

Issuer: The Company

Subscribers: Deng Xiangyu, Deng Wenyun, Du Runan, Zhang Junya and Sun Xuemei

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, the Subscribers are Independent Third Parties.

TERMS AND CONDITIONS OF CONVERTIBLE NOTES

The terms and conditions of the Convertible Notes have been negotiated on an arm’s length basis and the principal terms and conditions of which are summarized below:

Issuer: The Company

Aggregate principal amount: HK\$42,399,932

Conversion Price: The Conversion Price is HK\$0.13 per Share, which is subject to adjustments for, among other matters, consolidation, reduction or sub-division of Shares, capitalization of profits or reserves, rights issue, or issue of convertible securities, warrants or options carrying the right to subscribe for Shares.

The Conversion Price represents:

- (i) a premium of about 7.44% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of about 19.35% to the average closing price of HK\$0.1612 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Last Trading Date; and
- (iii) a discount of about 26.51% to the average closing price of HK\$0.1769 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to the Last Trading Date.

The Conversion Price has been determined after arm's length negotiations between the Company and the Subscribers with reference to the prevailing market price of the Shares.

Interest rate

The Convertible Notes shall carry interest at the rate of 1% per annum payable in arrears yearly on the 31st day of December each year or, if earlier, upon full conversion of the Convertible Notes.

Transferability of Convertible Notes

The Convertible Notes may be transferred or assigned in whole or in part by the Noteholders to any party, save and except that the Convertible Notes shall not be transferred to a connected person of the Company or an associate of such connected person unless the necessary approvals and consents from the independent Shareholders as may be required under the GEM Listing Rules have been obtained.

Maturity date (the “**Maturity Date**”)

The date falling on the second anniversary the date of issue of the Convertible Notes. Unless previously converted in accordance with the conditions pursuant to which the Convertible Notes are to be issued, the Company may at its sole and absolute discretion redeem the Convertible Notes (or any part thereof) at its outstanding principal amount together with interest at any time and from time to time on or before the Maturity Date.

Conversion rights

The Subscribers may convert the whole or part of the principal amount of the Convertible Notes into the Conversion Shares at the Conversion Price for the period commencing from the date of issue of the Convertible Notes up to the Maturity Date.

The Noteholders shall have the right to convert the Convertible Notes, in whole or in part, at any time at the Conversion Price set out above, provided that no conversion of the Convertible Notes shall be made if immediately upon such conversion, the Company will fail to comply with the public float requirement (the “**Public Float Requirement**”) of the Shares under Rule 11.23 of the GEM Listing Rules.

Furthermore, the Noteholders shall exercise the right of conversion only to the extent that any conversion of the Convertible Notes does not trigger off a mandatory offer obligation under rule 26.1 of the Takeovers Code on the part of the Noteholders.

Conversion Shares

Assuming the conversion rights attaching to the Convertible Notes are exercised in full at the Conversion Price, pursuant to the Subscription Agreements, 326,153,321 Conversion Shares will be issued by the Company upon exercise of the conversion rights attaching to the Convertible Notes in full at the Conversion Price of HK\$0.13.

The 326,153,321 Conversion Shares represent about 19.65% of the existing issued share capital of the Company as at the date of this announcement.

Based on the assumptions set out in the table under the paragraph headed “Changes in Shareholding Structure of the Company” below, the 326,153,321 Conversion Shares represent about 16.43% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

Early redemption

The Convertible Notes are redeemable by the Company before the Maturity Date of the Convertible Notes.

Status of the Convertible Notes

The Convertible Notes constitute a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Ranking of the Conversion Shares

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue at the date of the conversion notice.

Voting

The Convertible Notes do not confer any voting rights at any meetings of the Company.

Mandate to issue the Conversion Shares

The issue of the Convertible Notes will be made pursuant to the General Mandate granted to the Board by the Shareholders at the extraordinary general meeting of the Company held on 28 March 2014 to allot and issue up to 326,844,580 Shares, being 20% of the total nominal amount of the issued share capital of the Company as at the date of the passing of the resolution approving such grant. As at the date of this announcement, no Shares or securities have been allotted and issued by the Directors under the General Mandate.

Listing of the Conversion Shares

No application will be made by the Company for the listing of the Convertible Notes. An application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

Consideration

The total consideration payable by the Subscribers to the Company for the Subscription of the Convertible Notes is HK\$42,399,932, which will be satisfied in full by setoff against the moneys payable by the Company for redeeming the CN2011A and against the Indebtedness owing by the Company to the Existing P-note Holders at Completion.

The details of the setoff, the Subscribers of the Convertible Notes and their respective principal amounts are summarised as follows:

Subscribers	Principal amount of the Convertible Notes (HK\$)	Amounts of moneys for set-off against the subscription moneys
Deng Xiangyu (鄧翔宇)	10,299,932	moneys payable by the Company for redeeming CN2011A held by Sino Tactic Group Limited in the outstanding principal amount of HK\$9,999,934 with the accrued interest of HK\$299,998
Deng Wenyun (鄧文雲)	2,060,000	moneys payable by the Company for redeeming CN2011A held by Wei Na in the outstanding principal amount of HK\$2,000,000 with the accrued interest of HK\$60,000
Du Runan (杜潤南)	18,540,000	moneys payable by the Company for redeeming CN2011A held by Du Runan in the outstanding principal amount of HK\$18,000,000 with the accrued interest of HK\$540,000
Zhang Junya (張俊亞)	6,000,000	HK\$6,000,000 of the Indebtedness
Sun Xuemei (孫雪梅)	5,500,000	HK\$5,500,000 of the Indebtedness
Total:	<u>42,399,932</u>	

Conditions Precedent to Completion

Completion of the Subscription is subject to:

- (i) the GEM Listing Committee granting the listing of, and the permission to deal in, the Conversion Shares; and
- (ii) the warranties given by the Company under the Subscription Agreements being true, accurate and correct as at the date of Completion.

In the event that the above conditions are not fulfilled on or before 30 May 2014 (or such other date as the parties to the Subscription Agreements may agree in writing), the Subscription Agreements shall terminate and cease to have any legal effect.

Completion

Completion shall take place on the Completion Date. Upon Completion, the Company will issue the Convertible Notes to the Subscribers and the subscription moneys payable by the Subscribers shall be set-off against (i) the moneys payable by the Company to the Existing Noteholders for redeeming the CN2011A; and (ii) the principal amounts under the promissory notes owing by the Company to the Existing P-Note Holders.

PAYMENT ARRANGEMENT DEED

The Company has entered into the Payment Arrangement Deeds with the Existing Noteholders and the Subscribers (excluding the Existing P-note Holders) on 9 May 2014. Pursuant to the Payment Arrangement Deed, (i) the Subscribers (except the Existing P-note Holders) shall pay to the Existing Noteholders a sum of money in the amount equivalent to the subscription money payable by them to the Company; (ii) the Existing Noteholders shall assume the obligation of the Subscribers (except the Existing P-note Holders) for paying the subscription money to the Company; and (iii) the Existing Noteholders' obligation for paying such subscription money shall be set-off against the moneys payable by the Company to them for redeeming the CN2011A.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the allotment and issue of the Conversion Shares upon the exercise of the Conversion Rights in full; and (iii) immediately after the allotment and issue of the Conversion Shares and the relevant Shares upon the exercise of conversion rights attaching to the Convertible Notes and the Existing Convertible Notes in full respectively, and assuming that there being no other change to the share capital and shareholding structure of the Company from the date of this announcement save for the allotment and issue of the Conversion Shares and the relevant Shares during the relevant period.

	As at the date of this announcement		Immediately after the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights attaching to the Convertible Notes in full (Note 1)		Immediately after the allotment and issue of the Conversion Shares and the relevant Shares upon exercise of the conversion rights attaching to the Convertible Notes and the Existing Convertible Notes in full respectively (Note 1)	
	Number of	%	Number of	%	Number of	%
	Shares (Approximately)		Shares (Approximately)		Shares (Approximately)	
Substantial Shareholder						
Yang Dong Jun	207,554,896	12.51	207,554,896	10.45	207,554,896	9.37
Connected Persons						
Li Xiangjun (Note 2)	313,590	0.019	313,590	0.016	313,590	0.014
Public Shareholders						
holder of CN2014-1	—	—	—	—	60,000,000	2.71
holder of CN2014-2	4,050,000	0.244	4,050,000	0.20	54,050,000	2.44
holder of ETCN	15,223,812	0.92	15,223,812	0.77	19,223,812	0.87
holder of EICN	200,000	0.012	200,000	0.010	116,671,912	5.26
holders of Convertible Notes	—	—	326,153,321	16.43	326,153,321	14.72
Other public shareholders	1,432,104,416	86.30	1,432,104,416	72.12	1,432,104,416	64.62
Total	<u>1,659,446,714</u>	<u>100.00</u>	<u>1,985,600,035</u>	<u>100.00</u>	<u>2,216,071,947</u>	<u>100.00</u>

Notes:

1. Assuming (i) the Conversion Price is not adjusted as a result of any dilutive event and (ii) there is no redemption of the Convertible Notes pursuant to the terms and conditions of the Convertible Notes.
2. Li Xiangjun is a non-executive Director.

REASONS FOR AND BENEFITS OF ISSUE OF THE CONVERTIBLE NOTES

The Company is an investment holding company. The Group is engaged principally in provision of occupational education, industry certification course, skills training and education consultation.

As disclosed in the circular of the Company dated 7 March 2014, the convertible notes of CN2011A issued on 9 May 2011 carry the rights to convert into conversion shares at the conversion price of HK\$0.50 per Share (subject to adjustment). As at the date of this announcement, the aggregate outstanding principal under CN2011A was in the amount of HK\$29,999,934. Such outstanding principal amount together with interest accrued thereon at the rate of 1% per annum shall be due and payable on 9 May 2014.

The Directors have considered various means available to raise funds in the capital market or obtaining loans and other general banking facilities from the banks and financial institutions for financing the repayment of CN2011A on 9 May 2014 and the Indebtedness but are of the view that the issue of the Convertible Notes is an appropriate means, since (i) it will not have an immediate dilution effect on the shareholding of the existing Shareholders; (ii) the interest rate payable on the Convertible Notes is fair and reasonable as compared with the prevailing interest rates generally offered by banks and financial institutions for similar loan facilities; (iii) if the Conversion Rights attaching to the Convertible Notes are exercised, the financial position of the Group will be strengthened with the conversion of debt into further equity capital; and (iv) it will provide flexibility to the Company to manage its liquidity and the pressure from the cash flows and the repayment of the short-term debts of the Group can be alleviated.

The Directors (including the independent non-executive Directors) therefore are of the view that the terms of the Subscription Agreements, the Convertible Notes and the Payment Arrangement Deeds are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The equity fund raising activities conducted by the Company in the past twelve months prior to the date of this announcement are set out below:

Date of announcement	Event	Net Proceeds	Intended use of proceeds	Actual use of proceeds
29 November 2013 and 16 December 2013	Issue of CN2014-1 with an aggregated principal amount of HK\$6,000,000, which may be converted into 60,000,000 Shares at the conversion price of HK\$0.10 per Share (subject to adjustment)	Approximately HK\$6,000,000 has been raised from issue of the CN2014-1	For set-off of the existing debt of the Company	For set-off of the existing debt of the Company

Date of announcement	Event	Net Proceeds	Intended use of proceeds	Actual use of proceeds
29 November 2013 and 16 December 2013	Issue of CN2014-2 with an aggregated principal amount of HK\$5,000,000, which may be converted into 50,000,000 Shares at the conversion price of HK\$0.10 per Share (subject to adjustment)	Approximately HK\$5,000,000 has been raised from issue of the CN2014-2	For set-off of the existing debt of the Company	For set-off of the existing debt of the Company
10 December 2013 and 18 December 2013	Issue of convertible notes with an aggregated principal amount of HK\$10,000,000, which may be converted into 100,000,000 Shares at the conversion price of HK\$0.10 per Share (subject to adjustment)	Approximately HK\$10,000,000 has been raised from issue of the convertible notes	For set-off of the existing debt of the Company	For set-off of the existing debt of the Company
10 December 2013 and 18 December 2013	Issue of convertible notes with an aggregated principal amount of HK\$4,234,400, which may be converted into 42,344,000 Shares at the conversion price of HK\$0.10 per Share (subject to adjustment)	Approximately HK\$4,234,400 has been raised from issue of the convertible notes	For set-off of the existing debt of the Company	For set-off of the existing debt of the Company

Save as disclosed above, the Company had not conducted any other equity fund raising activities in the past twelve months immediately prior to the date of this announcement.

RESUMPTION OF TRADING

Trading in the Shares was halted at the request of the Company with effect from 10:58 a.m. on 9 May 2014 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 12 May 2014.

As the Subscription is subject to the fulfillment of certain Conditions Precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

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

“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
“CN2011A”	the convertible notes issued by the Company with an aggregate outstanding principal amount of HK\$29,999,934 conferring rights to convert into a total of 59,999,868 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“CN2014-1”	the 1% per annum coupon rate convertible notes issued by the Company in the aggregate principal amount of HK\$6,000,000 conferring rights to convert into a total of 60,000,000 Shares to be issued by the Company on the basis of a conversion price of HK\$0.1 per Share (subject to adjustment) issued by the Company on 16 December 2013
“CN2014-2”	the 1% per annum coupon rate convertible notes issued by the Company in the aggregate principal amount of HK\$5,000,000 conferring rights to convert into a total of 50,000,000 Shares to be issued by the Company on the basis of a conversion price of HK\$0.1 per Share (subject to adjustment) issued by the Company on 16 December 2013
“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 Subscription pursuant to the Subscription Agreements
“Completion Date”	the date of Completion, which shall be the first business day after all of the Conditions Precedent are fulfilled (or such later date as the parties to the Subscription Agreements may agree in writing)
“Conditions”	the terms and conditions endorsed on the Convertible Notes in definitive form as they may from time to time be modified in accordance with their provisions and/or of the Instrument and referred in the Subscription Agreements to a particular numbered Condition shall be construed accordingly
“Conditions Precedent”	the conditions precedent for Completion
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules

“Convertible Notes”	the 1% per annum coupon rate convertible notes in the aggregate principal amount of HK\$42,399,932 to be issued by the Company and subscribed by Subscribers in accordance with the provisions of the Subscription Agreements
“Conversion Price”	HK\$0.13, being the price for conversion of the Convertible Notes, which is subject to adjustment pursuant to the terms and conditions of the Convertible Notes
“Conversion Right”	the right of a Noteholder of the Convertible Notes to convert the whole or part of the principal amount of any Convertible Notes into the Conversion Shares subject to and in accordance with the Conditions
“Conversion Share(s)”	the Share(s) to be issued upon the exercise of the conversion rights attaching to the Convertible Notes
“Directors”	directors of the Company
“EICN”	the convertible notes issued by the Company with an aggregate outstanding principal amount of HK\$58,235,956 conferring rights to convert to a total of 116,471,912 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“ETCN”	the convertible notes issued by the Company with an aggregate outstanding principal amount of HK\$2,000,000 conferring rights to convert to a total of 4,000,000 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“Existing Convertible Notes”	the existing convertible notes issued by the Company, including EICN, ETCN, CN2014-1 and CN2014-2
“Existing Noteholders”	Du Runan, Wei Na and Sino Tactic Group Limited
“Existing P-Note Holders”	Zhang Junya and Sun Xuemei, who are the existing holders of the promissory notes in the principal amounts of HK\$6,000,000 and HK\$5,500,000 respectively issued by the Company with maturity date on 11 May 2015
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange which is responsible for GEM listing matters
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors at the extraordinary general meeting of the Company held on 28 March 2014 to allot or otherwise deal with the Shares
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and its connected persons
“Instrument”	the instrument to be executed by the Company constituting the Convertible Notes, together with the schedules (as from time to time altered in accordance with the Instrument) and any other document executed in accordance with the instrument (as from time to time so altered) and expressed to be supplemental to the Instrument
“Indebtedness”	the sum of HK\$11,500,000, being the aggregate principal amount of the loans owing by the Company to the Existing P-Note Holders as at the date of this announcement
“Last Trading Date”	8 May 2014, being the last trading date for the Shares before the date of this announcement
“Noteholder(s)”	the holder(s) of the Convertible Notes
“Payment Arrangement	the payment arrangement deeds dated 9 May 2014 and made between the Existing Noteholders, the Subscribers (excluding the Existing P-note Holders) and the Company in relation to the arrangements for payment of the subscription moneys for the Subscription and moneys payable by the Company for redeeming the CN2011A
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	Deng Xiangyu, Deng Wenyun, Du Runan and the Existing P-note Holders
“Subscription”	the subscription of the Convertible Notes pursuant to the Subscription Agreements
“Subscription Agreements”	each of the subscription agreement entered into between the Company and each Subscriber on 9 May 2014 pursuant to which the Subscribers have agreed to subscribe for the Convertible Notes in the aggregate principal amount of HK\$42,399,932
“subscription moneys”	the consideration payable by the Subscribers to the Company for the Subscription in the total amount of HK\$42,399,932
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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

Hong Kong, 9 May 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 in this announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page and the website of the Company at www.chinae-learning.com for at least 7 days from the date of its publication.