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## **China New Higher Education Group Limited**

**中國新高教集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2001)**

### **COMPLETION ON ACQUISITION OF HENAN SCHOOL**

#### **HENAN SCHOOL STRUCTURED CONTRACTS**

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Reference is made to the announcement dated 8 January 2018, pursuant to which, Beijing Daai Consulting, an indirect wholly owned subsidiary of Yun Ai Group, a consolidated affiliated entity of the Company, entered into the Cooperation Agreement with Mr. Rong, Ms. Kong and Henan Rongyu, pursuant to which Beijing Daai Consulting agreed to acquire 55% school sponsor interest of Henan School.

The Board is pleased to announce that on 8 October 2018, the Acquisition is completed. Accordingly, on the same date, among others, Henan Rongyu and Henan School entered into the Henan School Structured Contracts with Huihuang Company, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects, after which each of Henan Rongyu and Henan School would be treated as a consolidated affiliated entity of the Company.

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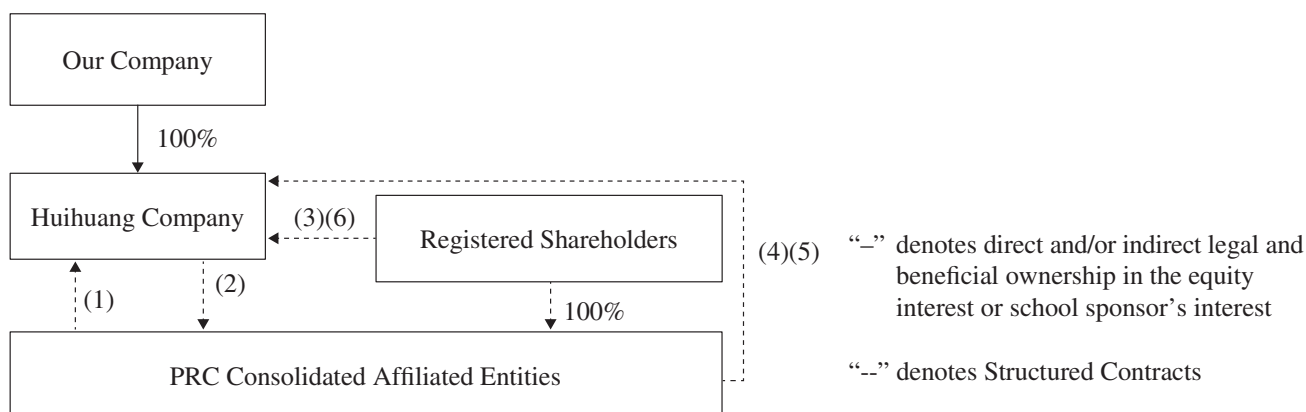
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## HENAN SCHOOL STRUCTURED CONTRACTS

The following agreements constitute the Henan School Structured Contracts between Huihuang Company and, among others, the Henan School and the School Sponsor, pursuant to which all economic benefits arising from the business of the Henan School and the School Sponsor are transferred to Huihuang Company to the extent permitted under the PRC laws and regulations by means of service fees payable by the Henan School and the School Sponsor to Huihuang Company: the (1) Business Cooperation Agreement, (2) Exclusive Technical Service and Management Consultancy Agreement, (3) Exclusive Call Option Agreement, (4) School Sponsor's and Directors' Rights Entrustment Agreement, (5) Shareholders' Rights Entrustment Agreement, and (6) Spouse Undertakings. Following the execution of the Henan School Structured Contracts, the Henan School will become entities controlled by the Company.

The following diagram illustrates the relationship among the Company, Huihuang Company, and the PRC Consolidated Affiliated Entities:



Notes:

1. Payment of service fees.
2. Provision of exclusive technical and management consultancy services.
3. Exclusive call option to acquire all or part of the School Sponsor’s interest in the PRC Consolidated Affiliated Entities and all or part of equity interest in the PRC Consolidated Affiliated Entities.
4. Entrustment of school sponsor’s rights in the Henan School by the School Sponsor.

5. Entrustment of directors' rights in the Henan School and Henan Rongyu by directors of PRC Consolidated Affiliated Entities.
6. Entrust of shareholders' right.

### **Reasons for the Adoption of the Henan School Structured Contracts**

The Henan School is engaged in private higher education.

Pursuant to the Foreign Investment Catalog, the provision of higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalog explicitly restricts higher education to Sino-foreign cooperation, which means the foreign investor shall be an educational institution and shall operate higher education in the PRC through cooperation with a PRC educational institution in compliance with the Sino-Foreign Regulation. In addition, the Foreign Investment Catalog also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "Foreign Control Restriction"). The Company had fully complied with the Foreign Control Restriction in respect of the Henan School on the basis that (a) the principals and the chief executive officers of the Henan School are all PRC nationals; and (b) all the members of the board of directors are PRC nationals.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if we were to apply for the Henan School to be reorganized as a Sino-Foreign Joint Venture Private School for PRC students at higher education institutions (a "Sino-Foreign Joint Venture Private School"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and that provides high quality education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions, the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "Foreign Ownership Restriction") and the establishment of the school is subject to approval of education authorities at the provincial or national level. The PRC Legal Advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement.

Based on the above and as confirmed by the PRC Legal Advisor, in order to achieve the business purpose of the Company, the Henan School Structured Contracts, through which the Group will be able to exercise full control over the Henan School and the School Sponsor and consolidate the financial results of the Henan School and the School Sponsor into the accounts of the Group, have been utilized to minimize the potential conflict with relevant PRC laws and regulations.

### ***Unwinding of the Henan School Structured Contracts***

Under the Sino-Foreign Regulation, foreign investment in higher education in the PRC is required to be in the form of cooperation between PRC educational institutions and foreign educational institutions and subject to the Foreign Ownership Restriction and the Foreign Control Restriction, a foreign investor can only hold less than 50% interest in a Sino-Foreign Joint Venture Private School and not less than 50% of the governing body of the institute offering high education must be appointed by the Chinese investors.

In the event that the Qualification Requirement is removed or the Company is able to meet the Qualification Requirement and there is a change in policy, but (a) the Foreign Ownership Restriction and the Foreign Control Restriction remain, (b) the Foreign Ownership Restriction remains and the Foreign Control Restriction is removed, or (c) the Foreign Ownership Restriction is removed and the Foreign Control Restriction remains, or (d) both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed, as permitted by the applicable PRC laws and regulations at the relevant time:

- in circumstance (a), the Company will partially unwind the Henan School Structured Contracts and directly hold an equity interest of less than 50% in the school (such as a 49.99% equity interest) as the Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private School up to no more than 50%. However, the Company will not be able to control such school without the Henan School Structured Contracts in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction and the Foreign Control Restriction remain, regardless of whether the Qualification Requirement is removed or met the Company will still rely on contractual arrangements to establish control over the school. The Company will also acquire rights to appoint members to the board of directors who together shall constitute less than 50% of the board of directors of the school. The Company will then control the voting power of the other members of the board of directors appointed by the domestic interest holder(s) by way of the Henan School Structured Contracts;

- in circumstance (b), the Company will partially unwind the Henan School Structured Contracts and directly hold an equity interest of less than 50% in the school (such as a 49.99% equity interest) as the Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private School up to no more than 50%. However, the Company will not be able to control such school without the Henan School Structured Contracts in place with respect to the domestic interests. The Company will also acquire rights to appoint all members of the board of directors of the school;
- in circumstance (c), notwithstanding the Company will be able to hold majority interests in the Sino-Foreign Joint Venture Private School, the Sino-Foreign Regulation still dictates that there be a domestic interest in the school and the Company are ineligible to operate the school by ourselves. Under such circumstances, the Company will acquire rights to appoint members of the board of directors who together shall constitute less than 50% of the board of directors of the school. The Company will then control the voting power of such members appointed by the domestic interest holder(s) by way of the Henan School Structured Contracts. The Company also plan to hold the maximum percentage of equity interests permissible by the relevant laws and regulations in the school directly, subject to the approval of the relevant government authorities. As for the remaining minority domestic interests which the Company intends to consolidate, the Company will then control them pursuant to the Henan School Structured Contracts; and
- in circumstance (d), the Company would be allowed to directly hold 100% of the interests in the school and the Company will fully unwind the Henan School Structured Contracts and directly hold all equity interests in the school. The Company will also acquire rights to appoint all members of the board of directors of the school.

In addition, Huihuang Company has also signed a written undertaking that, if the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), it will exercise the Equity Call Option (as defined below) in full to hold all of the interest in the Henan School and unwind the Henan School Structured Contracts accordingly.

### **Plan to Comply with the Qualification Requirement**

We have adopted a specific plan and begun to take the following concrete steps which we reasonably believe are meaningful endeavors to demonstrate compliance with the Qualification Requirement. Please also refer to “Structured Contracts” in the Prospectus and the financial reports of the Company for the Group’s efforts and actions undertaken to comply with the Qualification Requirement. As of the date of this announcement, we are still waiting for approval from the BPPE to establish the new school in the State of California.

## ***Summary of the Material Terms of the Henan School Structured Contracts***

A description of each of the specific agreements that comprise the Henan School Structured Contracts is set out below.

### ***(1) Business Cooperation Agreement***

Pursuant to the Business Cooperation Agreement, Huihuang Company shall provide technical services, management support and consulting services necessary for the private education business, and in return, the PRC Consolidated Affiliated Entities shall make payments accordingly.

To ensure the due performance of the Henan School Structured Contracts, each of the PRC Consolidated Affiliated Entities agreed to comply, and procure any of its subsidiaries to comply with, and the Registered Shareholders agreed to procure the PRC Consolidated Affiliated Entities to comply with the obligations as prescribed under the Business Cooperation Agreement set forth as follows:

- (a) to carry out its private education operations in a prudent and efficient manner in accordance with good financial and business standards while maintaining the asset value of the PRC Consolidated Affiliated Entities and the quality and standard of private education;
- (b) to prepare school development plans and annual working plans in accordance with the instructions of Huihuang Company;
- (c) to carry out its private education activities and other relevant business under the assistance of Huihuang Company;
- (d) to carry out and manage its daily operations and financial management in accordance with the recommendations, advice, principles and other instructions of Huihuang Company;
- (e) to execute and act upon the recommendations of Huihuang Company in terms of employment and removal of senior management and staff;
- (f) to adopt the advice, guidance and plans given by Huihuang Company in relation to their respective strategic development; and
- (g) to carry out its business operations and renew and maintain its respective necessary licenses.

(2) *Exclusive Technical Service and Management Consultancy Agreement*

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, Huihuang Company agreed to provide exclusive technical services to the PRC Consolidated Affiliated Entities, including but not limited to, (a) design, development, update and maintenance of software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites necessary for the education activities of the PRC Consolidated Affiliated Entities; (c) design, development, update and maintenance of management information systems necessary for the education activities of the PRC Consolidated Affiliated Entities; (d) provision of other technical support necessary for the education activities of the PRC Consolidated Affiliated Entities; (e) provision of technical consulting services; (f) provision of technical training; (g) engaging technical staff to provide on-site technical support; and (h) providing other technical services reasonably requested by the PRC Consolidated Affiliated Entities.

Furthermore, Huihuang Company agreed to provide exclusive management consultancy services to the PRC Consolidated Affiliated Entities, including but not limited to, (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimization on annual budget; (h) advising on design of internal structures and internal management; (i) provision of management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of marketing network; and (m) providing other management technical services reasonably requested by the PRC Consolidated Affiliated Entities.

In consideration of the technical and management consultancy services provided by Huihuang Company, each of the PRC Consolidated Affiliated Entities agreed to pay Huihuang Company a service fee equal to 55% of the respective amount of surplus from operations (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law) and the legally compulsory development fund of the Henan School (if required by the law)).

The compulsory development fund is included as statutory surplus reserve at the Group's level and retained at school's level. Huihuang Company has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of the PRC Consolidated Affiliated Entities, provided that any adjusted amount shall not exceed the amount mentioned above. The PRC Consolidated Affiliated Entities do not have any right to make any such adjustment.



Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Huihuang Company shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by Huihuang Company to the PRC Consolidated Affiliated Entities, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Huihuang Company and other parties.

(3) *Exclusive Call Option Agreement*

Under the Exclusive Call Option Agreement, the Registered Shareholders have irrevocably granted Huihuang Company or its designated purchaser the right to purchase all or part of the school sponsor's interest in the Henan School and equity interest in Henan Rongyu ("Equity Call Option"). The purchase price payable by Huihuang Company in respect of the transfer of such school sponsor's interest or equity interest upon exercise of the Equity Call Option shall be the lowest price permitted under the PRC laws and regulations. Huihuang Company or its designated purchaser shall have the right to purchase such proportion of the school sponsor's interest in the Henan School and/or equity interest in the Henan Rongyu as it decides at any time.

In the event that PRC laws and regulations allow Huihuang Company or us to directly hold all or part of the equity interest in the PRC Consolidated Affiliated Entities and operate private education business in the PRC, Huihuang Company shall issue the notice of exercise of the Equity Call Option as soon as practicable, and the percentage of school sponsor's interest and/or equity interest purchased upon exercise of the Equity Call Option shall not be lower than the maximum percentage then allowed to be held by Huihuang Company or us under PRC laws and regulations.



(4) *School Sponsor's and Directors' Rights Entrustment Agreement*

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, the School Sponsor has irrevocably authorized and entrusted Huihuang Company to exercise all its rights as school sponsor of the Henan School to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of the Henan School; (b) the right to appoint and/or elect supervisors of the Henan School; (c) the right to understand the operation and financial situation of the Henan School; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the Henan School; (e) the right to obtain reasonable returns as school sponsor of the Henan School in accordance with the laws and the articles of association of each school; (f) the right to acquire residue assets upon liquidation of the school in accordance with the laws and the articles of association of the Henan School; (g) the right to transfer school sponsor's interest in accordance with the laws; and (h) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time. Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, each of the directors of the Henan School (the "Appointees") has irrevocably authorized and entrusted Huihuang Company to exercise all his/her rights as directors and to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representative of the directors appointed by the School Sponsor; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of the Henan School; (c) the right to propose to convene interim board meetings of each of the Henan School; (d) the right to sign all board minutes, board resolutions and other legal documents; (e) the right to instruct the legal representative and financial and business responsible persons of the Henan School to act in accordance with the instruction of Huihuang Company; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the Henan School; (g) the right to handle the legal procedures of registration, approval and licensing of the Henan School at the education department, the department of civil affairs or other government regulatory departments; and (h) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the Henan School as amended from time to time.

In addition, the School Sponsor and the Appointees have irrevocably agreed that (i) Huihuang Company may delegate its rights under the School Sponsor's and Directors' Rights Entrustment Agreement to the directors of Huihuang Company or its designated person, without prior notice to or approval by the School Sponsor and the Appointees; and (ii) any person as successor of civil rights of Huihuang Company or liquidator by reason of subdivision, merger, liquidation of Huihuang Company or other circumstances shall have authority to replace Huihuang Company to exercise all rights under the School Sponsor's and Directors' Rights Entrustment Agreement.

(5) *Shareholders' Rights Entrustment Agreement*

Pursuant to the Shareholders' Rights Entrustment Agreement, each of the Registered Shareholders, Beijing Daai Consulting and Yun Ai Group has irrevocably authorized and entrusted Huihuang Company to exercise all of his/their respective rights as shareholders of Yun Ai Group, Beijing Daai Consulting, and the School Sponsor (together, "the Relevant Subsidiaries") to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to attend shareholders' meetings of the Relevant Subsidiaries, as the case may be; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of the Relevant Subsidiaries, as the case may be; (c) the right to appoint directors or legal representative of the Relevant Subsidiaries, as the case may be; (d) the right to propose to convene interim shareholders' meetings of the Relevant Subsidiaries, as the case may be; (e) the right to sign all shareholders' resolutions and other legal documents which the Registered Shareholders, Beijing Daai Consulting and Yun Ai Group have authority to sign in his or their capacity as shareholders of the Relevant Subsidiaries, as the case may be; (f) the right to instruct the directors and legal representative of the Relevant Subsidiaries, as the case may be to act in accordance with the instruction of Huihuang Company; (g) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of the Relevant Subsidiaries, as the case may be; (h) the right to handle the legal procedures of registration, approval and licensing of the Relevant Subsidiaries, as the case may be at the education department, the department of civil affairs or other government regulatory departments; and (i) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of the Relevant Subsidiaries as amended from time to time.

In addition, each of the Registered Shareholders, Beijing Daai Consulting and Yun Ai Group has irrevocably agreed that (i) Huihuang Company may delegate its rights under the Shareholders' Rights Entrustment Agreement to the directors of Huihuang Company or its designated person, without prior notice to or approval by the Registered Shareholders, Beijing Daai Consulting and Yun Ai Group; and (ii) any person as successor of civil rights of Huihuang Company or liquidator by reason of subdivision, merger, liquidation of Huihuang Company or other circumstances shall have authority to replace Huihuang Company to exercise all rights under the Shareholders' Rights Entrustment Agreement.

*(6) Spouse Undertakings*

Pursuant to the Spouse Undertakings, the spouse of Mr. Li Xiaoxuan has irrevocably undertaken that:

- (a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by Mr. Li Xiaoxuan, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest in Yun Ai Group, pledge or transfer the direct or indirect equity interest in Yun Ai Group, or the disposal of the direct or indirect equity interest in Yun Ai Group in any other forms;
- (b) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to the PRC Consolidated Affiliated Entities; and
- (c) the spouse authorizes Mr. Li Xiaoxuan or his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's equity interest in Yun Ai Group (direct or indirect) in order to safeguard the interest of Huihuang Company under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

## **FURTHER INFORMATION ABOUT THE HENAN SCHOOL STRUCTURED CONTRACTS**

### **Dispute Resolution**

Each of the Henan School Structured Contracts provides that:

- (a) any dispute, controversy or claim arising out of or in connection with the performance, interpretation, breach, termination or validity of the Henan School Structured Contracts shall be resolved through negotiation after one party delivers to the other parties a written negotiation request setting out the specific statements of the disputes or claims;
- (b) if the parties are unable to settle the dispute within 30 days of delivery of such written negotiation request, any party shall have the right to refer the dispute to and have the dispute finally resolved by arbitration administered by the China International Economic and Trade Arbitration Commission in Beijing, the PRC under the prevailing effective arbitration rules thereof. The results of the arbitration shall be final and binding on all relevant parties;

- (c) the arbitration commission shall have the right to award remedies over the equity interest and property interest and other assets of the PRC Consolidated Affiliated Entities, injunctive relief (for the conduct of business or to compel the transfer of assets), or order the winding up of the PRC Consolidated Affiliated Entities; and
- (d) upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of PRC, Hong Kong, the Cayman Islands and the place where the principal assets of the Company, the PRC Consolidated Affiliated Entities are located shall be considered as having jurisdiction for the above purposes.

### **Legality of the Henan School Structured Contracts**

The PRC Legal Advisors are of the opinion that the Henan School Structured Contracts are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that the Henan School Structured Contracts as a whole and each of the agreements comprising the Henan School Structured Contracts are legal, valid and binding on the parties thereto, enforceable under PRC laws and regulations, except that the Henan School Structured Contracts provide that the arbitral body may award remedies over the equity interests and/or assets of the PRC Consolidated Affiliated Entities, injunctive relief and/or winding up of the PRC Consolidated Affiliated Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting the assets of or equity interest in the PRC Consolidated Affiliated Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China, and do not, individually or collectively, constitute a breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Henan School Structured Contracts do not violate the provisions of the PRC Contract Law including “concealing illegal intentions with a lawful form,” the General Principles of the PRC Civil Law and other applicable PRC laws and regulations.

## **Protection in the Event of Death, Bankruptcy or Divorce of the Registered Shareholders**

The spouse of Mr. Li Xiaoxuan has irrevocably undertaken that, among others, the spouse authorizes Mr. Li Xiaoxuan and his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to Mr. Li Xiaoxuan's direct and indirect equity interest in Yun Ai Group in order to safeguard the interest of Huihuang Company under the Henan School Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures and any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events.

In addition, as disclosed above, pursuant to the Business Cooperation Agreement, Mr. Li Xiaoxuan undertakes to Huihuang Company that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of his direct or indirect equity interest in Yun Ai Group, he shall have made all necessary arrangement and sign all necessary documents such that their respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the equity interest or relevant rights shall not prejudice or hinder the enforcement of the Henan School Structured Contracts.

Furthermore, the Registered Shareholders undertake to Huihuang Company that, in the event of merger and subdivision of the Registered Shareholders (except for Mr. Li Xiaoxuan), presentation by the Registered Shareholders (except for Mr. Li Xiaoxuan) or the Registered Shareholders (except for Mr. Li Xiaoxuan) being presented any application for winding up, liquidation, winding up restructuring or reconciliation, dissolution and liquidation of the Registered Shareholders (except for Mr. Li Xiaoxuan) pursuant to an order, application for involuntary dissolution of the Registered Shareholders (except for Mr. Li Xiaoxuan) or other reasons, or other circumstances which may affect the Registered Shareholders in exercising its direct or indirect equity interest in Yun Ai Group, they shall have made all necessary arrangement and sign all necessary document such that the successor, administrator, liquidation committee and any other person which may as a result of the above events obtain the direct or indirect equity interest in Yun Ai Group shall not prejudice or hinder the enforcement of the Henan School Structured Contracts.

## **Insurance**

The Company does not maintain any insurance policy to cover the risks relating to the Henan School Structured Contracts.

## **Arrangement to Address Potential Conflict of Interest**

The Company has in place arrangements to address the potential conflicts of interest between the Registered Shareholders on the one hand, and the Company on the other hand. Pursuant to the Business Cooperation Agreement, each of the Registered Shareholders undertakes to Huihuang Company that, unless with the prior written consent of Huihuang Company, the Registered Shareholders shall not directly or indirectly engage, participate in, conduct, acquire or hold any Competing Business and Huihuang Company is granted an option to (i) require the entity engaging in the Competing Business to enter into an arrangement similar to that of the Henan School Structured Contracts; or (ii) require the entity engaging in the Competing Business to cease operation. The Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between the School Sponsor and the Registered Shareholders on the one hand, and the Company on the other hand.

## **Loss Sharing**

In the event that the Henan School and/or the School Sponsor incur any loss or encounters any operational crisis, Huihuang Company may, but is not obliged to, provide financial support to the Henan School and/or the School Sponsor. None of the agreements constituting the Henan School Structured Contracts provide that the Company or its wholly-owned PRC subsidiary, Huihuang Company, is obligated to share the losses of the Henan School and/or the School Sponsor or provide financial support to the Henan School and/or the School Sponsor. Further, the Henan School and/or the School Sponsor shall be solely liable for its own debts and losses with assets and properties owned by it.

Under PRC laws and regulations, the Company or Huihuang Company, is not expressly required to share the losses of the Henan School and/or the School Sponsor or provide financial support to the Henan School and/or the School Sponsor. Despite the foregoing, given that the Henan School' and/or the School Sponsor's financial condition and results of operations are consolidated into the Group's financial condition and results of operations under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the Henan School and/or the School Sponsor suffer losses.

## **Directors' Views on the Henan School Structured Contracts**

We believe that the Henan School Structured Contracts are narrowly tailored because the Henan School Structured Contracts are only used to enable our Group to consolidate the financial results of the Henan School and/or the School Sponsor which engage or will engage in the operation of higher education, where the PRC laws and regulations currently restrict operation of higher education to Sino-foreign ownership, in addition to imposing qualification requirements on the foreign owners and withholding government approval in respect of Sino-foreign ownership. As of the date of this announcement, the Group has not encountered any interference or encumbrance from any governing bodies in the plan to adopt the Henan School Structured Contracts so that the financial results of the operation of the Henan School and the School Sponsor can be consolidated to those of the Group, and based on the advice of the PRC Legal Advisors, the Directors are of the view that the Henan School Structured Contracts are enforceable under the PRC laws and regulations, except for relevant arbitration provisions, as disclosed in the paragraph headed "Dispute Resolution" in this announcement.

## **Undertakings of Minority Shareholders**

Mr. Rong and Ms. Kong, who hold 45% equity interest of the School Sponsor, both signed a written undertaking that,

- (1) Henan Rongyu and the Henan School shall be consolidated in the Group and they shall facilitate to sign on any legal documents or fulfil any obligations underlying the Henan School Structured Contracts;
- (2) they shall agree to support all the shareholders and board resolutions of Henan Rongyu in order for Henan Rongyu to fulfil the obligations underlying the Henan School Structured Contracts;
- (3) they shall not carry out any activity which has or may have an adverse effect on the daily operations, business or assets of Henan Rongyu or Henan School, or enter into any transaction which has or may have an adverse effect on the transactions contemplated under the Henan School Structured Contracts;
- (4) they shall allow Beijing Daai Consulting to transfer all or part of its rights and obligations in relation to Henan Rongyu to Huihuang Company or its designated purchaser, waive any statutory or agreed first refusal right, and shall sign all documents and take all necessary actions to facilitate such transfer to Huihuang Company or its designated purchaser;
- (5) they shall ensure that when they sell, assign, transfer or otherwise dispose of or create encumbrance over its shareholders' interest in Henan Rongyu, the successor of their equity interest or beneficiary interests in Henan Rongyu shall unconditionally and irrevocably consent to the corresponding rights and obligations under the Henan School Structured Contracts.



## LISTING RULES IMPLICATIONS

The transactions contemplated under the Henan School Structured Contracts, as a whole, constitute continuing connected transactions of the Company under the Listing Rules because (1) Mr. Li is a connected person under Rule 14A.07(1) of the Listing Rules, (2) Ba Mu Pu, Pai Dui Pai and Daai Partnership, each of which is controlled by Mr. Li is a connected person under Rule 14A.12(1)(c) of the Listing Rules and (3) Shanghai Taifu wholly owns Advance Vision and therefore Shanghai Taifu is a connected person of the Company under Rule 14A.13(1) of the Listing Rules.

As disclosed in the Prospectus, framework of the Structured Contracts may be reproduced in operating company engaging in the same business as that of the Group, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Structured Contracts (as defined in the Prospectus).

## CONSOLIDATED FINANCIAL RESULTS OF THE HENAN SCHOOL AND THE SCHOOL SPONSOR

According to HKFRSs 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although the Company does not directly or indirectly own the Henan School and the School Sponsor, the Henan School Structured Contracts as mentioned above enable the Company to exercise control over the Henan School and the School Sponsor.

## DEFINITIONS

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

“Acquisition”	the acquisition of 55% school sponsorship of Henan School as contemplated under the Cooperation Agreement
“Beijing Daai Consulting”	Beijing Daai Consulting Education Consulting Co., Ltd.* (北京大愛教育諮詢有限公司), a limited liability company established in the PRC on 26 July 2017. It is wholly owned by Yun Ai Group
“Board” or “Board of Directors”	the board of Directors of our Company
“Business Cooperation Agreement”	the business cooperation agreement entered into by and among Huihuang Company, the PRC Consolidated Affiliated Entities and the Registered Shareholders dated 8 October 2018

“China” or “PRC”	the People’s Republic of China excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	China New Higher Education Group Limited (中國新高教集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 8 July 2016
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement”	the cooperation agreement dated 8 January 2018 entered into among Mr. Rong, Ms. Kong, Beijing Daai Consulting and Henan Rongyu in relation to the acquisition of Henan School
“Director(s)”	the directors of the Company
“Exclusive Call Option Agreement”	the exclusive call option agreement entered into by and among Huihuang Company, the PRC Consolidated Affiliated Entities and the Registered Shareholders dated 8 October 2018
“Exclusive Technical Service and Management Consultancy Agreement”	the exclusive technical service and management consultancy agreement entered into by and among Huihuang Company and the PRC Consolidated Affiliated Entities dated 8 October 2018
“Foreign Investment Catalogue”	the Guidance Catalogue of Industries for Foreign Investment* (《外商投資產業指導目錄(2017修訂)》), which was promulgated jointly by the MOFCOM and the National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會) on 28 June 2017 and as amended from time to time
“Group”	the Company, its subsidiaries and the consolidated affiliated entities from time to time
“Henan Rongyu” or “School Sponsor”	Henann Rongyu Education Consulting Co., Ltd.* (河南榮豫教育諮詢有限公司), a limited liability company established in the PRC on 2 March 2017
“Henan School”	Luoyang Science and Technology Vocational College* (洛陽科技職業學院), a private institution of formal higher education established under the laws of the PRC in June 2013

“Henan School Structured Contracts”	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Shareholders’ Rights Entrustment Agreement, the School Sponsor’s and Directors’ Rights Entrustment Agreement and Spouse Undertakings
“Huihuang Company”	Tibet Daai Huihuang Information and Technology Co., Ltd.* (西藏大愛輝煌信息科技有限公司), a limited liability company established on 5 August 2016 under the laws of the PRC and a wholly owned subsidiary of the Group
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mr. Li Xiaoxuan”:	Mr. Li Xiaoxuan (李孝軒), the founder, one of the Controlling Shareholders, chairman of the Board and an executive Director
“Mr. Rong”	Mr. Rong Hua (榮華), holding 27% of equity interest of Henan Rongyu as at the date of this announcement
“Ms. Kong”	Ms. Kong Ailan (孔愛蘭), holding 18% of equity interest of Henan Rongyu as at the date of this announcement
“PRC Consolidated Affiliated Entities”	for the purpose of this announcement, Yun Ai Group, Beijing Daai Consulting, Henan Rongyu and the Henan School
“PRC Legal Advisors”	Commerce & Finance Law Offices, the Company’s legal advisors as to PRC Laws
“Prospectus”	the prospectus of the Company dated 15 April 2017
“Registered Shareholders”	the shareholders of Yun Ai Group, namely Mr. Li Xiaoxuan, Pai Dui Pai, Ba Mu Pu, Daai Partnership, Huihuang Investment, Chengxin Investment, Shanghai Taifu and Zhongyi Company
“School Sponsor’s and Directors’ Rights Entrustment Agreement”	the school sponsor’s and directors’ rights entrustment agreement entered into by and among the School Sponsor, the Henan School, the directors of the Henan School and Huihuang Company dated 8 October 2018
“Share(s)”	ordinary share(s) of US\$0.0001 each in the share capital of the Company

“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Rights Entrustment Agreement”	The shareholders’ rights entrustment agreement entered into by and among the Registered Shareholders, and Yun Ai Group, Beijing Daai Consulting, the School Sponsor and Huihuang Company dated 8 October 2018
“Sino-Foreign Regulation”	the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條例), promulgated by the State Council in 2003 and amended on 18 July 2013
“Spouse Undertakings”	The spouse undertakings executed by Ms. Yang, the spouse of Mr. Li Xiaoxuan, dated 8 October 2018
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	has the meaning as defined in the prospectus of the Company dated 5 April 2017
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Yun Ai Group”	Yunnan Einsun Education Investment Group Co., Ltd.* (雲南愛因森教育投資集團有限公司), a limited liability company established under the laws of the PRC on 19 September 2005, which is owned as to 29.8806% by Mr. Li, 20.0568% by Pai Dui Pai, 5.7305% by Ba Mu Pu, 22.8102% by Daai Partnership, 1.2956% by Huihuang Investment, 1.3177% by Chengxin Investment, 15.5265% by Shanghai Taifu and 3.3822% by Zhongyi Company

By order of the board of  
**China New Higher Education Group Limited**  
**Li Xiaoxuan**  
*Chairman*

Hong Kong, 8 October 2018

*As at the date of this announcement, the executive Directors are Mr. Li Xiaoxuan, Mr. Zhao Shuai, and Mr. Ding Yu, the non-executive Director is Mr. Chen Shuo, and the independent non-executive Directors are Mr. Wong Man Chung Francis, Mr. Hu Jianbo and Mr. Kwong Wai Sun Wilson.*

\* *For identification purposes only*