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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 ACQUISITION OF SHAG MEI INTERNATIONAL FOOD LIMITED AND ISSUE OF CONVERTIBLE NOTES

PROPOSED ACQUISITION

The Board is pleased to announce that on 21 December 2016 (after trading hours), the Purchaser and the Vendor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire for and the Vendor has conditionally agreed to dispose of the Target Interest at the Consideration of HK\$96,000,000 (subject to adjustments) to be settled by the Company's issue of the Convertible Notes upon Completion.

ISSUE OF CONVERTIBLE NOTES

Upon completion of the Acquisition, the Company will issue the Convertible Notes to the Vendor or its nominated company with an aggregate principal amount of HK\$96,000,000, which may be converted into 369,230,769 Conversion Shares at the Conversion Price of HK\$0.26 per Conversion Share (subject to adjustments).

Upon full conversion of the Convertible Notes at the Conversion Price, the Convertible Notes will be convertible into a maximum of 369,230,769 Conversion Shares, representing approximately 11.17% of the issued share capital of the Company as at the date of this announcement and approximately 10.05% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Notes.

The Conversion Shares will be issued under the Specific Mandate to be obtained from the Shareholders at the EGM.

GEM LISTING RULES IMPLICATIONS

As the applicable percentage ratios calculated in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and is subject to the reporting and announcement requirements but exempt from Shareholders' approval under Chapter 19 of the GEM Listing Rules.

An EGM will be held for the Shareholders to consider and, if thought fit, pass the resolutions to approve, inter alia, the granting of the Specific Mandate for the issue of the Conversion Shares.

A circular containing, among other matters, (i) further details of the Acquisition; and (ii) notice of the EGM will be despatched to the Shareholders as soon as practicable in compliance with the GEM Listing Rules.

Reference is made to the Company's announcement dated 1 November 2016 in respect of the signing of a new memorandum of cooperation for the acquisition of the Target Company.

The Board is pleased to announce that on 21 December 2016 (after trading hours), the Purchaser and the Vendor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire for and the Vendor has conditionally agreed to dispose of the Target Interest at the Consideration of HK\$96,000,000 (subject to adjustments) to be settled by the Company's issue of the Convertible Notes upon Completion.

THE AGREEMENT

Set out below are the principal terms of the Agreement:

Date

21 December 2016

Parties involved

- (1) Vendor: Legend International Food Limited
(formerly known as Legend Japanese Food Limited)
- (2) Purchaser: The Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire for and the Vendor has conditionally agreed to dispose of the Sale Shares (representing the entire issued share capital of the Target Company) and the Sale Loan. Further information on the Target Company is set out under the section headed "Information of the Target Company" in this announcement.

Consideration

Pursuant to the Agreement, the Consideration payable to the Vendor for the Target Interest shall be HK\$96,000,000 (subject to adjustments).

All the Consideration payable to the Vendor will be satisfied by the Company's issue of the Convertible Notes to the Vendor or its nominated company in an aggregate principal amount equivalent to the Consideration. Within 7 Business Days after the Completion, the Company will issue the Convertible Notes in the principal sum of HK\$96,000,000 to the Vendor or its nominated company.

Immediately upon the Convertible Notes are issued, only 40% of the Convertible Notes will be delivered to the Vendor (or its nominated company). The Vendor (or its nominated company) shall charge 60% of the Convertible Notes in favour of the Company. After the 2017 Profit Target is met, 40% of the Convertible Notes will be released to the Vendor (or its nominated company). After the 2018 Profit Target is met, the remaining 20% of the Convertible Notes will be released to the Vendor (or its nominated company).

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor after taking into account of the existing profitability and the business development prospects of the Target Company.

Reduction in Consideration

If the Target Company fails to meet the 2017 Profit Target, the Consideration will be reduced in accordance with the following formula:

$$\begin{array}{l} \text{Amount to be deducted} \\ \text{from the Consideration} \end{array} = (2017 \text{ Profit Target} - 2017 \text{ Actual Profit}) \times 12 \times 40\%$$

In relation to the 2017 Profit Target, the maximum amount to be deducted from the Consideration shall not exceed the sum equivalent to 40% of the Consideration, that is, HK\$38,400,000.

If the Target Company fails to meet the 2018 Profit Target, the Consideration will be reduced in accordance with the following formula:

$$\begin{array}{l} \text{Amount to be deducted} \\ \text{from the Consideration} \end{array} = (2018 \text{ Profit Target} - 2018 \text{ Actual Profit}) \times 12 \times 20\%$$

In relation to the 2018 Profit Target, the maximum amount to be deducted from the Consideration shall not exceed the sum equivalent to 20% of the Consideration, that is, HK\$19,200,000.

Conditions

Completion is conditional upon each of the following Conditions being satisfied or waived by the Purchaser:

- (i) the representations and warranties given by the Vendor under the Agreement remaining true, complete, effective and accurate up to the Completion Date;
- (ii) the Vendor having completed the transfer of all its fixed assets and facilities related to its business in Hong Kong (as listed in the Agreement) to the Target Company;
- (iii) the Vendor having fulfilled its commitments and obligations under the Agreement;
- (iv) there has not been any event or circumstance occurred which has caused or will reasonably be foreseeable to cause material adverse change in the Target Company;
- (v) the Company having obtained the approvals of the Shareholders for the signing of the Agreement, the Acquisition, the issue of the Convertible Notes and the specific mandate for issue of the Conversion Shares at the EGM convened in accordance with the requirements of the GEM Listing Rules;

- (vi) the listing committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares, and has not revoked or cancelled such approval;
- (vii) if signing or the performance of the Agreement is required to obtain the consent from any third parties or regulatory authorities (if any) under any relevant laws, GEM Listing Rules or regulations, all such consents from third parties and regulatory authorities have been obtained; and
- (viii) the Purchaser has completed, and is satisfied with the results of, the financial and legal due diligence conducted on the Target Company.

The Purchaser is entitled to waive all or any of the above Conditions (except Conditions (v) to (vii)).

If any of the above Conditions have not been fulfilled or waived by the Long Stop Date, the Agreement will be terminated forthwith and parties to the Agreement shall not have any claim against each other, save and except any antecedent breaches.

Completion

Completion shall take place on the fifth (5th) Business Days after all the Conditions have been fulfilled (or otherwise waived by the Purchaser) or such other date as the parties may otherwise agree.

Upon Completion, the Target Company will become a subsidiary of the Company.

CONVERTIBLE NOTES

The principal terms of the Convertible Notes are summarized below:

- | | |
|-----------------------------|--|
| Issuer: | The Company |
| Aggregate principal Amount: | HK\$96,000,000 (equivalent to the Consideration). |
| Conversion Price: | The Conversion Price is HK\$0.26 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 discount of about 14.75% to the closing price of HK\$0.305 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a discount of about 15.03% to the average closing price of HK\$0.306 per Share as quoted on the Stock Exchange for the five 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 Vendor with reference to the then prevailing market price of the Shares.

Interest	No interest shall be accrued and payable on the outstanding principal amount of the Convertible Notes.
Transferability of Convertible Notes	Subject to compliance with any restrictions or requirements imposed by the Stock Exchange and the procedural requirements stipulated under the terms and conditions of the Convertible Notes, the Convertible Notes or any part(s) thereof may be assigned or transferred at the discretion of the Noteholder(s).
Maturity date	The date falling on the second (2nd) anniversary of the Issue Date. Unless previously converted in accordance with the conditions pursuant to which the Convertible Notes are to be issued, the Company shall redeem the Convertible Notes at its outstanding principal amount on the Maturity Date.
Conversion rights	<p>Save and except that the Noteholder cannot convert any of the principal amount of the Convertible Notes into the Conversion Shares within 6 months after the Issue Date, the Noteholder may convert the whole or part of the principal amount of the Convertible Notes into the Conversion Shares at the Conversion Price on any Business Days during the Conversion Period.</p> <p>The Company is entitled to compulsorily require the Noteholder to convert the whole or part of the principal amount of the Convertible Notes into the Conversion Shares at any time.</p>

The Noteholders shall have the right to convert the Convertible Notes, in whole or in part, at the Conversion Price set out above, provided that the Noteholders shall only exercise the right of conversion to the extent that the public float of the Company will not be less than 25% of the issued share capital of the Company immediately after such conversion.

Conversion Shares

Based on the Consideration of HK\$96,000,000, there will be 369,230,769 Conversion Shares issuable by the Company upon exercise of the conversion rights attached to the Convertible Notes in full at the Conversion Price of HK\$0.26 per Share.

The 369,230,769 Conversion Shares represent approximately 11.17% of the issued share capital of the Company as at the date of this announcement.

Assuming that there is no change to the shareholding structure of the Company from the date of this announcement, the 369,290,769 Conversion Shares represent approximately 10.05% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

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 such allotment and issue.

Voting

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

Listing

No application will be made by the Company for the listing of the Convertible Notes. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Other major terms in relation to the adjustment to the Conversion Price

Where, following any corporate actions of the Company, including but not limited to consolidation, reduction, 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 Specific 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 Specific 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 CONVERTIBLE NOTES

The Conversion Shares will be issued under the Specific Mandate to be obtained from the Shareholders at the EGM.

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 369,230,769 Conversion Shares upon the exercise of conversion rights attaching to the Convertible Notes in the principal sum of HK\$96,000,000 in full (assuming that there is no other change to the shareholding structure of the Company after the date of this announcement).

**Immediately after the allotment and
issue of the 369,230,769 Conversion
Shares upon exercise of the conversion
rights attaching to the Convertible**

	As at the date of this announcement		Notes in full (Note 1)	
	Number of Shares	%	Number of Shares	%
	(Approximately)		(Approximately)	
Public Shareholders	2,913,979,386	88.17	2,913,979,386	79.31
Atlantis Capital Holdings Limited	391,000,000	11.83	391,000,000	10.64
Vendor	–	–	369,230,769	10.05
Total:	3,304,979,386	100	3,674,210,155	100

Note:

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.

INFORMATION ON THE COMPANY

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.

INFORMATION OF THE TARGET COMPANY

The Target Company

The Target Company is a company incorporated in Hong Kong with limited liability and is principally engaged in the business of food processing and sale. Immediately after Completion of the Acquisition, the entire issued share capital of the Target Company will be owned by the Company.

Financial Information of the Target Company

The Target Company was incorporated on 8 May 2014 and its financial year ends on 31 March in each year.

The following table sets out a summary of the audited financial results of the Target Company for its two financial years immediately before the date of this announcement:

	From date of incorporation to 31 March 2015 HK\$	From 1 April 2015 to 31 March 2016 HK\$
Total assets	10,689,501	2,080,703
Net assets	674,500	1,048,553
Net Profit (before taxation)	773,338	432,528
Net Profit (after taxation)	664,500	374,053

REASONS FOR THE ACQUISITION

The reason for the Acquisition is for the Company to develop the business of food processing and sale. The Group has decided to acquire the Target Company with a view to maximizing return to the Company and its Shareholders in the long run. The Company believes that the Acquisition will strengthen the positive cash flow and earnings for the Group in the long run.

The Directors (including the independent non-executive Directors) consider that terms of the Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

As the applicable percentage ratios calculated in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and is subject to the reporting and announcement requirements but is exempt from Shareholders' approval under Chapter 19 of the GEM Listing Rules.

An EGM will be convened and held for the Shareholders to consider and, if thought fit, pass the resolution(s) to approve, inter alia, the granting of the Specific Mandate for the issue of the Conversion Shares.

A circular containing, among other matters, (i) further details of the Acquisition; and (ii) notice of the EGM will be despatched to the Shareholders as soon as practicable in compliance with the GEM Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“2017 Actual Profit”	the net profit after tax of the Target Company for the period from 1 April 2017 to 31 March 2018 as determined by the auditors approved by the Purchaser and the Vendor
“2017 Profit Target”	the net profit after tax of the Target Company for the period from 1 April 2017 to 31 March 2018 in the amount of HK\$8,000,000
“2018 Actual Profit”	the net profit after tax of the Target Company for the period from 1 April 2018 to 31 March 2019 as determined by the auditors approved by the Purchaser and the Vendor
“2018 Profit Target”	the net profit after tax of the Target Company for the period from 1 April 2018 to 31 March 2019 in the amount of HK\$10,000,000;
“Acquisition”	the Purchaser’s acquisition of the Target Interest pursuant to the Agreement
“Agreement”	the agreement dated 21 December 2016 entered into between the Purchaser and the Vendor for the Acquisition
“Board”	the board of Directors
“Business Day(s)”	a day which excludes Saturdays, Sundays and public holidays in the PRC
“Company”	China E-Learning Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM (Stock Code: 8055)
“Completion”	completion of the Acquisition
“Completion Date”	the date of Completion
“Conditions”	the conditions precedent to the Completion
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules and the word “connected” shall be construed accordingly

“Consideration”	HK\$96,000,000 (subject to adjustments), being the total consideration for the Acquisition
“Conversion Period”	the period from Issue Date to Maturity Date (both days inclusive)
“Conversion Price”	HK\$0.26 per 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 Shares”	the Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Notes
“Convertible Note(s)”	convertible notes to be issued by the Company in an aggregate principal amount of HK\$96,000,000
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve, inter alia, the granting of the Specific Mandate for the issue of the Conversion Shares
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of the Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Date”	the date of issue of the Convertible Notes
“Long Stop Date”	31 March 2017
“Maturity Date”	the second (2nd) anniversary of the Issue Date
“Noteholder(s)”	holder(s) of the Convertible Notes
“PRC”	the People’s Republic of China, excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	the Company

“RMB”	renminbi, the lawful currency of the PRC
“Sale Loan”	all the indebtedness owing by the Target Company to the Vendor as at the Completion Date
“Sale Shares”	10,000 shares of the Target Company, representing its entire issued share capital
“Share(s)”	ordinary share(s) of HK\$0.10 in the share capital of the Company
“Shareholders”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to be obtained from the Shareholders at the EGM for issuing the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“Target Company”	Shag Mei International Food Limited, a company incorporated in Hong Kong with limited liability
“Target Interest”	the Sale Shares and the Sale Loan
“Vendor”	Legend International Food Limited (formerly known as Legend Japanese Food Limited), a company incorporated with limited liability in Hong Kong
“%”	per cent

* *For identification purpose only*

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

Hong Kong, 21 December 2016

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Yuan Wei, Mr. Wang Weihua and Ms. Zhang Jianxin; 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.

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.irasia.com/listco/hk/chinaelearning/ for at least 7 days from the date of its publication.