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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 18 December 2015 (after trading hours), the Company entered into the Subscription Agreement with Ms. Li, pursuant to which the Company has agreed to issue, and Ms. Li has agreed to subscribe for, the Convertible Notes with an aggregate principal amount of HK\$10,000,000.00, which may be converted into 28,571,428 Conversion Shares at the Conversion Price of HK\$0.35 per Conversion Share (subject to adjustment).

Assuming the Conversion Rights are exercised in full at the Conversion Price, a maximum of 28,571,428 Conversion Shares will be allotted and issued, representing approximately 0.97% of the entire issued share capital of the Company as at the date of this announcement and approximately 0.96% 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:

18 December 2015

Parties:

Issuer: The Company

Subscriber: Ms. Li

Subscription

Pursuant to the Subscription Agreement, the Company has agreed to issue, and Ms. Li has agreed to subscribe for the Convertible Notes with an aggregate principal amount of HK\$10,000,000.00 for a total consideration of HK\$10,000,000.00, all of which shall be setoff in full against the equivalent amount of indebtedness owing by the Company to Ms. Li under the EICN at the Completion.

As at the date of this announcement, Ms. Li is the holder of the EICN with an outstanding principal amount of HK\$10,000,000.00. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Ms. Li is a third party independent of the Company and its connected persons.

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\$10,000,000.00
Conversion Price	The Conversion Price is HK\$0.35 per Share, which is subject to adjustments for, among other matters, consolidation, 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 approximately 16.67% to the closing price of HK\$0.30 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 16.67% to the average closing price of HK\$0.30 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the Last Trading Date; and
- (iii) a premium of approximately 16.67% to the average closing price of approximately HK\$0.30 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately preceding the Last Trading Date.

The Conversion Price has been determined after arm's length negotiations between the Company and Ms. Li with reference to the prevailing market price of the Shares and the conversion price of HK\$0.35 per Share under the EICN.

Adjustment Events

The Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events in relation to the Company, including:

- (i) consolidation or sub-division of Shares;
- (ii) capitalization of profits or reserves;
- (iii) capital distribution;
- (iv) right issues of Shares or options over Shares, etc;
- (v) issue of convertible securities at less than prevailing market price;
- (vi) issue of Shares at less than prevailing market price.

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 Convertible 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.

Interest rate	The Convertible Notes do not carry any interest.
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 from the independent Shareholders as may be required under the GEM Listing Rules have been obtained.
Maturity date	The date falling on the second anniversary of 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 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.
	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 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 in respect of the Convertible Notes	<p>If the Conversion Rights are exercised in full at the Conversion Price of HK\$0.35 per Conversion Share, 28,571,428 Conversion Shares will be issued by the Company.</p> <p>The 28,571,428 Conversion Shares represent about 0.97% 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 28,571,428 Conversion Shares represent about 0.96% 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 at any time 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 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.</p>
Ranking of the Conversion Shares	<p>The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing issued Shares as at the date of allotment of such Conversion Shares.</p>
Voting	<p>The Convertible Notes do not confer any voting rights at any meetings of the Company.</p>

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 9 June 2015 to allot and issue up to 629,433,439 Shares, being 20% 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 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 600,862,011 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 aggregate consideration payable by Ms. Li to the Company for the Subscription of the Convertible Notes is HK\$10,000,000.00, which will be satisfied in full by setting off against and as repayment for the equivalent amount of the indebtedness owing by the Company to Ms. Li under the EICN 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 31 January 2016 (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 Ms. Li shall have any claims against each other.

Completion

Completion shall take place on the first business day after all 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 Ms. Li and the subscription moneys payable by Ms. Li shall be set off against and as repayment for the equivalent amount of the indebtedness owing by the Company to Ms. Li.

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.

Ms. Li is the holder of the EICN issued by the Company with an outstanding principal amount of HK\$10,000,000.00, and the maturity date of the EICN will fall on 20 December 2015.

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 the existing debt of the Company owing to Ms. Li under the EICN 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) 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 (iii) 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 Company has not conducted any equity fund raising activities in the past twelve months prior to the date of this announcement.

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; and (ii) immediately after the allotment and issue of the Conversion Shares upon the exercise of the Conversion Rights in full, and assuming that the Conversion Price is HK\$0.35 per Conversion Share and there is no further issue or repurchase of Shares from the date of this announcement other than the Conversion Shares).

Shareholders	As at the date of this announcement		Immediately after the allotment and issue of the Conversion Shares upon exercise of the Conversion Rights in full	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Yuan Wei (<i>Note 1</i>)	20,000,000	0.68	20,000,000	0.67
Li Xiangjun (<i>Note 2</i>)	313,590	0.01	313,590	0.01
Public Shareholders	2,924,789,606	99.31	2,924,789,606	98.36
Ms. Li (<i>Note 3</i>)	—	—	28,571,428	0.96
Total	<u>2,945,103,196</u>	<u>100</u>	<u>2,973,674,624</u>	<u>100</u>

Notes:

1. Yuan Wei is an executive Director.
2. Li Xiangjun is a non-executive Director.
3. Pursuant to the Subscription Agreement, Ms. Li has undertaken to the Company that she will not exercise any of the conversion rights attaching to the EICN until the end of its conversion period.

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
“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 of the Convertible Notes
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Convertible Notes”	the zero coupon convertible notes in the aggregate principal amount of HK\$10,000,000.00 to be issued by the Company and subscribed by Ms. Li pursuant to the Subscription Agreement
“Conversion Price”	HK\$0.35 per Conversion Share, being the price for conversion of the Convertible Notes, which is subject to the adjustments pursuant to the Conditions
“Conversion Right”	the right of a Noteholder of the Convertible Notes to convert the whole or part of the outstanding principal amount of the Convertible Notes into the Conversion Shares
“Conversion Share(s)”	the Share(s) to be issued upon the exercise of the Conversion Rights
“Director(s)”	director(s) of the Company

“EICN”	the convertible notes issued by the Company with an aggregate outstanding principal amount of HK\$10,000,000 conferring rights to convert to a total of 28,571,428 Shares on the basis of the conversion price of HK\$0.35 per Share (subject to adjustment), the maturity date of which will fall on 20 December 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 annual general meeting of the Company held on 9 June 2015 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
“Last Trading Date”	18 December 2015, being the last trading date for the Shares before the date of this announcement
“Maturity Date”	the date falling on the second anniversary of the date of issue of the Convertible Notes
“Ms. Li”	Ms. Li Jing, 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)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscription”	the subscription of the Convertible Notes by Ms. Li pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the agreement dated 18 December 2015 and entered into between the Company and Ms. Li for the Subscription
“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, 18 December 2015

As at the date of this announcement, the Board comprises two executive directors, namely Mr. Yuan Wei and Mr. Yang Jilin; 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.