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CHINA YUHUA EDUCATION CORPORATION LIMITED

中国宇华教育集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6169)

PROPOSED ISSUE OF HK\$940,000,000 CONVERTIBLE BONDS DUE 2020 UNDER GENERAL MANDATE

Sole Global Coordinator and Sole Bookrunner

Bank of America 
Merrill Lynch

The Board is pleased to announce that on 9 January 2019 (after trading hours), the Company has entered into the Subscription Agreement with the Manager, under which the Manager has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Convertible Bonds to be issued by the Company in an aggregate principal amount of HK\$940,000,000, on the terms and subject to the conditions set out therein.

Assuming full conversion of the Convertible Bonds at the initial Conversion Price of HK\$3.3360 per Share, the Convertible Bonds will be convertible into 281,774,580 Shares, representing approximately 8.63% of the issued share capital of the Company as at the date of this announcement and approximately 7.94% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares resulting from the full conversion of the Convertible Bonds. The Conversion Shares will rank *pari passu* and carry the same rights and privileges in all respects with the Shares then in issue on the relevant Conversion Date.

The Convertible Bonds shall at all times rank *pari passu* and without any preference or priority among themselves.

The Convertible Bonds have not been offered or sold and may not be offered or sold in Hong Kong to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong).

The Convertible Bonds and the Conversion Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Convertible Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act.

The estimated net proceeds from the Subscription of the Convertible Bonds, after deduction of commission and expenses, amount to approximately HK\$921 million. The Company intends to use the net proceeds from the Subscription in the manner detailed in the section headed "Proposed Use of Net Proceeds".

The Conversion Shares are to be issued under the General Mandate. The issue of the Convertible Bonds is not subject to the specific approval of the Shareholders.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange. An application will also be made for the listing of the Convertible Bonds on the Stock Exchange.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated in certain circumstances. Please refer to the paragraph headed “THE SUBSCRIPTION AGREEMENT” below for further information.

WARNING: As the Subscription Agreement may or may not complete, and the Convertible Bonds and/or the Conversion Shares may or may not be issued or listed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

Date

9 January 2019

Parties

- (i) the Company as issuer; and
- (ii) Merrill Lynch (Asia Pacific) Limited as Manager.

Subscription

Pursuant to the Subscription Agreement, the Manager has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Convertible Bonds to be issued by the Company in an aggregate principal amount of HK\$940,000,000, on the terms and subject to the conditions set out therein. To the best of the Directors’ knowledge, information and belief, the Manager is a third party independent of the Company and is not connected with the Company and its connected persons (as defined in the Listing Rules).

Manager

The Manager has informed the Company that it intends to offer and sell the Convertible Bonds to no less than six (6) independent placees (who will be independent individual, corporate and/or institutional investors). The Convertible Bonds will be offered and sold to persons whose ordinary business involves buying, selling or investing in securities outside the United States in reliance upon Regulation S of the Securities Act. None of the Convertible Bonds will be offered to the retail public in Hong Kong. To the best of the Directors’ knowledge, information and belief as at the date of this announcement, each of the placees of the Convertible Bonds (and their respective ultimate beneficial owners) is a third party independent of the Company and is not connected with the Company and its connected persons (as defined in the Listing Rules).

Conditions Precedent

The obligations of the Manager to subscribe and pay for the Convertible Bonds are subject to, among others, the following conditions precedent:

- (a) **Due Diligence:** the Manager being satisfied with the results of its due diligence investigations with respect to the Company and its subsidiaries and the Offering Circular shall have been prepared in form and content reasonably satisfactory to the Manager;
- (b) **Other Contracts:** the execution and delivery (on or before the Closing Date) of the Trust Deed, the Agency Agreement and the Stock Borrowing and Lending Agreement, each in a form satisfactory to the Manager, by the respective parties;
- (c) **Shareholder's Lock-up:** Mr. Li shall have executed and delivered to the Manager a valid, binding and enforceable lock-up agreement on or before the Closing Date in the form set out in the Subscription Agreement;
- (d) **Auditors' Letters:** upon the Publication Date and on the Closing Date, there having been delivered to the Manager comfort letters, in form and substance satisfactory to the Manager, dated the Publication Date in the case of the first letter and dated the Closing Date in the case of the subsequent letter, and addressed to the Manager from PricewaterhouseCoopers, certified public accountants to the Company;
- (e) **Compliance:** at the Closing Date:
 - (i) the representations and warranties of the Company in the Subscription Agreement being true, accurate and correct at, and as if made on such date;
 - (ii) the Company having performed all of its obligations under the Subscription Agreement, the Trust Deed and the Agency Agreement to which it is a party to be performed on or before such date; and
 - (iii) there having been delivered to the Manager a certificate in the form provided in the Subscription Agreement, dated as of such date, of a duly authorised officer of the Company to such effect;
- (f) **Other consents:** on or prior to the Closing Date there shall have been delivered to the Manager copies of all consents and approvals required in relation to the issue of the Convertible Bonds and the performance of the Company's obligations under the Trust Deed, Agency Agreement and the Convertible Bonds;
- (g) **Listing:** the Stock Exchange having agreed to list the Conversion Shares upon conversion of the Convertible Bonds and the Stock Exchange having agreed, subject to any conditions satisfactory to the Manager, to list the Convertible Bonds (or, in each case, the Manager being satisfied that such listing will be granted);

- (h) **Legal Opinions:** on or before the Closing Date, there having been delivered to the Manager opinions, in form and substance satisfactory to the Manager, dated the Closing Date, of certain legal opinions on the laws of various jurisdictions, and such other resolutions, consents, authorities and documents relating to the issue of the Convertible Bonds, as the Manager may require; and

The Manager may, at its discretion and upon such terms as it thinks fit, waive compliance with the whole or any part of the conditions precedent other than items (b) and (g) above.

Shareholder's Lock-up Undertaking

Mr. Li has undertaken that, for a period commencing from the date of the lock-up undertaking to 90 days after the Closing Date, without the prior written consent of the Manager, he will not:

- (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any of the Lock-up Shares or securities of the same class as the Lock-up Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Lock-up Shares or securities of the same class as the Lock-up Shares or other instruments representing interests in the Lock-up Shares or securities of the same class as them;
- (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Lock-up Shares;
- (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Lock-up Shares or other securities, in cash or otherwise; or
- (d) announce or otherwise make public an intention to do any of the foregoing,

except for the Stock Borrowing and Lending Agreement entered into between Merrill Lynch International and GuangYu Investment in connection with the proposed issuance of the Convertible Bonds and the transfers made pursuant thereto.

Company's Lock-up Undertaking

Neither the Company nor any person acting on its behalf will:

- (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Convertible Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Convertible Bonds, the Shares or securities of the same class as the Convertible Bonds, the Shares or other instruments representing interests in the Convertible Bonds, the Shares or other securities of the same class as them;

- (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares;
- (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise; or
- (d) announce or otherwise make public an intention to do any of the foregoing,

in any such case without the prior written consent of the Manager between the date of the Subscription Agreement and the date which is 90 days after the Closing Date (both dates inclusive); except for (i) the Convertible Bonds and the Conversion Shares and (ii) any Shares or options granted or issuable pursuant to the Pre-IPO Share Option Scheme or the Loan.

Termination

Notwithstanding anything contained the Subscription Agreement, the Manager may, by notice to the Company given at any time prior to payment of the net subscription monies for the Convertible Bonds to the Company, terminate the Subscription Agreement in any of the following circumstances:

- (a) if there shall have come to the notice of the Manager any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Subscription Agreement or any failure to perform, or breach of, any of the Company's undertakings or agreements in the Subscription Agreement;
- (b) if any of the conditions precedent specified in the Subscription Agreement has not been satisfied or waived by the Manager on or prior to the Closing Date;
- (c) if in the opinion of the Manager, there shall have been, since the date of the Subscription Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Company on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls such as would in its view (after prior consultation with the Company to the extent practicable), be likely to prejudice materially the success of the offering and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market;

- (d) if in the opinion of the Manager, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading in securities generally on the New York Stock Exchange, the London Stock Exchange plc, the Shanghai Stock Exchange, the Singapore Stock Exchange and/or the Stock Exchange and/or any other stock exchange on which the Company's securities are traded; (ii) a suspension or a material limitation in trading in the Company's securities on the Stock Exchange and/or any other stock exchange on which the Company's securities are traded; (iii) a general moratorium on commercial banking activities in the United States, the PRC, Singapore, Hong Kong, and/or the United Kingdom declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States, the PRC, Hong Kong, Singapore or the United Kingdom; or (iv) a change or development involving a prospective change in taxation affecting the Company, the Convertible Bonds and the Conversion Shares or the transfer thereof; or
- (e) if, in the opinion of the Manager, there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in its view (after prior consultation with the Company to the extent practicable) be likely to prejudice materially the success of the offering and distribution of the Convertible Bonds or dealings in the Convertible Bonds on the secondary market.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are summarised as follows:

Issuer	The Company
Form and Denomination:	The Convertible Bonds are in registered form in the denomination of HK\$2,000,000 each and integral multiples of HK\$1,000,000 in excess thereof. Upon issue, the Convertible Bonds will be represented by a global certificate registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank SA/NV and Clearstream Banking S.A.
Issue Price:	100% of the principal amount of the Convertible Bonds.
Issue Size:	HK\$940,000,000
Maturity Date:	16 January 2020 (363 days from the Closing Date).
Interest:	3.00% per annum, payable in arrear on 18 July 2019 and 16 January 2020

Conversion Right: Subject as provided in the Conditions, each Convertible Bond shall entitle the holder to convert such Convertible Bond into Conversion Shares credited as fully paid at any time during the Conversion Period referred to below. The number of Shares to be issued on exercise of a Conversion Right shall be determined by dividing the principal amount of the Convertible Bonds to be converted by the Conversion Price in effect on the relevant Conversion Date.

Initial Conversion Price: The initial Conversion Price at which Conversion Shares will be issued will initially be HK\$3.3360 per Share, representing:

- (i) a premium of 7.96% to the closing price of HK\$3.09 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of 8.45% to the average closing price of HK\$3.076 per Share for the last 5 consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of 8.00% to the average closing price of HK\$3.089 per Share for the last 10 consecutive trading days up to and including the Last Trading Day.

The Conversion Price will be subject to adjustment for, among other things, upon the occurrence of consolidation, subdivision, redesignation or reclassification, capitalisation of profits or reserves, distributions, rights issues of shares or options over shares at less than 95% of the current market price per Share, rights issues of other securities, issues at less than current market price, other issues at less than 95% of the current market price per Share, modification of rights of conversion at less than 95% of the current market price per Share and other offers to Shareholders (collectively, the “**Adjustment Events**”). Notwithstanding any of the Adjustment Events, no adjustment to the Conversion Price shall be made for any issuance of new Shares (a) pursuant to the Pre-IPO Share Option Scheme and (b) pursuant to the terms of the Loan Agreement in effect as at 9 January 2019.

Conversion Price Reset: If the average of the Volume Weighted Average Prices of the Shares for the period of 10 consecutive trading days immediately prior to and excluding 18 September 2019 (the “**Reset Date**”) is less than the Conversion Price on the Reset Date, the Conversion Price shall be adjusted on the Reset Date such that the adjusted Conversion Price will be equal to the Average Market Price, where “Average Market Price” means the average of the Volume Weighted Average Prices of the Shares for the period of 10 consecutive trading days immediately prior to and excluding the Reset Date, provided that:

- (i) any such adjustment to the Conversion Price shall be limited such that the adjusted Conversion Price in no event shall be less than HK\$3.09¹ (taking into account any adjustments which may have occurred prior to the Reset Date);
- (ii) subject to (i) above, the Adjustment Events to the Conversion Price shall apply;
- (iii) the Conversion Price shall not be reduced below the nominal value of the Shares unless under applicable law the Convertible Bonds can be exchanged at such reduced Conversion Price into Shares; and
- (iv) any such adjustment to the Conversion Price shall only be a downward adjustment.

Adjustment upon
Change of Control:

If a Change of Control shall occur, the Company shall give notice of that fact to the Bondholders (the “**Change of Control Notice**”) within seven days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice, upon any exercise of conversion rights such that the relevant Conversion Date falls within 30 days following a Change of Control, or, if later, 30 days following the date on which the Change of Control Notice is given to Bondholders (such period, the “**Change of Control Conversion Period**”), the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \frac{\text{OCP}}{1 + (\text{CP} \times c/t)}$$

Where:

“**NCP**” means the Conversion Price after such adjustment

¹ Being the higher of the closing price of HK\$3.09 per Share on the Last Trading Day and the average closing price of HK\$3.078 per Share for the last five consecutive trading days immediately prior to the Last Trading Day.

“**OCP**” means the Conversion Price before such adjustment. For the avoidance of doubt, OCP shall be the Conversion Price in effect on the relevant Conversion Date

“**CP**” means conversion premium of 7.96% expressed as a fraction

“**c**” means the number of days from and including the date the Change of Control occurs to but excluding the Maturity Date

“**t**” means the number of days from and including the Issue Date to but excluding the Maturity Date

Initial Conversion Ratio: 599,520.3837 Shares per HK\$2,000,000 principal amount of the Convertible Bonds at the Initial Conversion Price.

Conversion Period: At the option of the Bondholder, at any time (a) on or after the date which is 41 days after the Issue Date (both dates inclusive) to the close of business (at the place where the certificate evidencing the Convertible Bonds are deposited for conversion) on the date falling seven days prior to the Maturity Date (both days inclusive), (b) if the Convertible Bonds shall have been called for redemption by the Company before the Maturity Date, then up to and including the close of business (at the place aforesaid) on a date no later than seven days (in the place aforesaid) prior to the date fixed for redemption thereof or (c) if notice requiring redemption has been given by the Bondholders, up to the close of business (at the place aforesaid) on the business day (in the place aforesaid) prior to the giving of such notice.

Ranking of the Conversion Shares: The Conversion Shares will be fully paid and will in all respects rank *pari passu* with the fully paid Shares then in issue on the relevant date the holder is registered as such in the Company’s register of members (the “**Registration Date**”), except for any right excluded by mandatory provisions of applicable law and except that such Conversion Shares will not rank for any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant Registration Date.

Redemption at Maturity: Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Convertible Bond at 100% of its principal amount together with accrued and unpaid interest thereon on the Maturity Date.

Conversion Premium: The Initial Conversion Price represents a premium of 7.96% over the Reference Share Price.

Reference Share Price:	HK\$3.09 per Share (as of market close on 9 January 2019).
Redemption at the Option of the Company:	On giving not less than 30 nor more than 60 days' notice to the Trustee and the principal agent in writing, and to the Bondholders in accordance with the Conditions, the Convertible Bonds may be redeemed by the Company in whole, but not in part, on the date specified in the redemption notice at their principal amount together with interest accrued up to but excluding such date (if any), at any time if, prior to the date the relevant redemption notice is given, conversion rights shall have been exercised and/or purchases (and corresponding cancelations) and/or redemptions effected in respect of 90 % or more in principal amount of the Convertible Bonds originally issued.
Redemption for Taxation Reasons:	<p>The Convertible Bonds may be redeemed, at the option of the Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Trustee and the principal agent in writing and to the Bondholders in accordance with the Conditions, on the date specified in the relevant redemption notice for redemption at their principal amount as at such date together with interest accrued up to but excluding such date (if any), if the Company satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay additional tax amounts as provided or referred in the Conditions as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands, the PRC or, in any such case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 9 January 2019, and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no tax redemption notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional tax amounts were a payment in respect of the Convertible Bonds then due.</p> <p>On the redemption date, the Company shall redeem the Convertible Bonds at their principal amount, together with interest accrued up to but excluding the redemption date.</p> <p>If the Company issues the relevant redemption notice, each Bondholder will have the right to elect that their Convertible Bonds shall not be redeemed as provided in the Conditions, whereupon no additional tax amounts shall be payable pursuant to the Conditions and payment of all amounts shall be made subject to the deduction or withholding of any taxation required to be withheld or deducted.</p>

Redemption at the Option of the Bondholders: Following the occurrence of a Relevant Event (as defined below), each Bondholder will have the right at such holder's option to require the Company to redeem all or some only of such Bondholder's Convertible Bonds on the relevant date at their principal amount together with interest accrued up to but excluding such date.

A "**Relevant Event**" occurs when:

- (i) the Conversion Shares cease to be listed or admitted to trading or are suspended from trading for a period equal to or exceeding 20 consecutive trading days on the Stock Exchange or an alternative stock exchange;
- (ii) less than 25% of the Company's total numbers of issued shares are held by public; or
- (iii) when there is a Change of Control.

Negative Pledge: Applicable to the Company and its subsidiaries on the Relevant Indebtedness (as defined in the Conditions).

Transferability: The Convertible Bonds are freely transferable subject to Conditions.

Status: The Convertible Bonds constitute direct, unconditional, unsubordinated and (subject to the Conditions) unsecured obligations of the Company and shall at all times rank *pari passu* and without preference or priority among themselves.

SECURITIES LENDING ARRANGEMENT

In connection with the proposed issue of convertible Bonds, the Stock Borrowing and Lending Agreement has been entered into on 9 January 2019, to allow the lender, GuangYu Investment, a substantial shareholder of the Company to provide stock lending to the borrower, Merrill Lynch International, for 304,000,000 Shares upon and subject to the terms and conditions stated in the Stock Borrowing and Lending Agreement.

APPLICATION FOR LISTING

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange. An application will also be made for the listing of the Convertible Bonds on the Stock Exchange.

GENERAL MANDATE TO ISSUE THE CONVERSION SHARES

The Conversion Shares will be issued under the General Mandate, subject to the limit of up to 650,630,000 Shares (representing 20% of the issued share capital of the Company on the date on which the General Mandate was granted). As at the date of this announcement, the Company has utilised part of the General Mandate pursuant to the Loan Agreement with the International Finance Corporation. Assuming full conversion of the US\$25 million tranche of the Loan that is convertible into Shares at the option of International Finance Corporation, the total number of Shares that would be utilised under the General Mandate would be 33,913,044, which is approximately 5.21% of the General Mandate. Please refer the announcement dated 31 May 2018 for more information about the possible issue of conversion shares pursuant to the Loan Agreement. As such, the issue of the Conversion Shares falls within the limit of the General Mandate and is not subject to the specific approval of the Shareholders.

Assuming full conversion of the Convertible Bonds at the initial Conversion Price of HK\$3.3360 per Share, the Convertible Bonds will be convertible into 281,774,580 Shares, representing approximately 8.63% of the issued share capital of the Company as at the date of this announcement and approximately 7.94% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares resulting from the full conversion of the Convertible Bonds.

The Conversion Shares have a nominal value of HK\$2,817.7458 and a market value of HK\$870,683,452.2, based on the closing price of HK\$3.09 on the Last Trading Day. The net price of each Conversion Share to the Company based on the estimated net proceeds of approximately HK\$921 million and 281,774,580 Conversion Shares resulting from the conversion of the Convertible Bonds, is estimated to be approximately HK\$3.27.

PRINCIPAL BUSINESS OF THE GROUP

The Group is principally engaged in the provision of private formal education from kindergarten to university in China under the “YuHua” brand.

REASONS FOR AND THE BENEFITS OF THE SUBSCRIPTION

The Directors are of the view that the issue of the Convertible Bonds can provide the Company with additional funds at lower funding cost for acquisitions and general corporate purposes. The terms of the Subscription Agreement and the Conditions were arrived at after arm’s length negotiations between the parties to the Subscription Agreement with reference to the prevailing trading prices of the Shares and the financial conditions of the Company. The Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement and the Conditions are made on normal commercial terms and are fair and reasonable as far as the Shareholders are concerned, and the issue of the Convertible Bonds is in the interests of the Company and the Shareholders as a whole.

CAPITAL RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Apart from the fund raising activity mentioned below, the Company has not raised any funds by issuing equity securities in the past twelve months immediately preceding the date of this announcement.

Date of announcement	Fund raising activity	Intended use of net proceeds	Actual use of the net proceeds as at the date of this announcement
31 May 2018	Loan Agreement with International Finance Corporation (“IFC”), pursuant to which IFC agreed to lend and the Company agreed to borrow up to the principal amount of US\$75 million, comprised of an initial US\$50 million tranche and a US\$25 million tranche which is, at the option of IFC, convertible into Shares at a price of HK\$5.75 per Share	The Loan monies will primarily be utilised to finance potential acquisitions	The Loan has not been drawn down by the Company as of the date of this announcement.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates: (1) the existing shareholding structure as at the date of this announcement; and (2) the shareholding structure assuming the Convertible Bonds are fully converted into Conversion Shares at the initial Conversion Price of HK\$3.3360 each; on the assumptions that (a) there will be no other change to the share capital of the Company from the date of this announcement until the completion of the conversion of the Convertible Bonds in full, save for the issue of the Conversion Shares as a result of the conversion of the Convertible Bonds in full (as the case may be); and (b) the Bondholders do not and will not hold any Shares other than the Conversion Shares as a result of the conversion of the Convertible Bonds.

Shareholder	As at the date of this announcement		Assuming the Convertible Bonds are fully converted into Conversion Shares at the initial Conversion Price	
	<i>Number of Shares</i>	<i>% of issued share capital of the Company</i>	<i>No. of Shares</i>	<i>% of enlarged share capital of the Company</i>
GuangYu Investment Bondholders	2,137,500,000	65.47	2,137,500,000	60.27%
Other Shareholders	0	0.00	281,774,580	7.94%
	<u>1,127,438,460</u>	<u>34.53</u>	<u>1,127,438,460</u>	<u>31.79%</u>
Total	<u>3,264,938,460</u>	<u>100.00</u>	<u>3,546,713,040</u>	<u>100.00%</u>

PROPOSED USE OF NET PROCEEDS

The estimated net proceeds from the Subscription of the Convertible Bonds, after deduction of commission and expenses, amount to approximately HK\$921 million. The net proceeds from the Subscription will be used for acquisitions and general corporate purposes.

DEFINITIONS

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

“Agency Agreement”	a paying, conversion and transfer agency agreement to be entered into between the Company, the Trustee, the principal paying agent, conversion agent, transfer agent and registrar named therein, as amended and/or supplemented from time to time
“Board”	the board of Directors of the Company
“Bondholder(s)”	holder(s) of the Convertible Bond(s) from time to time

“Capital Stock”

with respect to any person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such person, whether outstanding on the Issue Date of issued thereafter, including, without limitation, all common stock and preferred stock, but excluding debt securities convertible into such equity

“Change of Control”

the occurrence of one or more of the following events:

- (i) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (ii) the merger, amalgamation or consolidation of the Company with or into another person or the merger or amalgamation of another person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (iii) the Permitted Holders are the beneficial owners within the meaning of Rule 13d-3 under the Exchange Act of less than 50% of the total voting power of the Voting Stock of the Company;
- (iv) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (v) individuals who on the Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (vi) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Closing Date”

18 January 2019, or such later date, not being later than 1 February 2019 as the Company and the Manager may agree

“Company”	China YuHua Education Corporation Limited, an exempted company with limited liability incorporated in the Cayman Islands on 25 April 2016, whose Shares are listed on the Stock Exchange (Stock Code: 6169)
“Conditions”	the terms and conditions in relation to the Convertible Bonds
“Conversion Date”	the conversion date in respect of the Convertible Bonds, which must fall at a time when the Conversion Right attaching to the Convertible Bond is expressed in the Conditions to be exercisable
“Conversion Price”	the price at which the Shares will be issued upon conversion of the Convertible Bonds and the initial conversion price being HK\$3.3360 per Share (subject to adjustments in the manner provided in the Conditions)
“Conversion Right”	the right of a Bondholder to convert its Convertible Bond(s) into Shares credited as fully paid subject as provided in the Conditions
“Conversion Share(s)”	the Share(s) to be issued by the Company upon conversion of the Convertible Bonds
“Convertible Bonds”	convertible bonds with an initial aggregate principal amount of HK\$940,000,000 due 2020 to be issued by the Company
“Director(s)”	director(s) of the Company
“Exchange Act”	U.S. Securities Exchange Act of 1934, as amended
“General Mandate”	the general mandate granted to the Directors pursuant to written resolutions of the sole member of the Company passed on 9 February 2018 to allot, issue and deal with up to 650,630,000 Shares or options, warrants or similar rights to subscribe for such Shares
“Group”	the Company and its subsidiaries
“GuangYu Investment”	GuangYu Investment Holdings Limited, a company incorporated in the British Virgin Islands with limited liability on 21 March 2016 and a controlling shareholder (as defined in the Listing Rules) of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Issue Date”	18 January 2019, being the date the Convertible Bonds are constituted by the Trust Deed
“Last Trading Day”	9 January 2019
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan”	the loan provided by International Finance Corporation to the Company pursuant to the terms of the Loan Agreement
“Loan Agreement”	the loan agreement entered into between the Company, China YuHua Education Investment Limited, China HongKong YuHua Education Limited, and International Finance Corporation on 31 May 2018
“Lock-up Shares”	2,157,249,000 Shares representing 66.07% of the existing issued share capital of the Company held directly (or through nominees) or indirectly through trusts and/or companies controlled by Mr. Li
“Manager”	Merrill Lynch (Asia Pacific) Limited
“Maturity Date”	16 January 2020, being the date on which the Convertible Bonds mature
“Mr. Li”	Mr. Li Guangyu (李光宇), a PRC citizen and the founder, executive Director and chairman of the Board
“Ms. Li”	Ms. Li Hua (李花), a PRC citizen, executive Director, the chief executive officer and the vice chairman of the Board
“Offering Circular”	the offering circular to be issued by the Company in respect of the Convertible Bonds and the listing of the Convertible Bonds on the Stock Exchange
“Permitted Holders”	any or all of the following: <ul style="list-style-type: none"> (i) Mr. Li and Ms. Li, their spouses or immediate family members or any trust established by any of them for their own benefit or for the benefit of any of their immediate family members; (ii) any affiliate of the persons specified in clause (i) of this definition of Permitted Holders; and

(iii) any person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% by persons specified in clauses (i) and (ii) of this definition of Permitted Holders

“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company, the terms of which were described in the Company’s initial public offering prospectus dated 16 February 2018
“Publication Date”	the date of the Offering Circular, which shall be no later than three business days prior to the Closing Date or such other date as may be agreed between the Company and the Manager
“Securities Act”	the US Securities Act of 1933, as amended
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	the ordinary share(s) of HK\$0.00001 each in the share capital of the Company
“Stock Borrowing and Lending Agreement”	a stock borrowing and lending agreement dated 9 January 2019 entered into between Merrill Lynch International and GuangYu Investment in connection with the proposed issue of Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription and issue of the Convertible Bonds pursuant to the Subscription Agreement
“Subscription Agreement”	a Subscription Agreement dated 9 January 2019 entered into between the Company and the Manager in relation to, among other things, the Subscription
“Trustee”	The Bank of New York Mellon, London Branch
“Trust Deed”	the trust deed to be entered into by the Company and the Trustee on or before the Closing Date as amended and/or supplemented from time to time
“US\$”	United States dollars, the lawful currency of the United States of America

**“Volume Weighted
Average Prices”**

in respect of a Share on any trading day, the order book volume-weighted average price of a Share appearing on or derived from Bloomberg (or its successor page) for such Share or such other source as shall be determined to be appropriate by an independent investment bank on such trading day, provided that if on any such trading day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such trading day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding trading day on which the same can be so determined

“Voting Stock”

with respect to any person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such person

“%”

per cent.

For presentation purpose, percentage figures presented in this announcement have been rounded to the nearest two decimal places.

By order of the Board
China YuHua Education Corporation Limited
Li Guangyu
Chairman and Executive Director

Hong Kong, 10 January 2019

As at the date of this announcement, the Board comprises Mr. Li Guangyu, Ms. Li Hua and Ms. Qiu Hongjun as executive Directors; and Mr. Zhang Zhixue, Mr. Chen Lei and Mr. Xia Zuoquan as independent non-executive Directors.