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TOP EDUCATION GROUP LTD

澳洲成峰高教集團有限公司

(Registered in New South Wales, Australia with limited liability)

(ACN 098 139 176)

(Stock code: 1752)

DISCLOSEABLE TRANSACTION

PROPOSED ACQUISITION OF 85% EQUITY INTEREST IN SCOTS ENGLISH COLLEGE PTY LTD

THE ACQUISITION

The Board is pleased to announce that on 20 September 2019 (after trading hours), the Purchaser (a wholly-owned subsidiary of TOP) and the Seller entered into a Share Sale and Purchase Deed, pursuant to which the Purchaser has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the Sale Shares for a Base Purchase Price of A\$3,622,360 (equivalent to approximately HK\$19,270,955) in cash, subject to completion adjustment. The Sale Shares represent 85% of the total issued share capital of the Target.

On the same date, the Purchaser, the Seller and the Target entered into the Shareholders' Deed to establish certain matters relating to the operations of the Target and the relationship among the parties.

Upon Completion, the Target will become an indirect subsidiary of TOP and its financial results will be consolidated into the Group's consolidated financial statements.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 5% but are all less than 25%, the Acquisition constitutes a disclosable transaction of TOP and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that the Acquisition, which is subject to a number of conditions precedent, may or may not be completed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of TOP.

INTRODUCTION

The Board is pleased to announce that on 20 September 2019 (after trading hours), the Purchaser and the Seller entered into the Share Sale and Purchase Deed. On the same date, the Purchaser, the Seller, and the Target entered into the Shareholders' Deed.

THE SHARE SALE AND PURCHASE DEED

Date: 20 September 2019

Parties: (a) the Purchaser
(b) the Seller

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Seller is a third party independent of TOP and its connected persons.

Subject matter

Pursuant to the Share Sale and Purchase Deed, the Purchaser (a wholly-owned subsidiary of TOP) has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the Sale Shares which represent 85% of the total issued share capital in the Target. Upon Completion, the Target will be held as to 85% and 15% by the Purchaser and the Seller, respectively.

Base Purchase Price

The Base Purchase Price payable by the Purchaser for the Sale Shares is A\$3,622,360, subject to completion adjustment and certain earn out conditions being achieved, to be settled in cash in the following manner:

- (a) 50% of the Base Purchase Price (being A\$1,811,180) is to be paid on the Completion Date;
- (b) the Retention Amount, representing 15% of the Base Purchase Price (being A\$543,354) (subject to adjustment), is to be paid on the Adjustment Date;

- (c) the First Earn Out Amount, representing up to 20% of the Base Purchase Price (being A\$724,472), is to be paid on the First Earn Out Date, subject to the First Earn Out Conditions being met; and
- (d) the Second Earn Out Amount, representing 15% of the Base Purchase Price (being A\$543,354), is to be paid on the Second Earn Out Date, subject to the Second Earn Out Condition being met.

The Base Purchase Price was determined after arms' length negotiation among the parties with reference to the Target's business model, financial and operating performance, including its financial position as shown in its management accounts for the year ended 30 June 2019, and future prospects. TOP intends to finance the Base Purchase Price from the proceeds of its initial public offering.

Retention Amount

As noted above, 15% of the Base Purchase Price (subject to adjustment) is to be paid on the Adjustment Date. The Purchaser must deliver the Completion Statement no later than 60 days after the Completion Date. The Seller must notify the Purchaser in writing whether it accepts or disputes the draft Completion Statement within 30 days of delivery of the draft Completion Statement. If the Seller notifies the Purchaser in writing that it accepts the draft Completion Statement, or fails to notify the Purchaser in writing whether it accepts or rejects the draft Completion Statement within the 30-day period, the draft Completion Statement shall be final and binding (including the stated Adjustment Amount) on the parties. If the Seller notifies the Purchaser in writing within the 30-day period that it disputes the draft Completion Statement, the parties must use reasonable endeavours to resolve the dispute within 5 business days of the Purchaser receiving the dispute notice from the Seller. If the parties are unable to resolve all disputes as to the Completion Statement within such period, either party may refer the dispute to an independent accountant who shall be appointed to resolve the dispute in accordance with the mechanism agreed in the Share Sale and Purchase Deed. The Purchaser must, in such circumstances, prepare a revised Completion Statement based on the determination of the independent accountant as to each disputed item in the draft Completion Statement, with such revised Completion Statement being final and binding on the parties.

The Retention Amount is either increased by the Adjustment Amount (if it is positive) or reduced by the Adjustment Amount (if it is negative), and the amount so adjusted will be paid to the Seller on the Adjustment Date. In the event that the Adjustment Amount is a negative number which exceeds the Retention Amount, none of the Retention Amount will be paid and the difference between the Adjustment Amount and the Retention Amount will be paid by the Seller to the Purchaser in cash on the Adjustment Date.

Earn out amounts

Up to 35% of the Base Purchase Price will be paid by the Purchaser to the Seller as earn outs on achievement of specific milestones. The First Earn Out Amount comprises 20% of the Base Purchase Price, and the Second Earn Out Amount comprises 15% of the Base Purchase Price.

First Earn Out Amount

Payment of the First Earn Out Amount is subject to the following First Earn Out Conditions:

- (a) 100% of the First Earn Out Amount (being A\$724,472) is payable if the FY20 NPAT is A\$1,000,000 or more; or
- (b) 75% of the First Earn Out Amount (being A\$543,354) is payable if both of the following are satisfied: (i) the FY20 NPAT is A\$700,000 or more but less than A\$1,000,000 and (ii) the aggregate of the FY20 NPAT plus the 1HFY21 NPAT is more than A\$1,000,000; or
- (c) 0% of the First Earn Out Amount (being nil) is payable in circumstances other than those described in (a) or (b).

Within 5 business days of the FY20 Accounts being finalised and approved by the board of directors of the Target, the Purchaser must deliver to the Seller a written notice setting out a copy of such accounts and the FY20 NPAT amount. If the FY20 NPAT amount notified to the Seller is more than A\$700,000 but less than A\$1,000,000, the Purchaser must also provide the Seller, within 5 business days of the 1HFY21 Management Accounts being finalised and approved by the board of directors of the Target, a written notice setting out a copy of such accounts and the 1HFY21 NPAT amount. The Seller must, within 5 business days of receipt of such Earn Out Notification, notify the Purchaser in writing if it accepts or disputes the amounts so notified. If the Seller accepts the amounts, or does not notify the Purchaser in writing whether it accepts or disputes the amounts, within 5 business days of receipt of the Earn Out Notification, the amounts so notified will be deemed to be binding. If the Seller, within the 5 business day period, notifies the Purchaser in writing that it disputes the amounts in the Earn Out Notification then the parties will seek to resolve the dispute, or may appoint an independent accountant to determine the dispute, in the same manner as for the Completion Statement.

The First Earn Out Amount, if any, is payable by the Purchaser to the Seller on the First Earn Out Date.

Second Earn Out Amount

Payment of the Second Earn Out Amount is subject to the Second Earn Out Condition that the Target or the Seller provides written evidence of the Target's re-registration with the ASQA on or prior to 31 December 2022. The Second Earn Out Amount, if any, is payable by the Purchaser to the Seller on the Second Earn Out Date.

Conditions precedent

Completion under the Share Sale and Purchase Deed is conditional on the following conditions being fulfilled (or waived by the Purchaser):

- (a) no event, change, circumstance, effect or other matter occurring after the date of the Share Sale and Purchase Deed that the Purchaser considers has had or is reasonably likely to have a material adverse effect on the Target or the business of the Target having occurred in relation to the Target between the date of the Share Sale and Purchase Deed and Completion; and
- (b) the landlord of each of the two premises leased by the Target in Sydney, Australia consenting in writing to the transactions contemplated by the Share Sale and Purchase Deed, including for the purposes of change of control, deemed assignment or comparable provision on terms acceptable to the Purchaser.

If the conditions precedent are not satisfied or waived by the date which is 6 months from the date of the Share Sale and Purchase Deed (i.e., 20 March 2020), either party may terminate the Share Sale and Purchase Deed (which will automatically terminate the Shareholders' Deed).

Completion

Completion of the Share Sale and Purchase Deed will take place on the Completion Date.

THE SHAREHOLDERS' DEED

Date: 20 September 2019

Parties: (a) the Purchaser
(b) the Seller
(c) the Target

Effective time

The Shareholders' Deed will be effective on and from Completion.

Purpose of the Shareholders' Deed

The Shareholders' Deed sets out the rights and obligations of the Purchaser and the Seller in relation to their ownership and management of the Target.

Restrictions on transfer of shares in Target

There are no restrictions on the Purchaser transferring the shares it holds in the Target, other than a requirement that any incoming purchaser of such shares become party to the Shareholders' Deed (except, where the incoming purchaser is acquiring shares pursuant to an exercise of tag along or drag along rights under the Shareholders' Deed and would ultimately acquire all of the shares then on issue in the Target). There are restrictions on the ability of the Seller to transfer any shares it holds in the Target. During the Standstill Period the Seller may not transfer any of its shares unless to a related party of the Seller who becomes party to the Shareholders' Deed. Following the Standstill Period, the Seller may transfer the shares it holds in the Target, subject to the Seller following a pre-emptive rights process whereby the Purchaser is able to elect to purchase such shares.

Call options

Pursuant to the Shareholders' Deed, the Seller has granted a call option to the Purchaser to acquire from the Seller all of the Remaining Shares. Such call option is exercisable by the Purchaser at its sole discretion at any time after the date on which the Shareholders' Deed becomes binding (i.e., as at Completion), for as long as it holds an interest of more than 50% of the ordinary shares on issue in the Target. The call option may be exercised at an exercise price to be agreed between the parties at the relevant time or, (if no agreement is able to be reached within 5 business days) the fair market value of the shares in the Target at the prevailing time as determined by an independent valuer.

In addition, the Seller has granted a call option to the Purchaser to acquire from the Seller all of the Remaining Shares if the Seller is in material default under the terms of the Shareholders' Deed. Such call option may be exercised by the Purchaser at its sole discretion with reference to the fair market value of the shares in the Target at the prevailing time and taking into account a reasonable discount to be agreed between the parties. In the event the parties are unable to agree the price at which the Purchaser would acquire the shares within 10 business days, the price will be an amount equal to 90% of the fair market value of such shares as determined by an independent valuer in accordance with the mechanism set out in the Shareholders' Deed. The Purchaser has granted a call option to the Seller, which is only exercisable with the Purchaser's prior approval, if the Purchaser is in material default under the terms of the Shareholders' Deed.

No premium is payable or was paid for any of the call options.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Completion of the Acquisition will give TOP a controlling (85%) stake in the Target, with management control. The Target is in a complementary business to TOP, being the provision of English-language education services in Australia. From an operational perspective, the Acquisition will further strengthen TOP's ability to deliver English-language related education training services in the PRC and potentially in other countries.

The Directors consider that the terms and conditions of the Share Sale and Purchase Deed and the Shareholders' Deed are fair and reasonable and in the interests of TOP and its shareholders as a whole.

INFORMATION OF THE TARGET

The Target is a company registered in Victoria, Australia with limited liability and is principally engaged in the business of teaching intensive English-language courses to international students living in Australia. The Target was incorporated in 2015 and operates in New South Wales, Australia.

The audited net asset value of the Target as at 30 June 2019 was approximately A\$552,371. The audited net profits/losses (before and after taxation) of the Target for the two financial years ended 30 June 2019 are set out below:

	For the financial year ended 30 June	
	2018	2019
	(audited)	(audited)
	<i>A\$'000</i>	<i>A\$'000</i>
(Loss)/Profit before taxation	(408)	782
(Loss)/Profit after taxation	(408)	750

INFORMATION ON THE PARTIES

The Purchaser is a company registered in New South Wales, Australia with limited liability and is principally engaged in the provision of education services. TOP is a company registered in New South Wales, Australia and is principally engaged in the business of private higher education specialising in offering business and accounting courses that are recognised by major accounting bodies in Australia at an undergraduate and postgraduate level. TOP also offers a bachelor of laws degree that is fully accredited by the *NSW Legal Profession Admission Board*.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 5% but are all less than 25%, the Acquisition constitutes a discloseable transaction of TOP and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Upon Completion, the Target will be held as to 85% and 15% by the Purchaser and the Seller, respectively. Accordingly, upon Completion the Seller will be a connected person of TOP at the subsidiary level. Pursuant to the Shareholders' Deed, each of the call options granted thereunder is exercisable at the sole discretion of the Purchaser and no premium is payable or was paid for the grant of such options. TOP will, upon the exercise, transfer or termination of any of the call options, comply with the relevant requirements under Chapters 14 and 14A of the Listing Rules.

DEFINITIONS

"1HFY21 Management Accounts"	the unaudited monthly management accounts for the Target for the period 1 July 2020 to 31 December 2020
"1HFY21 NPAT"	the net profit after tax of the Target for the period 1 July 2021 to 31 December 2021, as shown in its 1HFY21 Management Accounts
"A\$"	Australian dollars, the lawful currency of Australia
"Acquisition"	the acquisition by the Purchaser of the Sale Shares from the Seller
"Adjustment Amount"	the sum of the Working Capital Adjustment and the Net Debt Adjustment (capped at a maximum of A\$3,000,000)

“Adjustment Date”	the date which is 20 days after: <ul style="list-style-type: none"> (a) the Seller notifies the Purchaser in writing that it accepts the draft Completion Statement; or (b) where the Seller does not notify the Purchaser in writing that it accepts or rejects the Completion Statement within 30 days of receipt of the draft Completion Statement, the expiry of the 30-day period; or (c) where the Seller disputes the Completion Statement, the resolution of the dispute by the Purchaser and the Seller or (where no resolution is reached) the determination of the dispute by an independent accountant in accordance with the procedures set out in the Share Sale and Purchase Deed
“ASQA”	Australian Skills Quality Authority
“Base Purchase Price”	A\$3,622,360
“Board”	the board of Directors
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Share Sale and Purchase Deed
“Completion Date”	the date which is the latest of: <ul style="list-style-type: none"> (a) 23 September 2019; (b) five business days after the day on which all of the conditions to the Acquisition have been satisfied or waived in accordance with the terms and conditions of the Share Sale and Purchase Deed; and (c) such other date as agreed by the Purchaser and the Seller
“Completion Statement”	a document setting out the Purchaser's calculation of the proposed Adjustment Amount
“Director(s)”	the director(s) of TOP
“Earn Out Notification”	(a) a written notice setting out a copy of the FY20 Accounts and the FY20 NPAT amount; and

	(b) if the FY20 NPAT amount notified to the Seller is more than A\$700,000 but less than A\$1,000,000, a written notice setting out a copy of the 1HFY21 Management Accounts and the 1HFY21 NPAT amount
"First Earn Out Amount"	up to 20% of the Base Purchase Price (being A\$724,472)
"First Earn Out Condition(s)"	the condition(s) of the payment of the First Earn Out Amount stated under the subsection headed "First Earn Out Amount" in this announcement
"First Earn Out Date"	the date that is: <ul style="list-style-type: none"> (a) where 100% of the First Earn Out is payable, (i) if there is no dispute as to the content of the Earn Out Notification, 30 days after the FY20 Accounts are finalised and approved by the board of directors of the Target and (ii) if there is a dispute as to the content of the Earn Out Notification, 30 days after the dispute is resolved; and (b) where 75% of the First Earn Out is payable, (i) if there is no dispute as to the content of the Earn Out Notification, 30 days after the 1HFY21 Management Accounts are finalised and approved by the board of directors of the Target and (ii) if there is a dispute as to the content of the Earn Out Notification, 30 days after the dispute is resolved
"FY20 Accounts"	accounts of the Target for the financial year ending 30 June 2020
"FY20 NPAT"	the net profit after tax of the Target, as shown in its FY20 Accounts
"Group"	TOP and its subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Net Debt Adjustment”	the amount which is 85% of the net debt of the Target as at 12.01am (Sydney time) on the Completion Date
“PRC”	the People’s Republic of China
“Purchaser”	Top Education Development Pty Ltd ACN 634 236 374, a company registered in New South Wales, Australia and a wholly-owned subsidiary of TOP
“Remaining Shares”	all issued shares of the Target to be held by the Seller upon Completion, representing 15% of the entire issued share capital of the Target
“Retention Amount”	15% of the Base Purchase Price (being A\$543,354) (subject to adjustment)
“Sale Shares”	467,500 ordinary shares in the Target, representing 85% of the entire issued share capital of the Target
“Second Earn Out Amount”	15% of the Base Purchase Price (being A\$543,354)
“Second Earn Out Condition”	the condition of the payment of the Second Earn Out Amount stated under the subsection headed “Second Earn Out Amount” in this announcement
“Second Earn Out Date”	the date that is one month after the Target or the Seller provides written evidence of the Target’s re-registration with the ASQA to the Purchaser
“Share Sale and Purchase Deed”	the share sale and purchase deed dated 20 September 2019 entered into between the Purchaser and the Seller in relation to the Acquisition
“Shareholders’ Deed”	the shareholders’ deed dated 20 September 2019 entered into between the Purchaser, the Seller and the Target setting out the rights and obligations of the parties relating to the management of the Target and the relationship between the shareholders of the Target
“Seller”	Mr. Shichao Niu, an independent third party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Scots English College Pty Ltd ACN 605 117 575, a company registered in Victoria, Australia

“TOP”		Top Education Group Ltd, a company incorporated in New South Wales, Australia whose shares are listed on the Main Board of the Stock Exchange
“Working Capital Adjustment”	Capital	the amount which is 85% of the sum of (a) the actual amount of working capital available to the Target as at 12.01am (Sydney time) on the Completion Date less (b) a credit or payable in the amount of A\$50,000
“%”		per cent.

In this announcement, unless the context otherwise requires, the terms “connected person(s)” and “subsidiary(ies)” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

By order of the Board
Top Education Group Ltd
Minshen Zhu
Chairman of the Board

Hong Kong, 23 September 2019

As at the date of this announcement, the executive Directors are Dr. Minshen Zhu (Ms. Rongning Xu as his alternate) and Ms. Sumeng Cao, the non-executive Directors are Mr. Amen Kwai Ping Lee, Mr. Thomas Richard Seymour (Mr. Kai Zhang as his alternate) and Mr. Yi Dai, and the independent non-executive Directors are Professor Weiping Wang, Professor Brian James Stoddart, Mr. Tianye Wang and Professor Steven Schwartz.

For the purpose of this announcement, unless the context otherwise requires, conversion of Australian dollars into Hong Kong dollars is based on the exchange rate of A\$1.00 to HK\$5.32. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Australian dollars or Hong Kong dollars have been, could have been or may be converted at such or any other rate or at all.