



CHIP ENG SENG CORPORATION LTD
Co. Reg. No. 199805196H

PROPOSED INVESTMENT IN GUANGZHOU YUANDA INFORMATION DEVELOPMENT CO., LTD.

1. INTRODUCTION

The Board of Directors of Chip Eng Seng Corporation Ltd. (the "**Company**") is pleased to announce the Company's proposed investment in Guangzhou Yuanda Information Development Co., Ltd. ("**Guangzhou Yuanda**"), a company incorporated under the laws of the People's Republic of China ("**PRC**") with its principal business being education software, online K-12 education, education training and consulting services. Guangzhou Yuanda was founded by 2 individuals, Mr Wu Wei Hong and Ms Zheng Wei Wei (collectively, the "**Founders**"). Further details relating to the business of Guangzhou Yuanda are set out below.

The Company's investment (the "**Proposed Investment**") in Guangzhou Yuanda will be via a subscription of new ordinary shares representing up to 35% of the share capital (the "**Subscription Shares**") in a special-purpose vehicle ("**SPV**") to be incorporated in the Cayman Islands ("**Yuanda Cayman**") for an aggregate subscription price of the US\$ equivalent of up to RMB 100 million (approximately US\$14.6 million).

2. PROPOSED RESTRUCTURING AND INVESTMENT STRUCTURE

2.1 The entry into the definitive share subscription agreement for the Proposed Investment is subject to completion of a series of restructuring steps to be carried out by Guangzhou Yuanda and its existing shareholders (which include the Founders) (the "**PRC Shareholders**"). As there are restrictions in relation to foreign investments under PRC laws which are applicable to the business of Guangzhou Yuanda, the following key restructuring steps (the "**Proposed Restructuring**") will have to be carried out to allow for the Company's investment into Guangzhou Yuanda:

- (a) incorporation of off-shore SPVs (including Yuanda Cayman) in Hong Kong ("**HK**"), the British Virgin Islands ("**BVI**") and the Cayman Islands. These offshore companies will hold a wholly-foreign owned enterprise ("**WFOE**") to be incorporated in the PRC;
- (b) the WFOE will in turn have effective control and management over Guangzhou Yuanda through contractual arrangements (commonly referred to as variable interest entity ("**VIE**") arrangements) to be entered into by the WFOE, Guangzhou Yuanda, and the PRC Shareholders (as the case may be), which will include:
 - (i) an exclusive business cooperation agreement (the "**Exclusive Business Cooperation Agreement**") in relation to the exclusive business cooperation between the WFOE and Guangzhou Yuanda;
 - (ii) an exclusive technical consultation and technical services agreement (the "**Exclusive Technical Consultation and Technical Service Agreement**"), in relation to the provision by the WFOE of technical and consulting services to Guangzhou Yuanda on an exclusive basis;
 - (iii) an exclusive option agreement (the "**Exclusive Option Agreement**") wherein the WFOE will be granted an irrevocable and exclusive right to purchase, or designate a nominee to purchase, the equity interests in Guangzhou Yuanda

held by the PRC Shareholders, at any time and at once or in separate tranches, at the WFOE's sole and absolute discretion, to the extent permitted by PRC laws;

- (iv) an irrevocable power of attorney (each, a "**Power of Attorney**") to be issued by the PRC Shareholders in favour of the WFOE, in relation to the authorisation of the WFOE to exercise the rights relating to the PRC Shareholders' equity interests in Guangzhou Yuanda, including to attend shareholders' meetings, exercise voting rights, and appoint directors and legal representatives; and
- (v) an equity pledge agreement (the "**Equity Pledge Agreement**") in relation to a pledge by the PRC Shareholders of all the equity interests in Guangzhou Yuanda held by them, as security for the performance of Guangzhou Yuanda and the PRC Shareholders of their respective obligations under the Exclusive Business Cooperation Agreement, the Exclusive Technical Consultation and Technical Service Agreement, Exclusive Option Agreement and the Power(s) of Attorney.

With the above VIE arrangements, Yuanda Cayman, through the WFOE, will be able to exercise rights, interests and control in Guangzhou Yuanda.

On 14 September 2018, CES Education Pte. Ltd. ("**CESE**"), a wholly-owned subsidiary of the Company, entered into an investment and restructuring framework agreement (the "**Framework Agreement**") with Guangzhou Yuanda, the Founders and the other PRC Shareholders to document the steps which each party is required to take in order to effect the Proposed Restructuring and the Proposed Investment.

- 2.2 On completion of the Proposed Restructuring, CESE (or its nominee) will subscribe for the Subscription Shares by entering into a share subscription agreement with Yuanda Cayman, the actual number of which will be determined based on the level of satisfaction by Yuanda Cayman of certain key-performance indicators at the time of subscription. The maximum number of Subscription Shares will be capped at 35% of the share capital of Yuanda Cayman.

The Founders and the ultimate shareholders of the PRC Shareholders will hold the remaining shares in Yuanda Cayman through their respective SPVs. The ultimate shareholders of the PRC Shareholders are employees and/or business partners of Guangzhou Yuanda.

CESE (or its nominee) will also enter into a shareholders' agreement with the shareholders of Yuanda Cayman, to regulate the parties' relationship *inter se* as shareholders of Yuanda Cayman, and the conduct of business of Yuanda Cayman.

- 2.3 If the Proposed Restructuring is not completed to the satisfaction of CESE on or before 31 January 2019, CESE has the right to terminate the Framework Agreement.
- 2.4 On completion of the Proposed Restructuring and the Proposed Investment, it is expected that the resulting structure will be as set out in the Appendix.
- 2.5 In consideration of the Founders and Guangzhou Yuanda carrying out the Proposed Restructuring, a wholly-owned subsidiary of the Company (the "**CES Subsidiary**") will provide a standby letter of credit as security for a RMB 15 million (approximately SGD 3 million) bank loan facility which Guangzhou Yuanda has entered into (the "**PRC Loan**"). The PRC Loan when drawn down by Guangzhou Yuanda, will have a tenor of 6 months from the date of drawdown. The PRC Loan will be applied towards Guangzhou Yuanda's working capital purposes.

The Founders have also entered into the following security documents with the CES Subsidiary:

- (i) a deed of personal guarantee pursuant to which the Founders will jointly and severally guarantee the performance by Guangzhou Yuanda of its obligations with respect to the PRC Loan; and
- (ii) an equity pledge agreement pursuant to which Ms Zheng Wei Wei has granted a first priority pledge to the CES Subsidiary over her 50.02% direct interests in Guangzhou Yuanda.

3. INFORMATION ON GUANGZHOU YUANDA AND RATIONALE FOR THE PROPOSED INVESTMENT

3.1 Guangzhou Yuanda, a company incorporated in Guangzhou, the PRC, was founded by the Founders in 1999, with its principal business being education software, online K-12 education, education training and consulting services. Guangzhou Yuanda was the first entity approved by the Guangzhou Bureau of Education (广州市教育局) to engage in the business of online education information services. In 2000, Guangzhou Yuanda's online platform (www.yondor.com) was the first online platform approved by the Department of Education of Guangdong Province (广东省教育厅) to engage in the business of online K-12 education.

Since its inception, Guangzhou Yuanda has been applying computing and network techniques to develop its online K-12 education business. Through a combination of technology and teaching techniques, Guangzhou Yuanda has developed a series of online education-related products and services, including foundational education platforms for schools, educational programmes which emphasise on the quality of its students and family values, online services which promote the healthy usage of the internet, educational games, and teaching materials.

Guangzhou Yuanda's current key offering is online education via mobile applications and websites, for the teaching of mathematics to primary school students, which is supported by Guangzhou Yuanda's in-house technology, marketing and service teams.

The Proposed Investment into Guangzhou Yuanda presents the Company and its subsidiaries (the "**Group**") with an established online business model to expand its education business into the PRC. The Group's education business will also benefit from the experience and expertise of the Founders and Guangzhou Yuanda's management team in the online education business.

3.2 Equity Interests of the PRC Shareholders in Guangzhou Yuanda

As at the date of this Announcement, the PRC Shareholders collectively hold 100% equity interests in Guangzhou Yuanda comprising the following proportions:

<u>PRC Shareholder</u>	<u>Registered Capital (RMB)</u>	<u>Percentage (%)</u>
Zheng Wei Wei	10,842,912	50.02
Guangzhou Yuanguan Education Consulting Co., Ltd. (" Yuanguan ")	4,336,000	20.00
Guangzhou Yuanwang Investment Management Partnership (Limited Partnership) (" Yuanwang ")	2,314,000	10.67
Guangzhou Shaowang Technology Partnership (Limited	4,187,088	19.31

Partnership) (“ Shaowang ”)		
Total	21,680,000	100

3.3 Equity Interests of Founders in Guangzhou Yuanda

As at the date of this Announcement, Zheng Wei Wei holds 50.02% equity interest in Guangzhou Yuanda directly, and 23.65% interest in Guangzhou Yuanda indirectly (through her equity interests in Yuanguan, Yuanwang and Shaowang).

Wu Wei Hong holds 9.37% interest in Guangzhou Yuanda indirectly through his equity interest in Yuanguan.

Collectively, the Founders hold an effective interest of 83.04% in Guangzhou Yuanda.

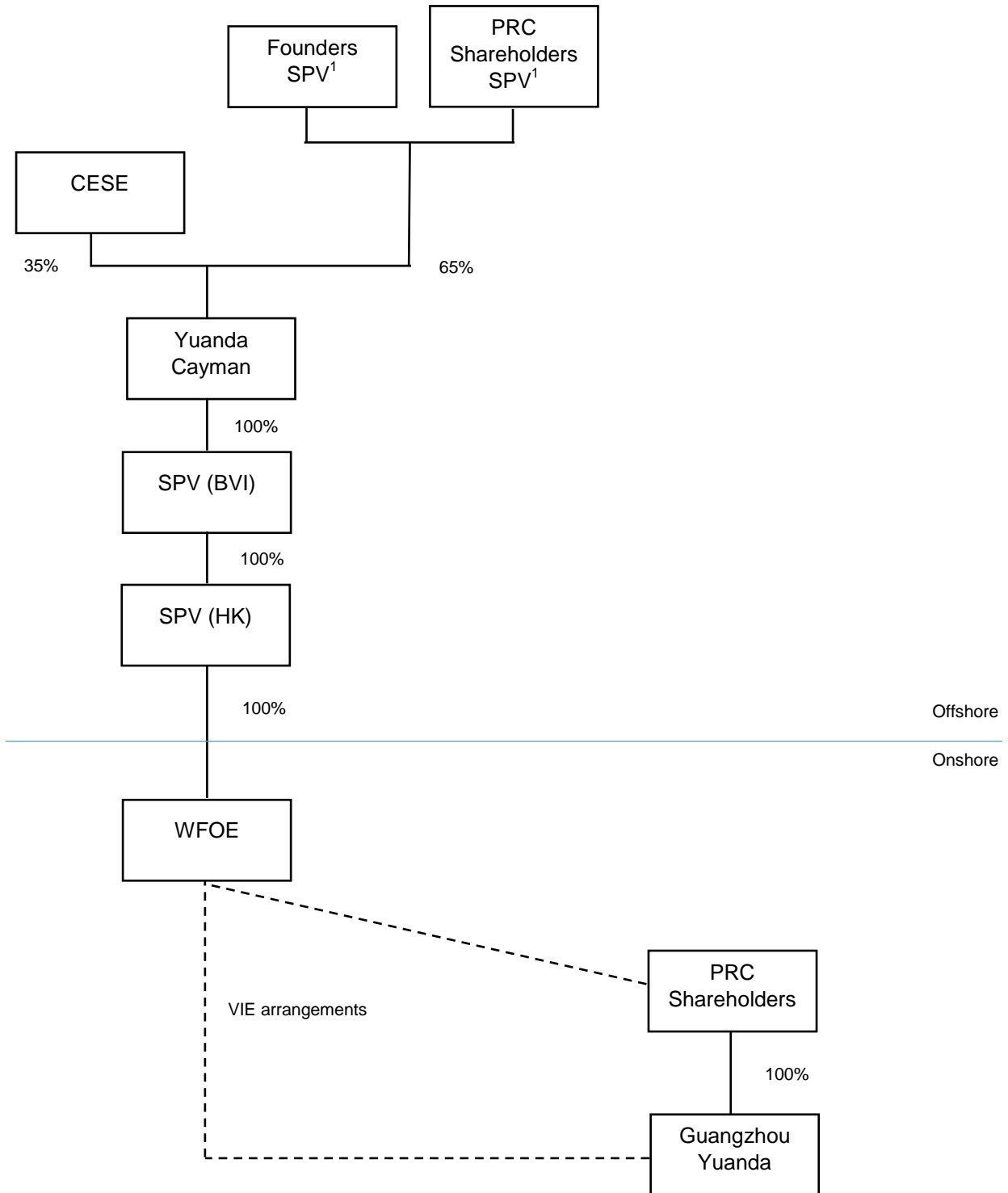
4. **OTHERS**

The Proposed Investment will be funded from the Company's internal resources and is not expected to have a significant impact on the net tangible assets and earnings per share of the Company for the current financial year ending 31 December 2018.

None of the Directors or substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Investment, other than through their respective shareholdings in the Company.

Submitted by Tan Tee How, Executive Director, on 14 September 2018 to the SGX.

APPENDIX
RESULTING STRUCTURE



¹ The Founders and the ultimate shareholders of the PRC Shareholders will hold the remaining shares in Yuanda Cayman through their respective SPVs.