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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

SUBSCRIPTION AGREEMENT

On 27 June 2014 (after trading hours), the Company entered into the Subscription Agreement with Mr. Yang, pursuant to which the Company has agreed to issue, and Mr. Yang has agreed to subscribe for, the Convertible Notes with an aggregate principal amount of HK\$40,775,000.00, which may be converted into 285,139,860 Conversion Shares at the Conversion Price of HK\$0.143 per Conversion Share (subject to adjustment).

Assuming the conversion rights attaching to the Convertible Notes are exercised in full at the Conversion Price, a maximum of 285,139,860 Conversion Shares will be allotted and issued, representing approximately 13.61% of the entire issued share capital of the Company as at the date of this announcement and approximately 11.98% 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.

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Details of the Subscription Agreement are set out below.

SUBSCRIPTION AGREEMENT

Date:

27 June 2014

Parties:

Issuer: The Company

Subscriber: Mr. Yang

Subscription

Pursuant to the Subscription Agreement, the Company has agreed to issue, and Mr. Yang has agreed to subscribe for the Convertible Notes with an aggregate principal amount of HK\$40,775,000.00 for a total consideration of HK\$40,775,000.00, all of which shall be setoff in full against the equivalent amount of indebtedness owing by the Company to Mr. Yang at the Completion.

As at the date of this announcement, Mr. Yang is interested in 207,554,896 Shares, representing approximately 9.9% of the issued share capital of the Company. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Mr. Yang used to be a Substantial Shareholder (as defined under the GEM Listing Rules) of the Company until the Company's issue of 110,000,000 shares on 20 June 2014 and he is currently a third party independent of the Company and its connected persons as at the date of this announcement.

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	The aggregate principal amount of the Convertible Notes is HK\$40,775,000.00
Conversion Price	<p>The Conversion Price is HK\$0.143 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.</p> <p>The Conversion Price represents:</p> <ul style="list-style-type: none">(i) a discount of about 13.33% to the closing price of HK\$0.165 per Share as quoted on the Stock Exchange on the Last Trading Date;(ii) a discount of about 19.75% to the average closing price of HK\$0.1782 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the Last Trading Date; and(iii) a discount of about 17.67% to the average closing price of about HK\$0.1737 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately preceding the Last Trading Date. <p>The Conversion Price has been determined after arm's length negotiations between the Company and Mr. Yang with reference to the then prevailing market price of the Shares.</p>
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	<p>The date falling on the second anniversary of the date of issue of the Convertible Notes (the “Maturity Date”). 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.</p>
Conversion rights	<p>The Noteholders 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.</p> <p>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.</p> <p>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.</p>
Conversion Shares in respect of the Convertible Notes	<p>Assuming the conversion rights attaching to the Convertible Notes are exercised in full at the Conversion Price, pursuant to the Subscription Agreement, 285,139,860 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\$0.143.</p> <p>The 285,139,860 Conversion Shares represent about 13.61% of the existing issued share capital of the Company as at the date of this announcement.</p> <p>Based on the assumptions set out in the table under the paragraph headed “Changes in Shareholding Structure of the Company” below, the 285,139,860 Conversion Shares represent about 11.98% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.</p>
Early redemption	<p>The Convertible Notes are redeemable by the Company before the Maturity Date.</p>
Ranking of the Convertible Notes	<p>The Convertible Notes constitute a direct, general, unconditional and unsecured obligation of the Company and rank <i>pari passu</i> 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.</p>

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
Other major terms in relation to adjustment to the Conversion Price	Where, following any corporate actions of the Company, including but not limited to consolidation, reduction or subdivision of Shares, capitalization of profits or reserves, rights issue, or issue of convertible securities, warrants or options carrying the right to subscribe for the Shares, results in an adjustment to the Conversion Price in accordance with the terms of the Notes, and as a result, the number of the Conversion Shares to be issued would exceed the maximum limit on the allotment and issue of Shares under the General Mandate, the Company shall be entitled to give notice thereof to the Noteholders to satisfy any exercise of the Conversion Rights in excess of the maximum limit on the allotment and issue of the Shares under the General Mandate to which the Noteholders would have been entitled (the “ Excess Conversion Rights ”) upon exercise of the Conversion Rights in cash (the “ Cash Payment ”) by reference to the closing price of the Shares on the trading day immediately preceding the date of the relevant conversion notice, and the Noteholders shall accept the Cash Payment as full settlement of the Excess Conversion Rights.

Mandate to issue the Conversion Shares

The issue of the Convertible Notes will be made under the General Mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 23 May 2014 to allot and issue up to 331,889,342 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. Upon exercise of the conversion rights attaching to the Convertible Notes in full, assuming the Conversion Price is not adjusted as a result of any dilutive event and there is no redemption of the Convertible Notes pursuant to the terms and conditions of the Convertible Notes, the Company may allot and issue up to the remaining 46,749,482 Shares 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 consideration payable by Mr. Yang to the Company for the Subscription of the Convertible Notes in aggregate is HK\$40,775,000.00, which will be satisfied in full by setoff against the equivalent amount of the indebtedness owing by the Company to Mr. Yang at Completion.

Conditions Precedent to Completion

Completion is subject to the following conditions having been fulfilled:

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

In the event that the above conditions are not fulfilled on or before 18 July 2014 (or such other date as the parties to the Subscription Agreement may agree in writing), the Subscription Agreement shall cease and determine and none of the Company or Mr. Yang shall have any claims against each other.

Completion

Completion shall take place on the second business day after all of the conditions precedent to Completion are fulfilled (or such later date as the parties to the Subscription Agreement may agree in writing). Upon Completion, the Company will issue the Convertible Notes to Mr. Yang and the subscription moneys payable by Mr. Yang shall be set off against the equivalent amount of the indebtedness owing by the Company to Mr. Yang.

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.

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.

The Directors consider that issue of the Convertible Notes represents an opportunity to broaden the capital base of the Company. The Group's liquidity requirements are satisfied by a combination of cash flow generated from working capital arising from operating activities and bank loans. In the management of the liquidity risk, the Group maintains sufficient cash inflows from its operations so as to finance its working capital.

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 set-off of the existing debt of the Company owing to Mr. Yang 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) are of the view that the terms of the Subscription Agreement and the Convertible Notes are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 aggregate 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 CN2014-1	For set-off of the existing debt of the Company	For set-off of the existing debt of the Company
29 November 2013 and 16 December 2013	Issue of CN2014-2 with an aggregate 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 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 aggregate 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 aggregate 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

Date of announcement	Event	Net Proceeds	Intended use of proceeds	Actual use of proceeds
9 May 2014, 20 May 2014, 30 May 2014 and 6 June 2014	Issue of CN2016-1 with an aggregate principal amount of HK\$42,399,932, which may be converted into 326,153,321 Shares at the conversion price of HK\$0.13 per Share (subject to adjustment)	Approximately HK\$42,399,932 has been raised from issue of CN2016-1	For set-off of the existing debt of the Company and set-off of the moneys payable by the Company for redeeming the convertible notes	For set-off of the existing debt of the Company and set-off of the moneys payable by the Company for redeeming the convertible notes

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 Shares (Approximately)	%	Number of Shares (Approximately)	%	Number of Shares (Approximately)	%
Connected Persons						
Li Xiangjun (Note 2)	313,590	0.015	313,590	0.013	313,590	0.013
Public Shareholders						
holder of ETCN	0	0.00	0	0.00	4,000,000	0.16
holder of EICN	200,000	0.010	200,000	0.008	116,671,912	4.66
Mr. Yang	207,554,896	9.90	492,694,756	20.70	492,694,756	19.70
Other public shareholders	1,887,531,549	90.07	1,887,531,549	79.28	1,887,531,549	75.46
Total	<u>2,095,600,035</u>	<u>100.00</u>	<u>2,380,739,895</u>	<u>100.00</u>	<u>2,501,211,807</u>	<u>100.00</u>

Notes:

- 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.
- Li Xiangjun is a non-executive Director.

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
“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 18 December 2013
“CN2016-1”	the 1% per annum coupon rate convertible notes issued by the Company in the aggregate principal amount of HK\$42,399,932 conferring rights to convert into a total of 326,153,321 Shares to be issued by the Company on the basis of a conversion price of HK\$0.13 per Share (subject to adjustment) issued by the Company on 6 June 2014
“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 Subscriptions pursuant to the Subscription Agreement
“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 Agreement to a particular numbered Condition shall be construed accordingly
“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\$40,775,000.00 to be issued by the Company and subscribed by Mr. Yang in accordance with the provisions of the Subscription Agreement
“Conversion Price”	HK\$0.143 per Conversion Share, 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 and ETCN
“Existing Conversion Share(s)”	the Share(s) to be issued upon the exercise of the conversion rights attaching to the Existing Convertible Notes
“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 annual general meeting of the Company held on 23 May 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

“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
“Last Trading Date”	27 June 2014, being the last trading date for the Shares before the date of this announcement
“Mr. Yang”	Mr. Yang Dong Jun, the subscriber of the Convertible Notes
“Noteholder(s)”	the holder(s) of the Convertible Notes
“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
“Subscription”	the subscription of the Convertible Notes by Mr. Yang pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the agreement dated 27 June 2014 and entered into between the Company and Mr. Yang in respect of the Subscription
“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, 27 June 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.