
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Cybernaut International Holdings Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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賽伯樂國際控股

CYBERNAUT INTERNATIONAL HOLDINGS COMPANY LIMITED

賽伯樂國際控股有限公司

(formerly known as Sinoref Holdings Limited)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1020)

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION
TO THE ACQUISITION OF 100% EQUITY INTEREST IN CYBERNAUT
TECHNOLOGY INTERNATIONAL LIMITED INVOLVING THE ISSUE OF
PROMISSORY NOTES**

**(II) CONTINUING CONNECTED TRANSACTION
AND**

(III) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

VEDA | CAPITAL
智略資本

**Independent financial adviser to the Independent Board Committee and
to the Independent Shareholders**



Alliance Capital Partners Limited
同人融資有限公司

A notice convening the EGM (as defined herein) of the Company to be held at 11:00 a.m. on Thursday, 16 November 2017, at 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than 11:00 a.m. on Tuesday, 14 November 2017 (Hong Kong time). Completion and return of the form of proxy will not preclude you from attending in person and voting at the extraordinary general meeting or any adjourned meeting (as the case may be) should you so wish. In such event, the form of proxy previously submitted shall be deemed to be revoked.

* For identification purpose only

TABLE OF CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	9
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	43
LETTER FROM ALLIANCE CAPITAL	45
APPENDIX I - VALUATION REPORT OF WOWXUE	I-1
APPENDIX II - GENERAL INFORMATION	II-1
NOTICE OF EGM	EGM-1

DEFINITIONS

In this circular, unless the contents otherwise requires, the following expressions have the meanings as set out below:

“1st Guaranteed Period”	the (6) six-month period ending 30 June 2018
“1st Guaranteed Profit”	Net Profit of not less than HK\$7.5 million for the 1st Guaranteed Period
“1st Promissory Note”	the non-interest bearing promissory note due on the date falling on the second anniversary from its date of issue up to a principal amount of HK\$55,000,000 to be issued by the Company to the Vendor or its nominee(s) on 30 September 2018 pursuant to the Sale and Purchase Agreement for the partial settlement of the Consideration
“2nd Guaranteed Period”	the (6) six-month period ending 31 December 2018
“2nd Guaranteed Profit”	Net Profit of not less than HK\$7.5 million for the 2nd Guaranteed Period
“2nd Promissory Note”	the non-interest bearing promissory note due on the date falling on the second anniversary from its date of issue up to a principal amount of HK\$55,000,000 to be issued by the Company to the Vendor or its nominee(s) on 31 March 2019 pursuant to the Sale and Purchase Agreement for the partial settlement of the Consideration
“3rd Guaranteed Period”	the (6) six-month period ending 30 June 2019
“3rd Guaranteed Profit”	Net Profit of not less than HK\$9 million for the 3rd Guaranteed Period
“3rd Promissory Note”	the non-interest bearing promissory note due on the date falling on the second anniversary from its date of issue up to a principal amount of HK\$55,000,000 to be issued by the Company to the Vendor or its nominee(s) on 30 September 2019 pursuant to the Sale and Purchase Agreement for the partial settlement of the Consideration
“4th Guaranteed Period”	the (6) six-month period ending 31 December 2019
“4th Guaranteed Profit”	Net Profit of not less than HK\$9 million for the 4th Guaranteed Period

DEFINITIONS

“4th Promissory Note”	the non-interest bearing promissory note due on the date falling on the second anniversary from its date of issue up to a principal amount of HK\$55,000,000 to be issued by the Company to the Vendor or its nominee(s) on 31 March 2020 pursuant to the Sale and Purchase Agreement for the partial settlement of the Consideration
“Acquisition”	the acquisition of the Sale Shares pursuant to the Sale and Purchase Agreement
“Asset Appraisal”	Asset Appraisal Limited, an independent professional valuer
“associates”	has the meaning ascribed to it under the Listing Rules
“Auditor’s Certificate”	as defined under the paragraph headed “Adjustment to Consideration” in the letter from the Board of this circular
“Average Guaranteed Profit”	average of 1st Guaranteed Profit, 2nd Guaranteed Profit, 3rd Guaranteed Profit and 4th Guaranteed Profit
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday and other general holidays in Hong Kong) on which banks in Hong Kong are generally open for business
“BVI”	British Virgin Islands
“Company”	Cybernaut International Holdings Company Limited (formerly known as Sinoref Holdings Limited), a company with limited liability incorporated under the laws of the Cayman Islands, the Shares of which are listed on the Stock Exchange (Stock Code: 1020)
“Compensation”	as defined under the paragraph headed “Adjustment to Consideration” in the letter from the Board of this circular
“Completion”	completion of the Acquisition
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Consideration”	the total consideration of HK\$320 million for the Acquisition, which shall be settled by cash and the Promissory Notes
“Declaration Letters”	collectively, (i) the declaration letter dated 31 August 2017 entered into by YM Zhao and his spouse; and (ii) the declaration letter dated 31 August 2017 entered into by YY Zhao and his spouse
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder
“Enlarged Group”	the Group including the Target Company upon Completion
“Equity Pledge Agreement”	the equity pledge agreement dated 31 August 2017 entered into between Huzhou Company, Wowxue and the Registered Shareholders
“Group”	the Company and its subsidiaries (from time to time)
“Guaranteed Period(s)”	for the six (6) months period ended 30 June 2018, 31 December 2018, 30 June 2019 and 31 December 2019 respectively, each a Guaranteed Period
“Guaranteed Profit”	collectively, the 1st Guaranteed Profit, 2nd Guaranteed Profit, 3rd Guaranteed Profit and 4th Guaranteed Profit
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Cybernaut”	Hong Kong Cybernaut Technology Limited, a company incorporated in Hong Kong with limited liability, which directly wholly-owned Huzhou Company

DEFINITIONS

“Huzhou Company”	湖州賽樂弘教育科技有限公司 (Huzhou Sai Le Hong Education Technology Limited*), a company established in the PRC with limited liability, which directly controls Wowxue through the variable interest entity arrangement immediately after completion of the Reorganisation
“Independent Board Committee”	an independent committee of the Board established by the Board to advise the Independent Shareholders on the terms and conditions of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder
“Independent Financial Adviser” or “Alliance Capital”	Alliance Capital Partners Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to make recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than Mr. Zhu and together with his associates, who are required by the Listing Rules to abstain from voting on the resolutions approving the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined in the Listing Rules)
“Irrevocable Option Agreement”	the irrevocable option agreement dated 31 August 2017 (as amended by a supplemental agreement dated 25 September 2017) entered into between Huzhou Company, Wowxue and the Registered Shareholders
“Latest Practicable Date”	24 October 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Loan Agreement”	the loan agreement dated 31 August 2017 (as amended by a supplemental agreement dated 25 September 2017) entered into between Huzhou Company and the Registered Shareholders
“Management Services Agreement”	the management services agreement dated 31 August 2017 entered into between Huzhou Company, Wowxue and the Registered Shareholders
“Maturity Dates”	as defined under the paragraph headed “Promissory Notes” in the letter from the Board of this circular
“Mr. Zhu” or “Guarantor”	Mr. Zhu Min, being an executive Director and a substantial Shareholder (as defined under the Listing Rules)
“Net Loss”	as defined under the paragraph headed “Adjustment to Consideration” in the letter from the Board of this circular
“Net Profit”	as defined under the paragraph headed “Adjustment to Consideration” in the letter from the Board of this circular
“Power of Attorney”	collectively, (i) the power of attorney dated 31 August 2017 entered into, among others, the directors of Wowxue and Huzhou Company; (ii) the power of attorney dated 31 August 2017 entered into, among others, the Registered Shareholders and Huzhou Company; and (iii) the power of attorney dated 31 August 2017 entered into, among others, the legal representative of Wowxue and Huzhou Company, pursuant to which Huzhou Company had been irrevocably appointed by the directors of Wowxue, the Registered Shareholders and the legal representative of Wowxue respectively to be its/their attorney-in-fact
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this circular and for geographical reference only, excludes Taiwan, the Macao Special Administrative Region of the PRC and Hong Kong
“PRC Legal Adviser”	Hills & Co., the legal adviser to the Company as to the PRC laws

DEFINITIONS

“Promissory Notes”	collectively the 1st Promissory Note, the 2nd Promissory Note, the 3rd Promissory Note and the 4th Promissory Note
“Registered Shareholders”	the holders of the equity interest in Wowxue, namely 賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*), 賽伯樂智庫(北京)國際生態科學研究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*), YM Zhao and YY Zhao
“Reorganisation”	the Target Company, its subsidiaries and Wowxue will be reorganised through variable interest entity arrangement which will be implemented by the execution of the VIE Agreements. Upon completion of the Reorganisation, the Target Company will indirectly control over Wowxue and enjoy the economic interest and benefits of Wowxue, and the financial results of Wowxue will be consolidated into the accounts of the Target Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 26 July 2017 entered into between the Company, the Vendor and the Guarantor pursuant to which the Company has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Company the Sale Shares
“Sale Shares”	50,000 shares of US\$0.01 each of the Target Company, representing the entire issued share capital of the Target Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each of the Company
“Shareholder(s)”	Shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Target Company”	Cybernaut Technology International Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date. Upon completion of the Reorganisation, the Target Company will indirectly control Wowxue through variable interest entity arrangement
“Target Group”	including the Target Company, Hong Kong Cybernaut, Huzhou Company, Wowxue and all companies whose shares are directly or indirectly owned by the Target Company (if any)
“Undertaking Letters”	collectively, (i) the undertaking letter dated 31 August 2017 (as amended by a supplemental undertaking letter dated 25 September 2017) entered into, among others, the directors of Wowxue and Huzhou Company; (ii) the undertaking letter dated 31 August 2017 (as amended by a supplemental undertaking letter dated 25 September 2017) entered into, among others, the Registered Shareholders and Huzhou Company; and (iii) the undertaking letter dated 31 August 2017 (as amended by a supplemental undertaking letter dated 25 September 2017) entered into, among others, the legal representative of Wowxue and Huzhou Company
“Valuation Report”	the valuation report in relation to the fair value of 100% equity interest in Wowxue as at 1 September 2017 prepared by Asset Appraisal, which is appended in the Appendix I to this circular
“Vendor”	Cybernaut Education Limited, a company incorporated in the BVI with limited liability, which is owned as to 90%, 5% and 5% by Mr. Zhu, YM Zhao and YY Zhao respectively

DEFINITIONS

“VIE Agreements”	a series of agreements, including but not limited to the Management Services Agreement, the Equity Pledge Agreement, the Loan Agreement, the Irrevocable Option Agreement, the Power of Attorney, the Undertaking Letters and the Declaration Letters, executed for the purpose of establishing the variable interest entity arrangement between Huzhou Company and Wowxue, through which the financial results of Wowxue are consolidated with the financial results of Huzhou Company as “variable interest entity” (as defined in Hong Kong and International Financial Reporting Standards)
“Waiver”	a waiver applied by the Company to the Stock Exchange, and granted by the Stock Exchange, from (i) setting a maximum aggregate annual caps for the service fees payable by Wowxue to Huzhou Company under the Management Services Agreement and the loan(s) to be made available by Huzhou Company under the Loan Agreement pursuant to Rule 14A.53 of the Listing Rules; and (ii) setting a fixed term for each of the VIE Agreements (other than the Management Services Agreement) pursuant to Rule 14A.52 of the Listing Rules
“Wowxue”	京師沃學(北京)教育科技有限公司 (Capital Wowxue (Beijing) Education Technology Limited*), a company established in the PRC with limited liability and is principally engaged in the research and provision of internet education services to kindergarten, primary and secondary schools
“YM Zhao”	Mr. Zhao Yingming
“YY Zhao”	Mr. Zhao Yingyong
“%”	per cent.

LETTER FROM THE BOARD



賽伯樂國際控股

CYBERNAUT INTERNATIONAL HOLDINGS COMPANY LIMITED

賽伯樂國際控股有限公司

(formerly known as Sinoref Holdings Limited)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1020)

Executive Directors:

Mr. ZHU Min
Mr. GAO Xiang
Mr. LU Yongchao
Mr. XU Yejun
Mr. SIN Kwok Wai Ronald

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Non-executive Directors:

Mr. CHOW Chi Wa
Ms. YIP Sum Yu

Principal place of business

in Hong Kong:

Unit 1002, AXA Centre
151 Gloucester Road
Wanchai
Hong Kong

Independent non-executive Directors:

Mr. CAO Ke
Mr. TONG Yiu On
Mr. LI Yik Sang

27 October 2017

To the Shareholders

Dear Sir or Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF 100% EQUITY INTEREST IN CYBERNAUT
TECHNOLOGY INTERNATIONAL LIMITED INVOLVING THE ISSUE OF
PROMISSORY NOTES
(II) CONTINUING CONNECTED TRANSACTION
AND
(III) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The Board announced that on 26 July 2017 (after trading hours of the Stock Exchange), the Company (as the purchaser), the Vendor (as the vendor) and Mr. Zhu (as the guarantor) entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Company the Sale Shares at the consideration of HK\$320 million which shall be settled by cash and the Promissory Notes.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition, the VIE Agreements and the transactions contemplated thereunder; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders on the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder; and (iv) the notice of the EGM.

THE ACQUISITION

The Sale and Purchase Agreement

Date : 26 July 2017

Parties : (1) the Company, as the purchaser;

(2) Cybernaut Education Limited, as the vendor; and

(3) Mr. Zhu, as the guarantor.

As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendor. Immediately after completion of the Reorganisation, the Target Company has indirect control over Wowxue and enjoy the economic interest and benefits of Wowxue, and the financial results of Wowxue have been consolidated into the accounts of the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Target Company is wholly-owned by the Vendor which in turn is owned as to 90% by Mr. Zhu, a Director and a substantial Shareholder (as defined under the Listing Rules). Thus, the Vendor is an associate of Mr. Zhu and is a connected person of the Company under Chapter 14A of the Listing Rules.

As such, Mr. Zhu has abstained from voting on the Board resolution with respect to the Acquisition. Save as disclosed above, none of the Directors has any material interest in the transaction contemplated under the Sale and Purchase Agreement and the VIE Agreements, and therefore none of the other Directors has abstained from voting on relevant Board resolution.

Mr. Zhu will guarantee the due performance by the Vendor of its obligations, responsibilities and undertakings under the Sale and Purchase Agreement.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares. The Sale Shares will be sold free from all encumbrances together with all rights to any dividend or other distribution declared, made or paid after Completion.

LETTER FROM THE BOARD

Consideration

The maximum Consideration payable for the Sale Shares of HK\$320 million shall be settled in the following manner or other settlement methods as may be agreed between the Company and the Vendor:

- (i) HK\$100 million shall be paid by the Company to the Vendor or its nominee(s) in cash on the date of Completion;
- (ii) HK\$55 million will be settled by the issue of the 1st Promissory Note on 30 September 2018;
- (iii) HK\$55 million will be settled by the issue of the 2nd Promissory Note on 31 March 2019;
- (iv) HK\$55 million will be settled by the issue of the 3rd Promissory Note on 30 September 2019; and
- (v) HK\$55 million will be settled by the issue of the 4th Promissory Note on 31 March 2020.

Further details of the Promissory Notes are set out in the section headed “Promissory Notes” below in this letter from the Board.

The Consideration was determined after arm’s length negotiations between the Company and the Vendor on normal commercial terms taking into account of, among other things, (i) the preliminary due diligence valuation work prepared by Asset Appraisal in relation to the fair value of 100% equity interest in Wowxue using market-based approach compared to other listed comparables engaging in similar business as the Target Group in the PRC market; (ii) the Guaranteed Profit provided by the Vendor in favour of the Company; (iii) the business development and performance of Wowxue since 2017; and (iv) the future business prospects of Wowxue.

The Directors (excluding the independent non-executive Directors whose views will be expressed after considering the advice from the Independent Financial Adviser) are of the view that the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Promissory Notes

The following are the principal terms of the Promissory Notes:

Issuer	:	The Company
Principal amount	:	1st Promissory Note: HK\$55,000,000 2nd Promissory Note: HK\$55,000,000 3rd Promissory Note: HK\$55,000,000 4th Promissory Note: HK\$55,000,000
Maturity date	:	The date falling on the second anniversary from the date of issue of each of the Promissory Notes (the “ Maturity Dates ”)
Issue price	:	The Promissory Notes will be issued at 100% of their principal amount
Interest	:	Non-interest bearing
Transferability	:	The Promissory Notes shall be freely transferrable or assignable by the Vendor to any party upon prior written approval of the Company
Early redemption	:	The Company may in its sole discretion, with not less than 10 Business Days’ prior written notice, elect to repay all or any part of the amount outstanding under the Promissory Notes at any time prior to the Maturity Dates
Listing	:	No application will be made for the listing of, or permission to deal in, the Promissory Notes on the Stock Exchange or any other stock exchange

LETTER FROM THE BOARD

Adjustment to Consideration

Profit Guarantee

Pursuant to the Sale and Purchase Agreement, the Vendor irrevocably warrants and guarantees to the Company that the net profit after tax generating from operating activities (the “**Net Profit**”) of the Target Company as shown in the audited consolidated financial statements of the Target Company for:

- (i) the 1st Guaranteed Period shall not be less than the 1st Guaranteed Profit of HK\$7.5 million;
- (ii) the 2nd Guaranteed Period shall not be less than the 2nd Guaranteed Profit of HK\$7.5 million;
- (iii) the 3rd Guaranteed Period shall not be less than the 3rd Guaranteed Profit of HK\$9 million; and
- (iv) the 4th Guaranteed Period shall not be less than the 4th Guaranteed Profit of HK\$9 million.

The Guaranteed Profits were determined after arm’s length negotiations between the Company and the Vendor after taking into account of the signed service agreements entered into between Wowxue and various schools and educational institutions for provision of online education system solutions and/or subscription of its online courses.

The Directors are of the view that the Guaranteed Profits are achievable and practical after taken into account of (i) the potential profits that may arise from the signed service agreements as mentioned above; (ii) the net profit of approximately RMB4.26 million recorded by Wowxue for the six months ended 30 June 2017 as compared to the net loss of approximately RMB837,100 recorded by Wowxue for the year ended 31 December 2016; and (iii) the future prospects of online education business in the PRC.

Details of the service agreements entered into between Wowxue and various schools and educational institutions are disclosed in the Valuation Report in the Appendix I to this circular. The time of revenue recognition for the majority of the relevant service agreements have a duration of 10-years covering the period from 2017 to 2027.

The Company and the Vendor shall jointly procure the auditor to prepare the consolidated financial statements of the Target Group within 2 months from the end of each Guaranteed Period and the auditor shall also issue a certificate for the actual profit of the Target Company to the Company and the Vendor (the “**Auditor’s Certificate**”).

LETTER FROM THE BOARD

In the event that the actual Net Profit as shown in the Auditor's Certificate in any or all of the Guaranteed Period is less than the respective Guaranteed Profit, the Vendor shall compensate the Company (the "Compensation") as calculated according to the following formula:

$$\text{Compensation} = (\text{Guaranteed Profit of the respective Guaranteed Period} \\ - \text{Net Profit of the respective} \\ \text{Guaranteed Period}) \times \frac{\text{Total Consideration}}{\text{Average Guaranteed Profit}}$$

For the avoidance of doubt, in the event that the Target Company recorded net loss after tax generating from operating activities ("Net Loss") in its audited consolidated financial statements for any of the Guaranteed Periods, the Compensation shall be calculated according to the following formula:

$$\text{Compensation} = (\text{Guaranteed Profit of the respective Guaranteed Period}) \\ + \text{Net Loss of the respective Guaranteed Period (show as a positive figure)} \\ \times \frac{\text{Total Consideration}}{\text{Average Guaranteed Profit}}$$

The maximum aggregate amount of the Compensation for the Guaranteed Periods is limited to the Consideration, i.e. HK\$320,000,000.

In the event that the Compensation is required

- (i) for the 1st Guaranteed Period, the Company shall deduct the amount of the respective Compensation from the 1st Promissory Note which will be issued to the Vendor on 30 September 2018;
- (ii) for the 2nd Guaranteed Period, the Company shall deduct the amount of the respective Compensation from the 2nd Promissory Note which will be issued to the Vendor on 31 March 2019;
- (iii) for the 3rd Guaranteed Period, the Company shall deduct the amount of the respective Compensation from the 3rd Promissory Note which will be issued to the Vendor on 30 September 2019; and
- (iv) for the 4th Guaranteed Period, the Company shall deduct the amount of the respective Compensation from the 4th Promissory Note which will be issued to the Vendor on 31 March 2020.

The Company will publish further announcement(s) to inform the Shareholders whether the Guaranteed Profits have been met and comply with the disclosure requirements under Rule 14A.63 if the actual performance fails to meet the Guaranteed Profits.

LETTER FROM THE BOARD

Irrevocable Undertaking

The Vendor irrevocably undertakes to the Company on the terms of and subject to the conditions under the Sale and Purchase Agreement that:

- (1) Wowxue will obtain the certificate of High-New Technology Enterprise jointly issued by the Beijing Municipal Science and Technology Commission, the Beijing Municipal Finance Commission, the Beijing Municipal Office of the State Administration of Taxation and the Beijing Local Taxation Bureau on or before 31 December 2017;
- (2) Wowxue will be entitled to the preferential effective enterprise income tax rate of 15% for the year ending 31 December 2017; and
- (3) there will be no material adverse change to the cost structure of Wowxue as set out in the Valuation Report.

The Vendor agrees to fully indemnify and keep the Company fully indemnified on demand from and against any depletion of assets, all losses, costs and expenses (including legal expenses) which the Company may incur or sustain from or in consequence of any of the undertakings above not being correct or fully complied with in all material respects.

Conditions precedent

Completion of the Sale and Purchase Agreement is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (i) the Company being reasonably satisfied with the results of the due diligence review on the Target Group, including but not limited to the assets, indebtedness, operation and financial aspect of the Target Group;
- (ii) all necessary consents and approvals required to be obtained on the part of the Vendor, the Target Company and the Guarantor in respect of the sale and purchase of the Sale Shares having been obtained;
- (iii) all necessary consents and approvals required to be obtained on the part of the Company in respect of the sale and purchase of the Sale Shares having been obtained;
- (iv) the Reorganisation having been completed in such manner as approved by the Company;
- (v) the passing by the Independent Shareholders at the EGM of the ordinary resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to, the issue of the Promissory Notes;

LETTER FROM THE BOARD

- (vi) a legal opinion having been issued by the PRC Legal Adviser appointed by the Company in the form and substance to the satisfaction of the Company, on the matters relating to the Sale and Purchase Agreement, including but not limited to the legality and validity of the VIE Agreements;
- (vii) the warranties remaining true and accurate and not misleading from the date of the Sale and Purchase Agreement until the date of Completion;
- (viii) the Company being satisfied that there being no material adverse change to the financial conditions, businesses, assets or operating results of the members of the Target Group; and
- (ix) the Target Group having provided reasonable evidence that Wowxue shall (a) record Net Profit of not less than HK\$11,000,000 from legally-binding agreement(s) and/or purchase order(s) as at the date of Completion; and (b) record Net Profit of not less than HK\$4,000,000 in such manner as approved by the Company (such as memorandum(s) of understanding and/or framework agreement(s)) for the period from the date of Completion to 31 December 2017. Such profit recognition shall meet the requirements under Hong Kong Financial Reporting Standards. If there is any dispute, the parties to the Sale and Purchase Agreement shall seek professional advice.

The Company may at its absolute discretion at any time waive in writing any of the conditions set out in (i), (vi), (vii), (viii), and (ix) (to the extent it is capable of being waived) and such waiver may be made subject to such terms and conditions as determined by the Company. Other conditions are not capable of being waived by either party to the Sale and Purchase Agreement. If the conditions set out in the Sale and Purchase Agreement have not been satisfied (or as the case may be, waived) on or before 30 November 2017 (or such other date as may be agreed between the Vendor and the Company), the Sale and Purchase Agreement shall cease and terminate (save and except causes stated in the Sale and Purchase Agreement which shall continue to have full force and effect) notwithstanding any other provisions of the Sale and Purchase Agreement, and thereafter none of the parties shall have any obligations and liabilities towards the others save for any antecedent breaches of the terms of the Sale and Purchase Agreement.

As at the Latest Practicable Date, the Directors are satisfied with the reasonable evidence provide by the Target Group i.e. the legally-binding service agreements and/or purchase orders entered by Wowxue and various schools and educational institutions for provision of online education system solutions and/or subscription of its online courses (details of which are set out in the valuation report of Wowxue in the Appendix I to this circular), which demonstrate that Wowxue shall record Net Profit of not less than HK\$15,000,000 for the year ended 31 December 2017.

As at the Latest Practicable Date, save for the conditions set out in (v), (vii) and (viii), all of the above conditions precedent have been fulfilled.

LETTER FROM THE BOARD

Completion

Completion shall take place on the (7th) seventh Business Day after fulfilment or waiver (as the case may be) of the above conditions.

Upon Completion, each of the companies within the Target Group will become a wholly-owned subsidiary of the Company.

The Company has discussed with Elite Partners CPA Limited, being the auditors of the Group, and confirmed that, upon Completion, the financial results of Wowxue will be consolidated into the financial statements of the Group under the Hong Kong Financial Reporting Standards.

INFORMATION OF THE TARGET GROUP AND WOWXUE

Information on the Vendor

The Vendor is principally engaged in investment holding and is a company incorporated in the BVI with limited liability, which is owned as to 90%, 5% and 5% by Mr. Zhu, YM Zhao and YY Zhao respectively.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for being the common beneficial owners of the Vendor, YM Zhao and YY Zhao are Independent Third Parties.

Information on the Target Group

The Target Company is principally engaged in investment holding and is a company incorporated in the BVI with limited liability on 17 January 2017. The Target Company has not recorded any profits as it has no business operation since its incorporation. It has US\$500 paid-up capital as at the Latest Practicable Date.

Hong Kong Cybernaut is principally engaged in investment holding. It is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company. Hong Kong Cybernaut has not recorded any profits as it has no business operation since it incorporated. It has HK\$10,000 paid-up capital as at the Latest Practicable Date.

Huzhou Company is a company established in the PRC with limited liability and principally engaged in investment holding. It is a wholly-owned subsidiary of Hong Kong Cybernaut. Huzhou Company has not recorded any profits as it has no business operation since it incorporated. The registered capital of Huzhou Company is HK\$10 million which has not been paid-up as at the Latest Practicable Date.

Immediately after completion of the Reorganisation, the Target Company has indirect control over Wowxue and enjoy the economic interest and benefits of Wowxue through Huzhou Company via the VIE Agreements, and the financial results of Wowxue have been consolidated into the accounts of the Target Company.

LETTER FROM THE BOARD

Information on Wowxue

Wowxue is a company established in the PRC with limited liability, which is principally engaged in the research and provision of internet education services to kindergarten, primary and secondary schools.

As at the Latest Practicable Date, Wowxue has obtained the value-added telecommunications business operating licence in the PRC.

Meanwhile, Wowxue has filed an application for the certificate of High-New Technology Enterprise on 10 August 2017. As at the Latest Practicable Date, such application has been approved by the identification management authority of High-New Technology Enterprise and has entered into the stage which pending for publicity of the list of High-New Technology Enterprise to be identified and issue of certificate of High-New Technology Enterprise. Wowxue will file an application for the preferential tax certificate with the tax authorities after obtaining the certificate of High-New Technology Enterprise.

As advised by the PRC Legal Adviser, (i) subject to the publicity of the list of High-New Technology Enterprise to be identified and the filing of relevant documents of High-New Technology Enterprise with the identification management leading group office of High-New Technology Enterprise; and (ii) subject to the approval of PRC tax authorities and the compliance of relevant laws and regulations, there will be no legal or regulatory impediment in obtaining the certificate of High-New Technology Enterprise and preferential tax certificate for Wowxue.

Immediately after completion of the Reorganisation, Wowxue is controlled by the Target Company via the VIE Agreements.

Information on the Registered Shareholders

As at the Latest Practicable Date, Wowxue is owned as to 40%, 20%, 20% and 20% by 賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*), 賽伯樂智庫(北京)國際生態科學研究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*), YM Zhao and YY Zhao, respectively.

賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*) is a company established in the PRC with limited liability and 賽伯樂智庫(北京)國際生態科學研究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*) is a research institute established in the PRC with collective ownership (cooperative stock), and YM Zhao and YY Zhao are residents in the PRC.

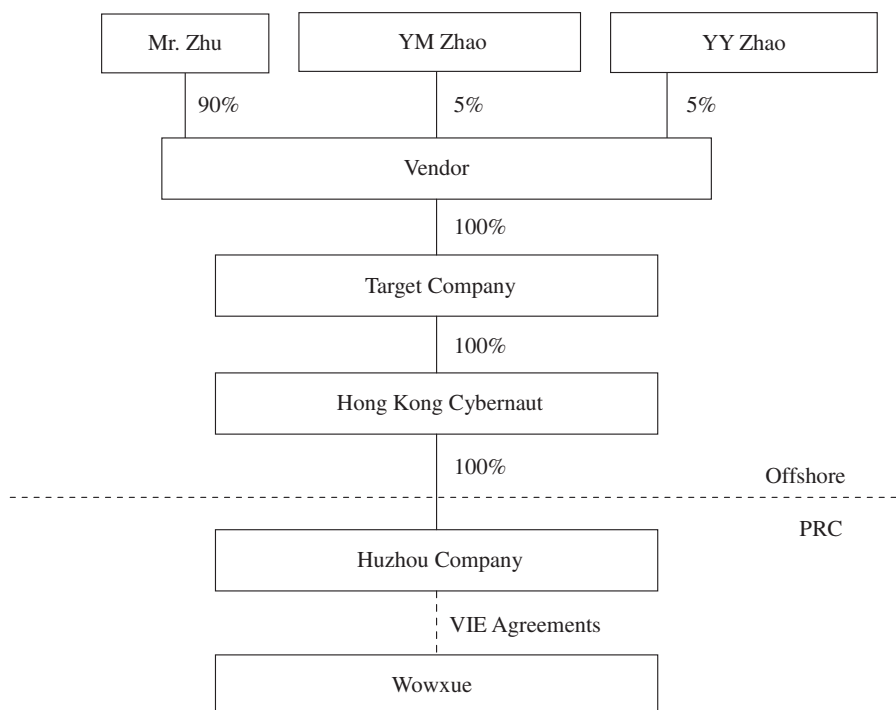
To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, 賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*) and 賽伯樂智庫(北京)國際生態科學研究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*) are beneficially indirectly owned by Mr. Zhu as to 90.6% and 44.4% respectively.

The original acquisition cost of aggregate 60% equity interest in Wowxue by 賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*) and 賽伯樂智庫(北京)國際生態科學研

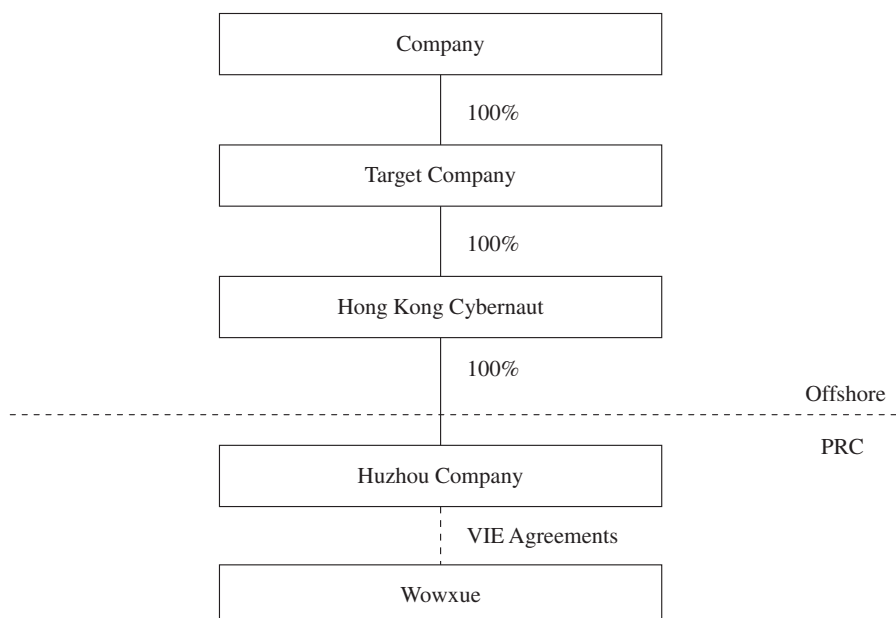
LETTER FROM THE BOARD

究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*) were RMB3.60 million and RMB1.80 million, respectively. 賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*) and 賽伯樂智庫(北京)國際生態科學研究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*) have subsequently increased capital in proportion to their respective shareholding in Wowxue amounted to RMB1.20 million and RMB0.60 million, respectively.

Shareholding Structure of the Target Group (immediately after completion of the Reorganisation and immediately before Completion)



Shareholding Structure of the Target Group (immediately upon Completion)



LETTER FROM THE BOARD

Financial Information of Wowxue

Set out below is the summary of the unaudited financial information of Wowxue:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2016 RMB'000	For the six month ended 30 June 2017 RMB'000
Revenue	841.7	1,100.7	7,019.4
Profit/(loss) before tax	9.3	(837.1)	5,681.0
Profit/(loss) after tax	8.0	(837.1)	4,261.4

The unaudited net assets value of Wowxue is approximately RMB4,504,000 as at 30 June 2017.

The significant improvement in the financial performance of Wowxue since 2017 is mainly due to (i) the employment of new management and marketing team with the capital injection of the Registered Shareholders during the year of 2016; (ii) 賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*) and 賽伯樂智庫(北京)國際生態科學研究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*), being the new shareholders of Wowxue, and Mr. Zhu introduced the new client network to Wowxue; and (iii) the marketing effect of “2016年度品牌知名度教育機構 (2016 Annual Brand Awareness Education Institution*)” which Wowxue has been awarded by Xinhua Net in December 2016.

REASON FOR AND BENEFIT OF THE ACQUISITION

The Group is principally engaged in the manufacture and sale of advanced steel flow control products, paper converting equipments, money lending business and electronic commerce (E-commerce) business.

Wowxue mainly focuses on the internet education of kindergarten, primary and secondary school; internet teaching research; and providing internet education services. Wowxue relies on the quality education resources, teacher resources and teaching experiences of Beijing Normal University, Peking University and other well-known colleges and universities and their affiliated primary and secondary schools, and builds up a “brand – product – service” integrated education service model. It has built five education service platforms, namely “京師沃學教育研究院 (Capital Wowxue Education Institute*)”, “京師沃學K12網路教育學院 (Capital Wowxue K12 Internet Education Institute*)”, “京師沃學教師培訓學院 (Capital Wowxue Teacher Training Institute*)”, “京師沃學國際教育學院 (Capital Wowxue International Education Institute*)” and “京師沃學全媒體教育傳播平台 (Capital Wowxue Full Media Education Communication Platform*)”.

LETTER FROM THE BOARD

Currently, Wowxue has a collection of online courses in its course library that is accessible via its online platforms. The courses of Wowxue, including but not limited to the live-broadcasting lectures, interactive courses, real-time teaching courses and pre-recorded course, are distributed to the subscribers via its online platforms.

In addition to the production and distribution of online courses, Wowxue also provides online educational system solutions to schools or educational institutions and build up information technology infrastructures with connection gateways to link up their platform with the online platforms of Wowxue.

In general, Wowxue generates its revenue by receiving online courses subscription fees from the subscribers and service fees in respect of online educational system solutions from various schools and educational institutions.

There are three major potential groups of client of Wowxue namely individuals, educational institutions and online education platforms. In respect of the individual clients, Wowxue identifies individual clients through business-to-business-to-consumer (B2B2C) model from the educational institutions clients, as well as identifies individual end-users through other online platforms, such as 騰訊教育 (Tencent Education*) and 百度教育 (Baidu Education*) etc.

In respect of the educational institution clients, Wowxue identifies educational institution clients through (i) the developed regional agency model in the PRC; and (ii) cooperating with various training institutions. Wowxue cooperates with the local agents and service providers who have educational services experience and cooperative relationship with the local government. On the other hand, through cooperating with various training institutions, Wowxue has direct access to the educational institutions by way of conference presentation, as these training institutions have accumulated a large number of educational institution members.

In respect of the online education platform clients, Wowxue directly identifies online education platform clients through the client network of the management of Wowxue and by participating in industry seminars and company visits.

The major clients in the educational institution group include reputable private international schools located in Beijing, Hebei Province and Guangdong Province with current number of students of approximately 2,000, 500 and 1,000 respectively.

The major clients in the online education platform group include (i) a state-owned enterprise which operates an online literature database and is listed on the National Equities Exchange and Quotations of China and provides services to approximately 7,000 primary and secondary schools; (ii) a company principally engaged in digital publishing which is listed on Shenzhen Stock Exchange with its online platform serving up to 10,000 schools; (iii) a company operates as an education service provider and educational software provider which is listed on the National Equities Exchange and Quotations and provides services to over 20,000 schools; and (iv) a cultural industry company which carries out education poverty alleviation by donating education resources.

LETTER FROM THE BOARD

As aforementioned in the paragraph headed “Adjustment to Consideration”, the majority of the service agreements entered into between Wowxue and the clients have a duration of 10-years covering the period from 2017 to 2027.

In order to maintain the source of clients, Wowxue implements different types of strategy. In respect of the online platform clients, Wowxue provides online platform docking service which connects the online platform of Wowxue with the clients’ online platforms. The deep integration of the two parties and the high quality of educational services provided by Wowxue, which includes school curriculum resources, online courses offered by reputable tutors and updated teaching materials, allows Wowxue to maintain a stable and cooperative relationship with its clients.

In respect of the educational institution clients, Wowxue specialised in providing comprehensive educational services solutions, including educational products, technical services as well as live teaching sessions and face to face teaching services offered by reputable tutors, to its educational institution clients. As such, Wowxue maintains its cooperative relationship with educational institution clients by increasing the quality and scope of educational services provided by the educational institution clients. As a result, more students will enroll in the educational institution clients and this will enhance their tuition fee income to the mutual benefits of both the educational institution clients and Wowxue.

In respect of the individual clients, Wowxue improves the loyalty of individual clients toward Wowxue through encouraging the learning interest of the individual clients, providing offline counseling services, and personalised customer services, therefore improving the students’ educational achievements.

Tutors are the key element in Wowxue’s online courses recording and live broadcasting. Wowxue directly engages the potential tutors from well-known colleges and universities as well as their affiliated primary and secondary schools through the network of Wowxue’s management. Wowxue will then enter into agreements with the potential tutors or their respective educational institutions in order to maintain the relationship between the tutors and Wowxue.

Furthermore, the management and marketing team of Wowxue have over 10 years of experiences in different aspects of the education/internet education industry in the PRC, including but not limited to online platform research and development, big data analysis, sales and marketing, research on teaching material, teaching resources integration, teachers’ training, and products development.

As at the Latest Practicable Date, the Company has no intention to introduce any major changes to the management and marketing team of Wowxue. Nevertheless, upon Completion, the Company will, from time to time, conduct review on the management and marketing team of Wowxue in accordance with the business development of Wowxue.

LETTER FROM THE BOARD

In December 2016, Wowxue has been awarded “2016年度品牌知名度教育機構 (2016 Annual Brand Awareness Education Institution*)” by Xinhua Net and in May 2017, it has been awarded “互聯網+教育行業領軍企業獎 (Internet + Education Industry Leadership Award*)” by National Public Service Platform for Industry.

With the rise of the era of “Internet + Education”, the tide of online-to-offline (O2O) dual teacher teaching model has come and the norms in the education industry in the PRC is rapidly changing. Currently, the internet education industry in the PRC can be divided into the following subareas: (i) pre-school education; (ii) K12 education; (iii) higher education; (iv) study abroad; (v) vocational education; (vi) language education; (vii) interest education; and (viii) integrated platform.

According to a research conducted by Analysis in relation to the internet education industry forecast from 2017 to 2019 in the PRC, the market scale of the internet education industry in the PRC reached RMB160.1 billion in 2016, increased 43.3% on year-on-year basis. At present, comparing to the overall “offline” education industry, the internet education industry accounted for a relatively low proportion. However, with the further integration of “online” and “offline” education industry and the deepening development of the internet education, it is expected that the growth trend of the internet education industry will continue to be maintained in the next three years from 2017 to 2019, and the market scale of the internet education industry will reach RMB371.8 billion in 2019.

The Directors (excluding the independent non-executive Directors whose views will be expressed after considering the advice from the Independent Financial Adviser) consider that the Acquisition, if materialised, represents a good opportunity for the Group to diversify its business. Also, in consideration of (i) the business and revenue model of Wowxue; (ii) the Guaranteed Profit provided by the Vendor in favour of the Company; and (iii) the future prospects of Wowxue as aforementioned, the Board believes that the businesses of Wowxue will enable a positive contribution to Company upon Completion, and considers that the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Directors believe that there will be sufficient managerial competencies/expertise in operating the business of Wowxue upon Completion. Mr. Gao Xiang, being an executive Director, has rich experience in business management, education and internet platform operation. Mr. Gao Xiang served as the chief executive officer and an executive director of Gome.com.cn in 2013, in which his main responsibility was to design the structure of its online-to-offline retail platform system and to remodel and personalize the existing marketing management system based on big data. In addition, he is currently a director of Wuhan Tongxue Culture Co., Limited (武漢童學文化股份有限公司) which is listed on the National Equities Exchange and Quotations. The Company will conduct annual review on the management structure of the Group for the purpose of maintaining sufficient managerial competencies/expertise in operating the business of the Enlarged Group.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has not entered, or does not propose to enter, into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, and negotiation (whether concluded or not) with an intention to dispose of/downsize the existing businesses of the Group, and/or acquire other companies/businesses. Nevertheless, the Company will, from time to time, conduct review on the existing businesses and the financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group.

REASON FOR ENTERING INTO THE VIE AGREEMENTS

Investing in the PRC by foreign investors is primarily regulated by “外商投資產業指導目錄 (2017年修訂) (the Guidance Catalogue of Industries for Foreign Investment (2017 Revision)*)” (the “**Catalogue**”), which was promulgated and is amended from time to time jointly by the Ministry of Commerce of the PRC and the National Development and Reform Commission. Pursuant to the Catalogue, the value-added telecommunication services related business of Wowxue is considered as “restricted” under the categories of value-added telecommunication services. Therefore, foreign investors can only operate value-added telecommunication business in the PRC under joint ventures with the foreign portion of the total investment and hence shareholding below 50%. As Hong Kong Cybernaut, the subsidiary of the Target Company, is the foreign investor of Huzhou Company, it is not allowed to indirectly hold more than 50% equity interest in Wowxue through Huzhou Company or directly hold more than 50% equity interest in Wowxue under the PRC laws.

In light of the above, Huzhou Company, Wowxue and the Registered Shareholders have entered into the VIE Agreements on 31 August 2017 (as amended by supplemental agreements dated 25 September 2017) for the Reorganisation in order to enable the financial results, the entire economic benefits and the risks of the businesses of Wowxue to flow into Huzhou Company and to enable the Target Company to have indirect control over Wowxue as contemplated under the Sale and Purchase Agreement.

The Company agrees that it would unwind the VIE Agreements as soon as the relevant laws and regulations allow the value-added telecommunications business in the PRC to be operated by foreign investors without adopting a VIE structure. However, it is uncertain at this stage when the restrictions on foreign ownership in value-added telecommunications businesses will be lifted in the PRC. Under the Irrevocable Option Agreement, the Registered Shareholders must return to Huzhou Company or its nominee any consideration the Registered Shareholders had received from Huzhou Company for the acquisition of the equity interest in Wowxue.

As at the Latest Practicable Date, the Group has not encountered any interference or encumbrance from any governing bodies in operating its business through Wowxue under the VIE Agreements.

The PRC Legal Adviser has confirmed, among others, that (i) the use of the VIE structure and the VIE Agreements do not violate the relevant prevailing laws and regulations in the PRC; (ii) the VIE Agreements would not be deemed as concealing illegal intentions with a lawful

LETTER FROM THE BOARD

form and void under the PRC contract law; and (iii) save for the clause providing that the arbitration tribunal may award injunctive relief or winding up orders and that the courts in Hong Kong, the Cayman Islands and the PRC may grant temporary injunctive relief or other temporary remedies, which may not be enforceable under PRC law, the VIE Agreements are enforceable under the laws of the PRC. Based on the above, the Directors believe that the VIE Agreements conferring significant control and economic benefits from Wowxue to the Target Company are enforceable under the relevant laws and regulations.

INFORMATION OF THE VIE AGREEMENTS

The VIE Agreements

(1) Management Services Agreement

Date : 31 August 2017

Parties : (1) Wowxue;
(2) Huzhou Company; and
(3) The Registered Shareholders.

Scope of services : Huzhou Company shall provide investment advice, planning and other business advice on the operation and technical services of Wowxue in accordance with the requirements of Wowxue. Huzhou Company shall participate and assist in the management of the project operation and complete the management consulting service in time and submit the relevant management consulting report within the time limit required by Wowxue, and provide the required technical services. Such services include but not limited to the following:

- (i) to select and facilitate the employment of qualified persons and experts in respect of the businesses of Wowxue in internet education information services and teacher qualifications, and to provide the required or appropriate training to the managers, department heads, administration staff and accounting staff and all other employees of Wowxue;
- (ii) provide strategic advice, from time to time, on the negotiation and signing of contract(s) which is/are required or in connection with the daily operation and business of Wowxue;

LETTER FROM THE BOARD

- (iii) formulate rules, regulations, internal control policies, risk control management systems, standards administration, accounting, budget, marketing, human resources and operating policies, as well as the practices which are relevant to or affecting the business of Wowxue, and assist Wowxue in the effective implementation of relevant policies and practices;
- (iv) to plan, prepare, as well as provide public relations services and promote activities for Wowxue and to assist Wowxue to enter into contract(s) with third parties for businesses such as internet education information services and certification of teachers' qualification;
- (v) from time to time or at the request of Wowxue to review and improve the operation of Wowxue;
- (vi) in general, to perform all reasonable and necessary actions in relation to Wowxue's business operations in an effective and appropriate manner;
- (vii) on behalf of Wowxue, to make investments related to its business scope, establish branches, subsidiaries and make decisions on merger and acquisitions;
- (viii) to provide Wowxue with the global market information, market research data and analysis on internet education information services and certification of teachers' qualification; and
- (ix) to provide investment advice, planning and other business advice on the operation and project investment of Wowxue, and to participate and assist in the management of project operations in accordance with the requirements of Wowxue.

Fee : Wowxue shall make provisions for and pay management and consultancy fees to Huzhou Company on an annual basis, which shall be equivalent to the total income of Wowxue minus all relevant costs, expenses and taxes payable by Wowxue. If there is a loss in a given year, then no provisions for the said management and consultancy fees would be required for the year until Wowxue records a surplus.

LETTER FROM THE BOARD

- Guarantee : The Registered Shareholders have pledged their holding of 100% of the equity interest in Wowxue to guarantee Wowxue to fulfill its obligations under the Management Services Agreement
- Term : A term of ten years from the date of signing of the Management Services Agreement. Upon the expiry of each term, Huzhou Company is entitled at its sole and absolute discretion to renew the Management Services Agreement for a further term of ten years for each renewal. Wowxue and the Registered Shareholders are not entitled to terminate the Management Services Agreement during the term of such agreement. Huzhou Company is entitled to terminate the Management Services Agreement by giving thirty days of prior notice in writing to Wowxue.

(2) Irrevocable Option Agreement

- Date : 31 August 2017 (as amended by a supplemental agreement dated 25 September 2017)
- Parties : (1) Wowxue;
(2) Huzhou Company; and
(3) The Registered Shareholders.
- Subject Term : (i) Wowxue and the Registered Shareholders irrevocably grant the right to Huzhou Company to purchase the entire equity interest in Wowxue for no consideration or, if nil consideration for purchasing the entire equity interest in Wowxue by Huzhou Company is unacceptable by relevant local regulations or government departments, at such consideration will be determined by Huzhou Company. The Registered Shareholders must return to Huzhou Company or its nominee any consideration that the Registered Shareholders had received from Huzhou Company for the acquisition of the equity interest in Wowxue;

LETTER FROM THE BOARD

- (ii) Huzhou Company shall also have the right at its discretion to direct Wowxue and the Registered Shareholders to transfer the equity interest in Wowxue to a third party designated or arranged by Huzhou Company at no consideration or, if nil consideration for purchasing the entire equity interest in Wowxue by a third party designated or arranged by Huzhou Company is unacceptable by relevant local regulations or government departments, at such consideration will be determined by Huzhou Company. The Registered Shareholders must return to Huzhou Company or its nominee any consideration that the Registered Shareholders had received from Huzhou Company for the acquisition of the equity interest in Wowxue;
- (iii) Huzhou Company may at any time by way of serving a notice of purchase (including by telephone, e-mail, telegraph) to Wowxue and the Registered Shareholders in order to exercise the option to purchase the equity interest in Wowxue;
- (iv) Wowxue and the Registered Shareholders shall notify Huzhou Company by way of written notice in the event of a divorce, major diseases, insolvency (including but not limited to being prosecuted), bankruptcy, dissolution or deregistration, etc., which may potentially affect their holding of equity interest in Wowxue;
- (v) If any Registered Shareholders by reason of divorce, insolvency, death, bankruptcy, dissolution, deregistration, etc, may lead to their equity interest in Wowxue being inherited or transferred to other third party(ies) (including but not limited to their spouse, heir, creditor, etc.), and in the event that Huzhou Company decided not to exercise the option set out in paragraphs (i) and (ii) above, the other Registered Shareholders shall exercise their right of first refusal to acquire the relevant equity interest in Wowxue such that the party who had exercised the right of first of refusal shall be subject to the obligations under the Management Services Agreement, the Irrevocable Option Agreement, the Loan Agreement and the Equity Pledge Agreement; and

LETTER FROM THE BOARD

(vi) Wowxue and the Registered Shareholders have covenanted, among others, that:

- (a) without the prior written consent of Huzhou Company, they shall not sell, transfer, mortgage, dispose of by way of gift or dispose of in any other manner any equity interest in Wowxue or create any security interest in such equity interest;
- (b) without the prior written consent of Huzhou Company, Wowxue shall not enter into any transaction (except in the ordinary course of business) that may cause any material changes to its assets, liabilities, operations, shareholders' interests or other legal interests; and
- (c) they shall not in any manner supplement or amend the articles of association of Wowxue to the extent that it may cause any material changes to the assets, liabilities, operations, shareholders' interests or other legal interests of Wowxue.

Term : The exercise period of the option shall remain in effect indefinitely as permitted by the law and/or until Huzhou Company having exercised such option.

(3) *Loan Agreement*

Date : 31 August 2017 (as amended by a supplemental agreement dated 25 September 2017)

Parties : (1) Huzhou Company; and
(2) The Registered Shareholders.

LETTER FROM THE BOARD

- Subject : (i) Subject to the operational needs of Wowxue, Huzhou Company may at its discretion, from time to time, provide an interest free loan to the Registered Shareholders by way of entrusted bank loans or by other legal ways. The amount and conditions of the loan, if provided, shall be determined by Huzhou Company at its sole discretion, and such loan shall be used as the paid in capital of Wowxue.
- (ii) Formal loan agreement(s), entrusted loan agreement(s) or other relevant agreement(s) shall be entered into between Huzhou Company, the Registered Shareholders, and other relevant parties according to the actual situation.
- Interest : Non-interest bearing
- Term : In the event of any of the following circumstances, the loan will expire and the Registered Shareholders shall repay the loan at the request of Huzhou Company:
- (i) Wowxue having filed for or having been subject to bankruptcy petition, bankruptcy reorganization, bankruptcy liquidation or winding up petition; and
- (ii) Huzhou Company having fully exercised its right to purchase the entire equity interest in Wowxue in accordance with the Irrevocable Option Agreement.

LETTER FROM THE BOARD

(4) *Equity Pledge Agreement*

Date : 31 August 2017

Parties : (1) Wowxue;
(2) Huzhou Company; and
(3) The Registered Shareholders.

Subject : The Registered Shareholders unconditionally and irrevocable agreed to pledge all the equity interest in Wowxue that they own (including any interest or dividend paid for such shares) to Huzhou Company as a security for the performance of the obligations by Wowxue and the Registered Shareholders under the Management Services Agreement.

Term : The pledge shall remain valid until Wowxue and the Registered Shareholders unconditionally and irrevocably fulfilled all the obligations (including, but not limited to, the settlement and/or the payment of the service charge, liquidated damages (if any), etc.) under the Management Services Agreement.

(5) *Power of Attorney*

Date : 31 August 2017

Parties : (1) Huzhou Company; and
(2) The directors of Wowxue, the Registered Shareholders or the legal representative of Wowxue

LETTER FROM THE BOARD

Subject : Pursuant to the Power of Attorney, the directors of Wowxue, the Registered Shareholders and the legal representative of Wowxue have irrevocably appointed Huzhou Company as its/their attorney-in-fact to (i) exercise all the directors' rights, shareholders' rights and legal representative's rights (as the case may be) including but not limited to passing of board resolutions and shareholders' resolutions as well as the right to appoint or remove the directors, legal representative, general manager and other senior management of Wowxue; (ii) sign on their behalf all the documents necessary to give effect to the VIE Agreements; (iii) exercise all the rights and powers under the Equity Pledge Agreement and the right to deal with the assets of Wowxue; and (iv) submit documents to the competent company registration authorities of Wowxue or other relevant authorities for filing purpose. As confirmed by Huzhou Company, the authorizations under the Power of Attorney will be granted to the relevant officers/management of Huzhou Company who are third parties independent to the Registered Shareholders and their associates.

Term : From the date of the Power of Attorney to the earlier of the revocation or termination of each of the Management Services Agreement, Irrevocable Option Agreement, Loan Agreement and Equity Pledge Agreement

(6) Undertaking Letters

Date : 31 August 2017 (as amended by a supplemental letter dated 25 September 2017)

Parties : (1) Huzhou Company; and
(2) The directors of Wowxue, the Registered Shareholders and the legal representative of Wowxue

Subject : Pursuant to the Undertaking Letters, the directors of Wowxue, the Registered Shareholders and the legal representative of Wowxue, irrevocably undertake that: (i) they will act in accordance with the instructions of Huzhou Company upon the exercise of the powers of the directors of Wowxue, the power of the shareholders of Wowxue and the power of the legal representative of Wowxue respectively; and (ii) each of the directors of Wowxue, each of the Registered Shareholders of Wowxue and the legal representative of Wowxue has also undertaken not to compete with the business operating by Wowxue.

LETTER FROM THE BOARD

(7) *Declaration Letters*

Date : 31 August 2017

Parties : (1) YM Zhao and his spouse; and
(2) YY Zhao and his spouse

Subject : pursuant to the Declaration Letters, YM Zhao and his spouse, and YY Zhao and his spouse irrevocably declare that, among other things, (i) acknowledge that all the equity interests held by YM Zhao and YY Zhao in the Wowxue do not form part of their matrimonial property and YM Zhao and YY Zhao are entitled to sign and fulfill the VIE Agreements personally; and (ii) the spouse of YM Zhao and YY Zhao undertake that if they get a divorce, they will not claim the relevant equity in the Wowxue by any way, including but not limited to the equity of distribution of profits, acquiring residual properties upon liquidation of Wowxue, investment and incorporation of branch offices and subsidiaries.

Protection of the interest and assets of Wowxue

The Management Services Agreement, Irrevocable Option Agreement, Loan Agreement, Equity Pledge Agreement, and the Undertaking Letters include a provision that each agreement is binding on the successors and permitted assignees of the respective parties. In the event of death, bankruptcy or divorce of any party of the Registered Shareholders, Huzhou Company may exercise its option under the Irrevocable Option Agreement to replace the relevant party of the Registered Shareholders, thus protecting the interest of the Group and allowing Huzhou Company to enforce its rights under the VIE Agreements against the successors and permitted assignees of the shareholders of Wowxue.

In order to have effective control over and to safeguard the assets of Wowxue, the VIE Agreements provide that, without the prior written consent of Huzhou Company, Wowxue shall not, in any form, dispose of significant assets (including but not limited to any significant customer resources, fixed assets, trademarks, technical knowhow or other intellectual property rights and/or other equity interests or similar interests held by Wowxue), operating rights and/or dispose of all or part of its business (including sale, replacement, mortgage or disposal in any other ways), with respect to it and/or its subsidiaries (if any).

The VIE Agreements also provide that, without the prior written consent of Huzhou Company, (i) Wowxue shall not increase or decrease the registered capital or accept any investment or capital increase from the Registered Shareholders or any third parties to Wowxue or change the form of the company or make any major adjustments regarding carrying out liquidation or dissolution; or the business scope, mode, profit model, marketing strategy, business policy or customer relationship; (ii) Wowxue and/or its subsidiaries shall not enter

LETTER FROM THE BOARD

into any partnership or joint venture or profit sharing arrangement with any third parties, or any other arrangements for the transfer of benefits or profit sharing in the form of royalties, service fees or consultancy fees; and (iii) Wowxue shall not declare or distribute dividends, dividends or any other interests to its shareholders, including the after-tax profits that Wowxue has not yet allocated before the commencement of the VIE Agreements.

In addition, upon Completion, the Board will review the VIE structure regularly and determine if the Group encounters any issues in safeguarding its assets held through the VIE Agreements. If any major issues or difficulties arise in doing so, the Board will engage legal advisers and/or other professionals to assist the Group to tackle such issues or difficulties.

VIE Agreements confer economic benefits on Huzhou Company from Wowxue

The VIE Agreements confer upon the Group the right to enjoy all the economic benefit of Wowxue by the Management Services Agreement under which Wowxue will pay Huzhou Company the management and consultancy fees equivalent to the total income of Wowxue minus all relevant costs, expenses and taxes payable by Wowxue.

VIE Agreements confer control from Wowxue to Huzhou Company

The VIE Agreements confer upon the Group sufficient control over the board and daily operations of Wowxue. The appointment of directors of Wowxue is subject to Huzhou Company being satisfied of the director's qualification and requires the explicit consent of Huzhou Company. If Huzhou Company is dissatisfied with the performance of the director(s) of Wowxue and proposes to remove such director(s), Wowxue shall remove such person(s) as director(s) upon Huzhou Company's proposal. Also, Wowxue agreed with Huzhou Company that Wowxue will, and its shareholders will cause Wowxue to, accept proposals put forward by Huzhou Company relating to the daily operations of Wowxue and employment of staff, operate all business of Wowxue in the ordinary course of business and refrain from any action or omission that may adversely affect the business of Wowxue.

Moreover, under the Management Services Agreement, Huzhou Company will formulate rules, regulations, internal control policies, risk control management systems, standards administration, accounting, budget, marketing, human resources and operating policies, as well as the practices which relevant to or affecting the business of Wowxue, and assist Wowxue in the effective implementation of relevant policies and practices

Furthermore, as a general housekeeping rule, Huzhou Company will have the custody of the constitutional items of Wowxue, including the company chop and seal. At the request of Huzhou Company, Wowxue will provide it with the relevant legal documents and other information on Wowxue's business operation.

LETTER FROM THE BOARD

RISKS AND LIMITATIONS RELATING TO THE VIE STRUCTURE

1. Economic risks of the Company

Huzhou Company, as the primary beneficiary of Wowxue, is not obligated under any of the VIE Agreements to share the losses of Wowxue or provide financial support to Wowxue. Moreover, as a limited liability company, Wowxue is solely liable for its own debts and losses. As advised by the PRC Legal Adviser, the PRC laws and regulations do not expressly require Huzhou Company to share the losses of Wowxue or provide financial support to Wowxue.

However, upon Completion, the financial results of Wowxue will be consolidated into the financial statements of the Group, it is likely that the Company's business and financial position will be affected if Wowxue suffers losses or fails to obtain the requisite licenses and approvals to continually operate its online sales business in the PRC.

2. Limitations in exercising the option to acquire ownership in Wowxue

In the case that Huzhou Company exercises its options to acquire all or part of the equity interest in Wowxue under the Irrevocable Option Agreement, the acquisition of the entire equity interests in Wowxue may only be conducted to the extent as permitted by the applicable PRC laws and may be subject to necessary approvals and relevant procedures under applicable PRC laws.

Further, a substantial amount of other costs (if any), expenses and time may be involved in transferring the ownership of Wowxue, which may have a material adverse impact on Huzhou Company's businesses, prospects and results of operation.

Huzhou Company may need to pay a substantial amount of enterprise income tax for the income from the ownership transfer according to the Irrevocable Option Agreement.

3. Arrangements when potential conflicts of interest arise

Huzhou Company shall rely on the VIE Agreements to exercise control over and to draw the economic benefits from Wowxue. Huzhou Company may not be able to provide sufficient incentives to the Registered Shareholders for the purpose of encouraging it/them to act in the best interests of Wowxue, other than stipulating the relevant obligations in the VIE Agreements. The Registered Shareholders may breach the VIE Agreements in the event of conflicts of interest or deterioration of its/their relationship with Huzhou Company, the results of which may have a material adverse impact on Huzhou Company's business, prospects and results of operation.

It is not assured that if conflicts arise, the Registered Shareholders will act in the best interests of Huzhou Company or that the conflicts will be resolved in favour of Huzhou Company. If any of the Registered Shareholders fail to perform its obligations under the respective VIE Agreements, Huzhou Company may have to rely on legal remedies under the PRC laws through legal proceedings, which may be expensive, time-consuming and disruptive to Huzhou Company's operations and will be subject to uncertainties as discussed above.

LETTER FROM THE BOARD

4. Other risks relating to the VIE Agreements

Firstly, despite (i) there is currently no indication that the VIE Agreements will be interfered or objected by any PRC regulatory authorities; and (ii) the PRC Legal Adviser is of the view that the VIE Agreements do not violate any prevailing PRC laws or regulations, uncertainties still exist regarding the interpretation and application of the PRC laws and regulations especially in the area of value-added telecommunications business. For instance, the PRC regulatory authorities may issue further guidelines that impose stricter foreign ownership requirements in that area of business. Given the uncertain legal and business environment in the PRC, it is difficult to foresee whether the PRC regulatory authorities will take the same view regarding the VIE Agreements as the PRC Legal Adviser in the future.

On 19 January 2015, the Ministry of Commerce of the PRC published the draft PRC Foreign Investment Law (中華人民共和國外國投資法(草案徵求意見稿)) and the Explanation on the draft PRC Foreign Investment Law (關於《中華人民共和國外國投資法(草案徵求意見稿)》的說明) (collectively the “**Draft Law**”) pursuant to which foreign companies gaining control over domestic companies via contractual arrangement such as the VIE Agreements will be regarded as foreign investments and will be governed by the Draft Law when it is adopted and becomes law. The PRC Legal Adviser is of the view that the Draft Law is currently in consultation stage and has not yet been effective or legally binding. As there are uncertainties on the final content and interpretations of the Draft Law, there is no assurance that the VIE Agreements will comply with the Draft Law when it is adopted and becomes law.

Secondly, the VIE Agreements may not provide control as effective as direct ownership. Huzhou Company does not have any direct equity ownership in Wowxue and has relied on the VIE Agreements to effect changes in the management of Wowxue and make an impact on its business decision making, as opposed to exercising its rights directly as a shareholder. If Wowxue or its shareholders refuse to cooperate, the Company will face difficulties in effecting control over Wowxue’s operation of business through the VIE structure, which may adversely affect the Company’s business efficiency.

Thirdly, according to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Revision) (外商投資電信企業管理規定(2016修訂)) (the “**FITE Regulations**”), which were promulgated by the State Council of the PRC on 11 December 2001, and amended on 10 September 2008 and 6 February 2016, it requires a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirement**”). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. Despite the lack of clear guidance or interpretation on the Qualification Requirements, the Company intends to acquire the entire equity interests in the Wowxue when the PRC laws allow foreign investors to invest in value-added telecommunications business in the PRC. The Group plans to take steps to build up its track record of overseas value-added telecommunications business operations in an attempt to comply with the Qualifications Requirements, i.e., to establish overseas office in Hong Kong

LETTER FROM THE BOARD

and to register a certain number of domain names outside of the PRC for conducting operation of websites and other businesses in relation to value-added telecommunication services in Hong Kong in coming one to three years, so as to be qualified to acquire the entire equity interests in the Wowxue when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in PRC. However, there is a risk that when the restrictions on foreign ownership in value-added telecommunications businesses are lifted in the PRC, Huzhou Company may still be required to unwind the VIE Agreements before Huzhou Company's foreign investor Hong Kong Cybernaut is in a position to fully comply with the Qualification Requirement. Therefore, there is no guarantee that the steps taken will be sufficient to enable Huzhou Company to ultimately acquire the ownership in Wowxue.

Fourthly, the VIE Agreements may be subject to scrutiny by the tax authorities and additional tax may be imposed. Under the Management Services Agreement, Wowxue is required to pay Huzhou Company management and consultancy fees for the services rendered by Huzhou Company. Such service fee payments between related parties may be subject to scrutiny or challenge by the PRC tax authorities within ten years after the taxable year when such transactions are conducted.

Fifthly, the VIE Agreements are governed by the PRC laws. When a dispute arises under any of the VIE Agreements, the parties to the dispute may have to rely on legal remedies under the PRC laws. The VIE Agreements provide that dispute will be submitted to the South China International Economic and Trade Arbitration Commission (華南國際經濟貿易仲裁委員會) for arbitration to be conducted in Shenzhen. The decision of such arbitration is final and binding on the parties to the dispute.

Since the legal environment in the PRC is different from that in Hong Kong and other jurisdictions, the uncertainties in the PRC legal system could limit the ability of Huzhou Company to enforce the VIE Agreements. There is no assurance that such arbitration result will be in favour of Huzhou Company and/or that there will not be any difficulties in enforcing any arbitral awards granted, including specific performance or injunctive relief and claiming damages by Huzhou Company. As Huzhou Company may not be able to obtain sufficient remedies in a timely manner, its ability to exert effective control over Wowxue and the conduct of the value-added telecommunication business could be materially and adversely affected, and may disrupt the business of Huzhou Company and have a material adverse impact on Huzhou Company's business, prospects and results of operation.

Lastly, the VIE Agreements provide that the arbitration tribunal may award remedies over the equity interests or assets of Wowxue or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Wowxue. The VIE Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Cayman Islands, the PRC and the location where the principal assets of the Company and Wowxue are located.

LETTER FROM THE BOARD

However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitration tribunal may have no power to grant the aforementioned remedies or injunctive relief or to order the winding up of Wowxue. In addition, even though the VIE Agreements provide that overseas courts (e.g. courts in Hong Kong and Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that Wowxue or the Registered Shareholders breaches the terms of the VIE Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over Wowxue could be materially and adversely affected.

Huzhou Company does not maintain any insurance to cover the risks relating to the VIE Agreements.

IMPLICATIONS UNDER THE LISTING RULES

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

As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendor which is owned as to 90% by Mr. Zhu, a Director and a substantial Shareholder (as defined under the Listing Rules), and Mr. Zhu is one of the beneficial owners of Wowxue. Thus, the Vendor and Wowxue are associates of Mr. Zhu and are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the Sale and Purchase Agreement constitutes a connected transaction and, upon Completion, the entering into of the VIE Agreements constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules, and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

WAIVER FROM THE STRICT COMPLIANCE WITH THE RULES 14A.52 AND 14A.53 LISTING RULES

Notwithstanding that the transactions contemplated under the VIE Agreements technically constitute continuing connected transactions for the purpose of Chapter 14A of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company, for all transactions contemplated under the VIE Agreements to be subject to strict compliance with the requirements set forth under Rule 14A.52 and Rule 14A.53 of the Listing Rules.

The Company has applied to the Stock Exchange, and the Stock Exchange has granted, for a waiver to the Company from (i) setting a maximum aggregate annual caps for the service fees payable by Wowxue to Huzhou Company under the Management Services Agreement and the loan(s) to be made available by Huzhou Company under the Loan Agreement pursuant to Rule 14A.53 of the Listing Rules; and (ii) setting a fixed term for each of the VIE Agreements (other than the Management Services Agreement) pursuant to Rule 14A.52 of the Listing Rules, subject to the following conditions:

- (a) save as described in paragraph (d) below, no changes to the terms of the VIE Agreements will be made without the approval of the independent Shareholders;
- (b) save as described in paragraph (d) below, no changes to the terms of the VIE Agreements will be made without the approval of the independent non-executive Directors;
- (c) the VIE Agreements shall continue to enable the Group to receive the economic benefits derived by Wowxue through: (i) Huzhou Company's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in Wowxue; (ii) the business structure under which the revenue generated by Wowxue is substantially retained by Huzhou Company (such that no annual caps shall be set on the amount of management and consultancy fees payable by Wowxue to Huzhou Company under the Management Services Agreement); and (iii) Huzhou Company's right to control the management and operation of, as well as, in substance, all of the voting rights of Wowxue;
- (d) the framework of the variable interest entity structure may be renewed and/or cloned upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) that the Group may wish to establish, without obtaining the approval of the independent Shareholders, on substantially the same terms and conditions as the VIE Agreements. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company (including branch company) that the Group may establish upon renewal and/or cloning of the VIE Agreements will be treated as the Group's connected persons and transactions between these connected persons and the Group other than those under similar VIE Agreements shall comply with Chapter 14A of the Listing Rules. This condition is subject to compliance with the relevant laws, regulations and approvals of the PRC;

LETTER FROM THE BOARD

- (e) the Group will disclose details relating to the VIE Agreements on an ongoing basis as follows:
- (i) the VIE Agreements will be disclosed in the Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules;
 - (ii) the independent non-executive Directors will review the VIE Agreements annually and confirm in the Company's annual report and accounts for the relevant year that: (a) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structured Agreements, so that the revenue generated by Wowxue (minus all relevant costs, expenses and taxes payable by Wowxue) has been substantially retained by Huzhou Company; (b) no dividends or other distributions have been made by Wowxue to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (c) any new contracts entered into, renewed and/or cloned between the Group and Wowxue during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole;
 - (iii) the Group's auditors will carry out review procedures annually on the transactions carried out pursuant to the VIE Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before the bulk printing of the Company's annual report, confirming that (a) the transactions have been approved by the Directors; (b) the transactions have been entered into, in all material respects, in accordance with the relevant VIE Agreements; and (c) that no dividends or other distributions have been made by Wowxue to the holders of its equity interests which are not otherwise subsequently assigned/transferred to the Group;
 - (iv) for the purpose of Chapter 14A of the Listing Rules, Wowxue will be treated as the Company's wholly-owned subsidiary, and its directors, chief executives or substantial shareholders and their respective associates (as defined in the Listing Rules) will be treated as connected persons of the Company and transactions between these connected persons and the Group, other than those under the VIE Agreements, will be subject to requirements under Chapter 14A of the Listing Rules; and
 - (v) Wowxue and the Registered Shareholders will undertake that, for so long as the Shares are listed on the Stock Exchange, Wowxue and the Registered Shareholders will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review of the connected transactions.

LETTER FROM THE BOARD

Save as described in paragraph (d) above, if any terms of the VIE Agreements are altered or if the Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless it applies for and obtains a separate waiver from the Stock Exchange.

EGM

A notice convening the EGM at which resolution(s) will be proposed to consider, and if thought fit, to approve the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder, to be held at 11:00 a.m. on Thursday, 16 November 2017, at 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than 11:00 a.m. on Tuesday, 14 November 2017 (Hong Kong time). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

The resolution(s) to be put to vote at the EGM will be taken by way of poll in accordance with the Listing Rules.

As at the Latest Practicable Date, Mr. Zhu and his associates hold 706,000,000 Shares, representing approximately 16.84% of the total issued share capital of the Company. Mr. Zhu and his associates are required to abstain from voting on relevant resolution(s) to approve the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder at the EGM. Save as disclosed above, to the best knowledge, information and belief of the Directors and having made reasonable enquiries, no other Shareholder is involved in or interested in the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder who is required to abstain from voting on the relevant resolution(s) to approve the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder at the EGM.

RECOMMENDATION

The Board (including the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" in this circular after taking into account of the advice from Alliance Capital) considers that the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent nonexecutive Directors) recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder to be proposed at the EGM.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee and the letter from Alliance Capital, respectively, which set out their recommendations in respect of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder and the principal factors considered by them in arriving at their recommendations.

You are advised to read the letter from the Independent Board Committee and the letter from Alliance Capital mentioned above before deciding how to vote on the resolution(s) to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

The English text of this circular, the notice of the EGM and the form of proxy for use at the EGM shall prevail over the Chinese text in case of inconsistency.

Yours faithfully,
For and on behalf of the Board
**Cybernaut International Holdings
Company Limited**
Zhu Min
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendations, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder.



賽伯樂國際控股

CYBERNAUT INTERNATIONAL HOLDINGS COMPANY LIMITED

賽伯樂國際控股有限公司

(formerly known as Sinoref Holdings Limited)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1020)

27 October 2017

To the Shareholders

Dear Sir or Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF 100% EQUITY INTEREST IN CYBERNAUT
TECHNOLOGY INTERNATIONAL LIMITED INVOLVING THE ISSUE OF
PROMISSORY NOTES
AND
(II) CONTINUING CONNECTED TRANSACTION**

We refer to the circular of the Company dated 27 October 2017 (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to consider the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Alliance Capital has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We also wish to draw your attention to (i) the letter from the Board; (ii) the letter from Alliance Capital; and (iii) the additional information set out in the appendix to this circular.

Having considered the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder, and having taken into account the opinion of Alliance Capital and, in particular, the factors, reasons and recommendations as set out in the letter from Alliance Capital on pages 45 to 70 of this Circular, we consider that (i) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder though not in the ordinary and usual course of business of the Company but are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, (ii) the terms of the VIE Agreements and the transactions contemplated thereunder upon completion of the Acquisition are in the ordinary and usual course of business of the Company and are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Mr. Cao Ke
Mr. Tong Yiu On
Mr. Li Yik Sang
Independent Non-executive Directors

LETTER FROM ALLIANCE CAPITAL

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of incorporation into this circular.



Alliance Capital Partners Limited
同人融資有限公司

27 October 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF 100% EQUITY INTEREST IN CYBERNAUT
TECHNOLOGY INTERNATIONAL LIMITED INVOLVING THE ISSUE OF
PROMISSORY NOTES**
(II) CONTINUING CONNECTED TRANSACTION

A. INTRODUCTION

We refer to our appointment as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder. Details of the Sale and Purchase Agreement and VIE Agreements are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular of the Company dated 27 October 2017 (the “**Circular**”). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced that on 26 July 2017 (after trading hours of the Stock Exchange), the Company (as the purchaser), the Vendor (as the vendor) and Mr. Zhu (as the guarantor) entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Company the Sale Shares at the consideration of HK\$320 million which shall be settled by cash and the Promissory Notes. In addition, Huzhou Company, Wowxue and the Registered Shareholders have entered into the VIE Agreements on 30 August 2017 (as amended by supplemental agreements dated 25 September 2017), for the Reorganisation in order to enable the financial results, the entire economic benefits and the risks of the businesses of Wowxue to flow into Huzhou Company and to enable the Target Company to have indirect control over Wowxue as contemplated under the Sale and Purchase Agreement.

LETTER FROM ALLIANCE CAPITAL

The Company will seek approval of the Independent Shareholders for the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendor which is owned as to 90% by Mr. Zhu, a Director and a substantial Shareholder (as defined under the Listing Rules), and Mr. Zhu is one of the beneficial owners of Wowxue. Thus, the Vendor and Wowxue are associate of Mr. Zhu and is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the Sale and Purchase Agreement constitutes a connected transaction and, upon Completion, the entering into of the VIE Agreements constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules, and is subject to the strict compliance with the requirements set forth under Rule 14A.52 and Rule 14A.53 of the Listing Rules.

Notwithstanding that the transactions contemplated under the VIE Agreements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company, for all transactions contemplated under the VIE Agreements to be subject to strict compliance with the requirements set forth under Rule 14A.52 and Rule 14A.53 of the Listing Rules. The Company has applied to the Stock Exchange, and the Stock Exchange has granted, the Waiver subject to certain conditions as described in the “Letter from the Board” of the Circular.

Mr. Zhu and his associates are required to abstain from voting on relevant resolution(s) to approve the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder at the EGM. Save as disclosed above, to the best knowledge, information and belief of the Directors and having made reasonable enquiries, no other Shareholder is involved in or interested in the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder who is required to abstain from voting on the relevant resolution(s) to approve the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Cao Ke, Mr. Tong Yiu On, Mr. Li Yik Sang, has been established to advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company and are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned, and Sale and Purchase Agreement, the VIE Agreements and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM ALLIANCE CAPITAL

B. BASIS OF OUR OPINION

In formulating our opinion, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its management staff and/or the Directors or professional adviser of the Company. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular, and have been reasonably made after due and careful enquiry. We have been advised by the Group and/or its management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Group.

As at the Latest Practicable Date, we were independent from, and were not associated with the Company or any other party to the Acquisition and the VIE Agreements, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Acquisition. We will receive a fee from the Company for our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the VIE Agreements. Alliance Capital Partners Limited has not acted as the independent financial adviser to the Company's other transactions in the last two years. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Acquisition and the VIE Agreements or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

LETTER FROM ALLIANCE CAPITAL

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Information on the Group

The Group is principally engaged in the manufacture and sale of advanced steel flow control products, paper converting equipments, money lending business and electronic commerce (E-commerce) business.

Set out below is a summary of the financial performance of the Group as extracted from the 2016 annual report (the “2016 Annual Report”).

	For the year ended 31 December 2015 (RMB'000) (audited)	For the year ended 31 December 2016 (RMB'000) (audited)
Revenue	288,942	357,840
Gross profit/(loss)	(26,545)	17,105
Profit/(loss) for the year	(271,268)	(137,939)

From the table above, we noted that the Group's revenue increased by approximately 23.8% from approximately RMB288.9 million for the year ended 31 December 2015 to approximately RMB357.8 million for the year ended 31 December 2016. According to the 2016 Annual Report, such increase was primarily due to (i) the Group's e-commerce business expansion in overseas market; and (ii) the significant drop in its average selling price to boost its sales. Total sales volume of advanced steel flow control products decreased by approximately 34% to approximately 9,920 tonnes from 14,939 tonnes for the year ended 31 December 2016. The Group experienced a gross profit of approximately RMB17.1 million for the year ended 31 December 2016. For the year ended 31 December 2015, the Group recorded a gross loss of approximately RMB26.5 million. The gross profit was mainly resulted from the effective cost control in money lending and e-commerce business, however, due to the sluggish market demand, gross loss still occurred in steel industry.

As advised by the Company, given the loss-making financial performance of the Group as discussed above, the Directors consider developing internet education service business in the PRC can diversify the sources of revenue for the Group.

2. Information on the Target Group and Wowxue

2.1 Background information of the Target Group

The Target Company is principally engaged in investment holding and is a company incorporated in the BVI with limited liability on 17 January 2017. The Target Company has not recorded any profits as it has no business operation since its incorporation. Immediately after completion of the Reorganisation, the Target Company has indirect control over Wowxue and enjoy the economic interest and benefits of Wowxue through Huzhou Company via the VIE Agreements, and the financial results of Wowxue have been consolidated into the accounts of the Target Company.

Other details of the information of the Target Group are set out in the section headed “Information of the Target Group and Wowxue – Information on the Target Group” in the Letter from the Board.

2.2 Background information of Wowxue

Wowxue is a company established in the PRC with limited liability, which is principally engaged in the research and provision of internet education services to kindergarten, primary and secondary schools. As at the Latest Practicable Date, Wowxue has obtained the value-added telecommunications business operating licence in the PRC. Immediately after completion of the Reorganisation, Wowxue is controlled by the Target Company via the VIE Agreements.

Wowxue mainly focuses on (i) the internet education of kindergarten, primary and secondary school; (ii) internet teaching research; and (iii) provision of internet education services. Wowxue relies on the quality education resources, teacher resources and teaching experiences of Beijing Normal University, Peking University and other well-known colleges and universities and their affiliated primary and secondary schools, and builds up a “brand – product – service” integrated education service model. It has built five education service platforms, namely “京師沃學教育研究院 (Capital Wowxue Education Institute*)”, “京師沃學 K12網路教育學院 (Capital Wowxue K12 Internet Education Institute*)”, “京師沃學教師培訓學院 (Capital Wowxue Teacher Training Institute*)”, “京師沃學國際教育學院 (Capital Wowxue International Education Institute*)” and “京師沃學全媒體教育傳播平台 (Capital Wowxue Full Media Education Communication Platform*)”.

Currently, Wowxue has a collection of online courses in its course library that is accessible via its online platforms. The courses of Wowxue, including but not limited to the live-broadcasting lectures, interactive courses, real-time teaching courses and pre-recorded course, are distributed to the subscribers via its online platforms.

In addition to the production and distribution of online courses, Wowxue also provides online educational system solutions to schools or educational institutions and build up information technology infrastructures with connection gateways to link up their platform with the online platforms of Wowxue.

LETTER FROM ALLIANCE CAPITAL

In general, Wowxue generates its revenue by receiving online courses subscription fees from the subscribers and service fees in respect of online educational system solutions from various schools and educational institutions.

In December 2016, Wowxue has been awarded “2016年度品牌知名度教育機構 (2016 Annual Brand Awareness Education Institution*)” by Xinhua Net; and in May 2017, it has been awarded “互聯網+教育行業領軍企業獎 (Internet + Education Industry Leadership Award*)” by National Public Service Platform for Industry.

Set out below is the summary of the unaudited financial information of Wowxue:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2016 RMB'000	For the six month ended 30 June 2017 RMB'000
Revenue	841.7	1,100.7	7,019.4
Profit/(loss) before tax	9.3	(837.1)	5,681.0
Profit/(loss) after tax	8.0	(837.1)	4,261.4

The unaudited net assets value of Wowxue is approximately RMB4,504,000 as at 30 June 2017.

The significant improvement in the financial performance of Wowxue since 2017 is mainly due to (i) the employment of new management and marketing team with the capital injection of the Registered Shareholders during the year of 2016; (ii) 賽伯樂投資集團有限公司 (Cybernaut Investment Group Limited*) and 賽伯樂智庫(北京)國際生態科學研究院 (Cybernaut Think Tank (Beijing) International Ecological Science Research Institute*), being the new shareholders of Wowxue, and Mr. Zhu introduced the new client network to Wowxue; and (iii) the marketing effect of “2016年度品牌知名度教育機構 (2016 Annual Brand Awareness Education Institution*)” which Wowxue has been awarded by Xinhua Net in December 2016.

2.3 Business prospects of Wowxue

As stated in the Letter from the Board, according to a research conducted by Analysis in relation to the internet education industry forecast from 2017 to 2019 in the PRC, the market scale of the internet education industry in the PRC reached RMB160.1 billion in 2016, increased 43.3% on year-on-year basis. At present, comparing to the overall “offline” education industry, the internet education industry accounted for a relatively low proportion. However, with the further integration of “online” and “offline” education industry and the deepening development of the internet education, it is expected that the growth trend of the internet education industry will continue to be maintained in the next three years from 2017 to 2019, and the market scale of the internet education industry will reach RMB371.8 billion in 2019. Such significant growth in the market scale of the internet education industry brings a high demand for internet education services in PRC and offers a great growth potential to the internet education services business.

LETTER FROM ALLIANCE CAPITAL

2.4 Guaranteed Profits provided by the Vendor

Pursuant to the Sale and Purchase Agreement, the Vendor irrevocably warrants and guarantees to the Company that the net profit after tax generating from operating activities (the “**Net Profit**”) of the Target Company as shown in the audited consolidated financial statements of the Target Company for:

- (i) the 1st Guaranteed Period shall not be less than the 1st Guaranteed Profit of HK\$7.5 million;
- (ii) the 2nd Guaranteed Period shall not be less than the 2nd Guaranteed Profit of HK\$7.5 million;
- (iii) the 3rd Guaranteed Period shall not be less than the 3rd Guaranteed Profit of HK\$9 million; and
- (iv) the 4th Guaranteed Period shall not be less than the 4th Guaranteed Profit of HK\$9 million.

Given the recent loss-making performance of the Group, the Guaranteed Profit provided by the Vendor mentioned above is in favor of the Company’s future financial performance.

Other details of the Profit Guarantee are set out in the section headed “Adjustment to Consideration” in the Letter from the Board.

In light of the (i) loss-making financial performance of the Group, (ii) positive business prospects of internet education industry, (iii) the Guaranteed Profit provided by the Vendor is in favour of the Company, we concur with the Directors’ view that the Acquisition represents a good opportunity for the Group to diversify its business.

3. Principal terms of the Sale and Purchase Agreement

Details of the terms of the Sale and Purchase Agreement are set out in the section headed “The Sale and Purchase Agreement” in the Letter from the Board.

3.1 Evaluation of the payment method

Pursuant to the Sale and Purchase Agreement, the maximum Consideration is approximately HK\$320 million which shall be settled in the following manner or other settlement methods as may be agreed between the Company and the Vendor:

- (i) HK\$100 million shall be paid by the Company to the Vendor or its nominee(s) in cash on the date of Completion;
- (ii) HK\$55 million will be settled by the issue of the 1st Promissory Note on 30 September 2018;

LETTER FROM ALLIANCE CAPITAL

- (iii) HK\$55 million will be settled by the issue of the 2nd Promissory Note on 31 March 2019;
- (iv) HK\$55 million will be settled by the issue of the 3rd Promissory Note on 30 September 2019; and
- (v) HK\$55 million will be settled by the issue of the 4th Promissory Note on 31 March 2020.

Further details of the Promissory Notes are set out in the section headed “The Acquisition – Promissory Notes” in the Letter from the Board.

As advised by the Company, the Group’s bank balances and cash is amounted to approximately RMB243 million as at 30 June 2017. Given the Promissory Notes is non-interest bearing, we consider that the settlement of the Consideration of approximately HK\$220 million by issuing Promissory Notes to the Vendor instead of making cash payment to be funded by the Group’s cash balance will (i) minimise the immediate cash outflow of the Group; and (ii) enable the Company to maintain readily available and accessible cash resources to cope with its daily operations and future development demands for capital. Therefore, the payment method adopted under the Acquisition is appropriate.

3.2 Evaluation of the basis of the Consideration

In order to assess the fairness and reasonableness of the Consideration, we have reviewed the valuation report in relation to the fair value of 100% equity interest in Wowxue using market approach compared to other listed comparables engaging in similar business as the Target Group in the PRC market (the “**Valuation Report**”), which is prepared by Asset Appraisal Limited (the “**Valuer**”). As confirmed by the Directors, they considered that the Consideration is fair and reasonable and in the interests of the Shareholders as a whole.

We noted that the valuation of the fair market value of 100% equity interest in Wowxue performed by the Valuer is approximately HK\$342 million, Consideration represents a discount of approximately 6.4% as appraised by the Valuer.

In assessing the fairness and reasonableness of the Consideration, we have performed an analysis based on the Valuation Report.

3.2.1 Assessment on the valuation approaches

According to the Valuation Report and our discussion with the Valuer for the methodologies, basis and assumptions adopted by the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the cost approach, market approach and income approach. The Valuer and we considered that, the cost approach and income approach are not appropriate for the valuation of the equity interest in the Wowxue since (i) the cost approach does not capture future earning potential of the

LETTER FROM ALLIANCE CAPITAL

business and the off balance sheet items of the business of Wowxue. The economic value of Wowxue is mainly attributable to its ability to generate revenues through its products and services but not the value or replacement costs of its assets, the cost approach is incapable to reliably reflect the value of its equity interest; and (ii) income approach involves financial forecast information and the adoption of much more assumptions than the cost approach and market approach, not all of which can be easily quantified or ascertained. Given the uncertainty and dynamic nature of e-education businesses and the tremendous uncertainty in the future market size and market share of its e-education products and services as all of them are web-based which can be accessible by people across the PRC and anywhere connected with internet, it is difficult to form a reliable basis for estimating various projection inputs.

Given the nature of the business operations of Wowxue and the availability of market information, the Valuer and we considered that the market approach is the most optimal approach to value Wowxue. Both the cost approach and the income approach have been disclaimed and have also not been engaged as secondary approach to cross-check the valuation results derived from the market approach.

The market approach determines the fair value of the assets by reference to the transaction prices, or “valuation multiples” implicit in the transaction prices, of identical or similar assets on the market. Valuation multiples are the ratios that relate business value to some measure of the company’s financial measures, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to arrive at an indication of the value of the subject company, the fair value of Wowxue is determined by below formula (the “**Valuation Formula**”).

	Projected earnings after taxation for the year ending 31 December 2017	RMB12,900,000
x	Price-to-earnings ratio	approximately 29.80
x	(1-marketability discount)	75%
=	Fair value of 100% equity of interest in Wowxue	RMB288,302,998 (Equivalent to approximately HK\$342,296,913 or rounded to HK\$342,000,000)

Having discussed the above market approach and reviewed with the Valuer for the reasons behind adopting such valuation methodology, basis and assumptions, we are of the opinion that the chosen valuation methodology and assumptions adopted by the Valuer in establishing the Valuation is appropriate, fair and reasonable.

LETTER FROM ALLIANCE CAPITAL

For due diligence purpose, the Valuer and we reviewed various information to verify the projected earnings after taxation for the FY2017, such as:

- (1) the budgeted revenue of approximately RMB22.8 million for the year ending 31 December 2017, in which approximately RMB20.8 million revenue is supported by the executed and signed sales contracts, while approximately RMB2.0 million revenue is the course subscription fee for the four months ending 31 December 2017 that estimated based on the historical monthly tutorial fee received under the executed and signed sales contracts;
- (2) the budgeted cost of approximately RMB7.5 million for the year ending 31 December 2017, in which approximately RMB1.4 million is supported by the relevant written agreements of internet costs, rental expenses, IT advisory expenses, while the remaining budgeted cost including staff cost and other administrative cost of approximately RMB6.1 million is based on Wowxue estimation;

Having considered (i) the reasons leading to the significant improvement in Wowxue's financial performance since 2017 that set out in the section headed "Financial Information of Wowxue" in the Letter from the Board; (ii) the budgeted revenue for the year ending 31 December 2017 that is supported by executed and signed sales contracts as discussed above; and (iii) the Vendor undertakes to the Company that (1) there will be no material adverse change to the cost structure of Wowxue as set out in the Valuation Report and (2) Wowxue will be entitled to the preferential effective enterprise income tax rate of 15% for the year ending 31 December 2017 (i.e other details of the undertaking are set out in the section headed "Irrevocable Undertaking" in the Letter from the Board), we are of the view that the projected earnings after taxation for the year ending 31 December 2017 is reasonable.

Other than the above, we have interviewed the Valuer for their work performed for price multiples and marketability discount in applying the Valuation Formula:

- (i) Price multiples

Valuer has considered whether to conduct a price-to-book value and price-to-revenue analysis for the Acquisition, however, given the nature of business operations of Wowxue is not capital intensive and it is not an asset holding company, has its fair value being determined based on its abilities to generate future income streams rather than the costs of replacement of its assets and liabilities, Wowxue's specific advantages are not captured in price-to-book value ratio, and thus, price-to-book value ratio is considered to be not an appropriate price multiple in applying the Valuation Formula.

On the other hand, since revenues may not consider the cost structure and profitability (which considered primary factors affecting the value of a company of the same kind), the price-to-revenue ratio is also considered to be not an appropriate price multiple in applying the Valuation Formula.

LETTER FROM ALLIANCE CAPITAL

Considering the price-to-earnings ratio may be affected by the depreciation policy and the capital structure, Valuer has employed the price-to-earnings ratio based on publicly available information including Bloomberg database and the financial statements and announcements of respective comparable companies, because it relates the business value of a company to its profitability. The Valuer takes the mean of the adjusted price-to-earnings ratio as the price multiple in applying the Valuation Formula, which is approximately 29.80 times (i.e calculation as below).

The Valuer selected comparable companies which must be satisfied all of the following selection criteria to determine an appropriate price multiple:

- (1) the principal activities of the company are located in the PRC and or Hong Kong;
- (2) the company is principally participating in educational sector with majority of its revenue generated from education related businesses in the latest financial year;
- (3) shares of the company are being listed in a major stock exchange and are actively traded in a reasonable period of time;
- (4) detailed financial and operational information in respect of the company are publicly available; and
- (5) the operating profit for the latest 12 months financial reporting period is positive.

LETTER FROM ALLIANCE CAPITAL

Given the above selection criteria, the following comparable companies have been identified for comparison purpose, other details of the comparable companies are set out in the section headed “Selection of Comparable Companies” in the Appendix I of this Circular:

Company (Stock code)	Stock exchange	Description of business
New Oriental Education & Technology Group Inc. (EDU)	The New York Stock Exchange	<p>The company is a provider of private educational services in the PRC.</p> <p>It is being operated through seven segments, which include language training and test preparation, primary and secondary school education, online education, content development and distribution, pre-school education, overseas study consulting services and study tour.</p> <p>Out of the total revenue of US\$1,799.5 million for 12-month period ended 31 May 2017, an amount of US\$1,609 million (89.4%) was generated from provisions of online and offline educational programs and services.</p>
China Distance Education Holdings Limited (DL)	The New York Stock Exchange	<p>The company is engaged in providing online and offline education services, and selling related products in the PRC.</p> <p>It is being operated in several segments include online education services, business start-up training services and the sale of learning simulation software. It offers college oriented online-to-offline products and services, business start-up training courses and others. It had a content library with a collection of courses offering of audio-video content.</p> <p>Out of the total revenue of US\$89.28 million for 12-month period ended 31 December 2016, an amount of US\$63.46 million (71.08%) was generated from provisions of online educational services, books and reference materials.</p>

LETTER FROM ALLIANCE CAPITAL

Company (Stock code)	Stock exchange	Description of business
Talkweb Information System Co., Limited (002261)	The Shanghai Stock Exchange	<p>The company is a PRC company, principally engaged in the provision of information technology services and software products.</p> <p>It operates its businesses through two segments, including the Education Services and Mobile Games. Its Education Services segment mainly provides education information, K12 smart education and online education services. It is also engaged in the provision of value-added telecommunication information services and investment management consulting services. It operates its businesses in the PRC and overseas.</p> <p>Out of the total revenue of RMB1,028.49 million for 12-month period ended 31 December 2016, an amount of RMB662.31 million (64.40%) was generated from provisions of online educational programs and services.</p>
QTONE Education Group (Guangdong) Limited (300359)	The Shenzhen Stock Exchange	<p>The company is primarily engaged in the provision of family education information services.</p> <p>It is being operated in three segments, including family interaction updating, education software as a service and continuing education. It mainly operates its business in the PRC.</p> <p>Out of the total revenue of RMB977.16 million for 12-month period ended 31 December 2016, an amount of RMB949.01 million (97.12%) was generated from provisions of online educational programs and services.</p>

LETTER FROM ALLIANCE CAPITAL

Company (Stock code)	Stock exchange	Description of business
Jiangsu Phoenix Publishing & Media Corporation Limited (601928)	The Shanghai Stock Exchange	<p>The company is a PRC company, principally engaged in the publishing and distribution of books, video and audio products, as well as the distribution of cultural products.</p> <p>It is engaged in the distribution of books, video and audio products, as well as cultural products. It deals with middle and primarily school teaching materials, ordinary books, periodicals, video and audio products, among others. It is also engaged in logistics, software development and educational training businesses.</p> <p>Out of the total revenue of RMB10,546.51 million for 12-month period ended 31 December 2016, an amount of RMB8,938.90 million (84.76%) was generated from provisions of educational materials and educational softwares.</p>
China Maple Leaf Educational Systems Limited (1317)	The Hong Kong Stock Exchange	<p>The company is principally engaged in the international school education businesses.</p> <p>Its business mainly includes a bilingual K-12 education in the PRC. It is also involved in the retailing and investment holding business, as well as the provision of technical support and education related services through its subsidiaries.</p> <p>Out of the total revenue of RMB829.77 million for 12-month period ended 31 August 2016, an amount of RMB694.78 million (83.73%) was generated from provisions of offline tutoring and educational services.</p>

LETTER FROM ALLIANCE CAPITAL

Company (Stock code)	Stock exchange	Description of business
Virscend Education Company Limited (1565)	The Hong Kong Stock Exchange	<p>The company is principally engaged in the provision of education services.</p> <p>It provides education programs from kindergarten to university. It mainly operates businesses in the PRC.</p> <p>For 12-month period ended 31 December 2016, the total revenue of RMB827.21 million was generated from provisions of offline tutoring and educational services.</p>
Minsheng Education Group Co., Limited (1569)	The Hong Kong Stock Exchange	<p>The company is principally engaged in the provision of education services in the PRC.</p> <p>It provides higher education with the focus on private education of nurturing professional. It operates four schools in the PRC.</p> <p>For 12-month period ended 31 December 2016, the total revenue of RMB445.00 million was generated from provisions of offline tutoring and educational services.</p>
China New Higher Education Group Limited (2001)	The Hong Kong Stock Exchange	<p>The company is principally involved in the provision of private formal higher education services in the PRC.</p> <p>It operates two schools, namely The Yunnan School and The Guizhou School.</p> <p>For 12-month period ended 31 December 2016, the total revenue of RMB341.00 million was generated from provisions of offline tutoring and educational services.</p>

As each of the education service provider has its unique service scope and there is no public record of a company engaging in exactly the same business as Wowxue. We considered that the comparable companies and Wowxue are all operating in the education industry in the PRC. Notwithstanding the difference in the scale of operations and the channels to deliver the education services (i.e. online or offline) of the comparable companies and Wowxue, given that the nature of business (i.e. education service provider) of the comparable companies are similar to Wowxue, we believe that the comparable companies identified are fair and representative for comparison, and analysis of the Comparable Companies provides a general reference as to the market valuation of companies with similar business to the Wowxue.

LETTER FROM ALLIANCE CAPITAL

Based on the latest publicly released financial figures and the closing share prices as at the valuation date (i.e. 1 September 2017) of the selected comparable companies, the price to earnings ratio and the adjusted price-to-earnings ratio of comparable companies are as follows:

Company (Stock code)	Stock exchange	Price-to-earnings ratio	Adjusted Price-to-earnings ratio ^(note)
New Oriental Education & Technology Group Inc. (EDU)	The New York Stock Exchange	48.34	55.20
China Distance Education Holdings Limited (DL)	The New York Stock Exchange	11.52	11.78
Talkweb Information System Co., Limited (002261)	The Shanghai Stock Exchange	50.60	50.00
QTONE Education Group (Guangdong) Limited (300359)	The Shenzhen Stock Exchange	161.88	92.15
Jiangsu Phoenix Publishing & Media Corporation Limited (601928)	The Shanghai Stock Exchange	20.55	18.29
China Maple Leaf Educational Systems Limited (1317)	The Hong Kong Stock Exchange	24.11	26.54
Virscend Education Company Limited (1565)	The Hong Kong Stock Exchange	38.11	34.74
Minsheng Education Group Co., Limited (1569)	The Hong Kong Stock Exchange	15.73	14.16
China New Higher Education Group Limited (2001)	The Hong Kong Stock Exchange	26.46	27.69
		mean	36.73
		maximum	92.15
		minimum	11.78
		Excluding QTONE Education Group (Guangdong) Limited from the analysis	
		mean	29.80
		maximum	55.20
		minimum	11.78

Note: Adjusted price-to-earning ratio of each of the comparable companies has been deduced by taking cash stripped market capitalisation divided by after-tax operating profit from core business operations. Cash stripped market capitalisation is represented by the market capitalisation net of cash and cash equivalence. Operating profit is represented by the reported earnings net of non-operating incomes and interest income.

LETTER FROM ALLIANCE CAPITAL

(ii) Marketability discount:

As advised by the Valuer, marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. Discount for lack of marketability (“**DLOM**”) is the valuation adjustment with the largest single monetary impact on the final determination of value. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. DLOM reflects the fact that there is no ready market for shares in a closely held company. As the shares of Wowxue are not being listed in any stock exchange or not marketable in any over-the-counter market, it is not readily marketable. However, the price-to-earnings ratio adopted in the Valuation Formula was calculated from public listed companies, which represents marketable ownership interest. Thus, DLOM was adopted to adjust such marketable interest market value to market value of equity interest that is not publicly tradeable. In determining the quantum of the discount rate, reference has been made to the 2016 edition of the FMV Restricted Stock Study Companion Guide published by FMV Opinion Inc., an American valuation advisory company whose restricted stock study is often cited as the reference for DLOM by valuation partitioners, a discount rate of 25% as the DLOM was adopted in the Valuation Formula.

3.2.2 Assessment on the assumptions in the Valuation Report

In assessing the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report, we noted that the Valuer has made various general assumptions for the valuation of the 100% equity interest in Wowxue, including but not limited to (i) Wowxue will retain competent management, key personnel and technical staff for its operations and the relevant shareholders will support its ongoing operations; (ii) Wowxue will fulfill all legal and regulatory requirements necessary to conduct its business; (iii) there will be no major changes in the laws, rules or regulations, financial, economic, market and political conditions where Wowxue operates which may materially and adversely affect its business.

In light of the discussion of the Valuation Formula and the assumptions of the Valuation Report above, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report.

Besides, pursuant to note 1(d) to Rule 13.80(2)(b) of the Listing Rules, we have performed the followings steps regarding the appraisal value of Wowxue prepared by the Valuer:

- (1) interviewed the Valuer and were satisfied with their experience and expertise, the Valuer performed valuation in respect to Promethean World PLC which is acquired by NetDragon Websoft Inc. (stock code: 777) in 2015. As disclosed in the circular dated 31 August 2015, Promethean World PLC is a global leader in interactive learning technology with a substantial user base and a well-known brand with the reputation for providing high quality education products.

LETTER FROM ALLIANCE CAPITAL

Valuer has also performed valuation in respect to the digital technology business that is a design and development of e-learning web application, three-dimensional animations and augmented reality technology application as disclosed in the 2016/2017 annual report of Newtree Group Holdings Limited (stock code: 1323);

- (2) confirmed with the Valuer that it has no current or prior relationship with Wowxue and the Vendor, or their respective core connected persons, other than the engagement of appraisals in relation to the Acquisition;
- (3) save for the engagement of appraisal in relation to Wowxue, the Valuer has no current or prior relationship with the Company or their respective core connected persons;
- (4) we have reviewed the terms of engagement and the scope of work of the Valuer and considered that the scope of work is appropriate to the opinion required to be given and without any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer's report, opinion or statement;
- (5) upon our interview with the Valuer, save and except those disclosed in the Valuation Report, we were not aware that each of the Company and Wowxue has made any other formal or informal representations to the Valuer, respectively; and
- (6) reviewed, and discussed with the Valuer, the underlying assumptions used for the Valuation and the market approach used by the Valuer and are satisfied that the assumptions and income approach are appropriate and objective in such circumstances.

Having considered (i) the Consideration was determined by reference to the Valuation Report prepared by the Valuer and represented a discount to the fair value of 100% equity interest in Wowxue; (ii) we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report, we concur with the Directors that the Consideration is fair and reasonable and in the interests of the Shareholders as a whole.

In light of the above, the transaction contemplated under the Sale and Purchase Agreement though not in the ordinary and usual course of business of the Company but are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

4. The VIE Agreements

Huzhou Company, Wowxue and the Registered Shareholders have entered into the VIE Agreements on 30 August 2017(as amended by supplemental agreements date 25 September 2017). Considered the VIE Agreements enable the financial results, the entire economic benefits and the risks of the businesses of Wowxue to flow into Huzhou Company and to enable the Target Company to have indirect control over Wowxue as contemplated under the Sale and Purchase Agreement immediately after completion of the Reorganisation, and the Company could participate in the online education service business upon completion of the Acquisition, we are of the view that the transaction contemplated under the VIE Agreements (i.e the continuing connected transactions) upon completion of the Acquisition are in the ordinary and usual course of business of the Company.

Set out below are the brief summary of the VIE Agreements. Further details are set out in the section headed “Information of the VIE Agreements” under “Letter from the Board” of the Circular.

4.1 Management Services Agreement

Pursuant to the Management Services Agreement, Wowxue engages Huzhou Company to provide investment advice, planning and other business advice on the operation and technical services of Wowxue in accordance with the requirements of Wowxue. Huzhou Company shall participate and assist in the management of the project operation and complete the management consulting service in time and submit the relevant management consulting report within the time limit required by Wowxue, and provide the required technical services. According to the Management Services Agreement, the term of the agreement is ten years from the date of signing of the agreement, Huzhou Company is entitled at its sole and absolute discretion to renew the Management Services Agreement for a further term of ten years for each renewal. Wowxue and the Registered Shareholders are not entitled to terminate the Management Services Agreement during the term of such agreement.

We are of the view that this agreement allows Huzhou Company to undertake all economic benefits and related risk of Wowxue, which enables the Company to diversify its business by indirectly participating in the online education business.

4.2 Irrevocable Option Agreement

Pursuant to the Irrevocable Option Agreement, (i) Huzhou Company may exercise its rights at any time by way of serving a notice of purchase, and the exercise price of each of the rights for no consideration or, if nil consideration for purchasing the entire equity interest in Wowxue by Huzhou Company is unacceptable by relevant local regulations or government departments, at such consideration will be determined by Huzhou Company and (ii) Huzhou Company shall also have the right at its discretion to direct Wowxue and the Registered Shareholders to transfer the equity interest in Wowxue to a third party designated or arranged by Huzhou Company at no consideration or, if nil consideration for purchasing the entire equity

LETTER FROM ALLIANCE CAPITAL

interest in Wowxue by a third party designated or arranged by Huzhou Company is unacceptable by relevant local regulations or government departments, at such consideration will be determined by Huzhou Company.

We are of the view that this agreement allows Huzhou Company to have the ultimate control over the shareholding of Wowxue and that it minimises the potential risk of unforeseen shareholding change that would otherwise affect or change the VIE Agreements.

4.3 Loan Agreement

Pursuant to the Loan Agreement, subject to the operational needs of Wowxue, Huzhou Company may at its discretion, from time to time, provide an interest free loan to the Registered Shareholders by way of entrusted bank loans or by other legal ways. The amount and conditions of the loan, if provided, shall be determined by Huzhou Company at its sole discretion, and such loan shall be used as the paid in capital of Wowxue. The terms and conditions in the agreement are in line with normal commercial practice considered that (i) Huzhou Company will undertake all economic benefits and related risk under Wowxue's operation, (ii) the interest-free loan made available by Huzhou Company will be used for the operational needs of Wowxue and (iii) the loan will expire and the Registered Shareholders shall repay the loan at the request of Huzhou Company when Wowxue having filed for or having been subject to bankruptcy petition, bankruptcy reorganization, bankruptcy liquidation or winding up petition and Huzhou Company having fully exercised its right to purchase the entire equity interest in Wowxue in accordance with the Irrevocable Option Agreement. We are of the view that it is fair and reasonable for Huzhou Company to provide an interest-free loan to the Registered Shareholders whenever necessary to allow the business operation of Wowxue to operate smoothly.

4.4 Equity Pledge Agreement

The Registered Shareholders unconditionally and irrevocably agreed to pledge all the equity interest in Wowxue that they own (including any interest or dividend paid for such shares) to Huzhou Company as a security for the performance of the obligations by Wowxue and the Registered Shareholders under the Management Services Agreement (the "Obligations").

We are of the view that this agreement of Huzhou Company having the Registered Shareholders' share and equity interest as continuing first priority collateral security for the performance of the Obligations, serves as a protection mechanism for the Group.

LETTER FROM ALLIANCE CAPITAL

4.5 Power of Attorney

Pursuant to the Power of Attorney, the directors of Wowxue, the Registered Shareholders and the legal representative of Wowxue have irrevocably appointed Huzhou Company as its/their attorney-in-fact to exercise all the directors' rights, shareholders' rights and legal representative's rights.

We are of the view that this arrangement allows Huzhou Company to act on behalf of Wowxue without having to go through approval from the Registered Shareholders and the legal representative of Wowxue, which allows for a more efficient operation.

5. The waiver from strict compliance with the Listing Rules

The Company has applied to the Stock Exchange for a waiver from (i) setting a maximum aggregate annual caps for the service fees payable by Wowxue to Huzhou Company under the Management Services Agreement and the loan(s) to be made available by Huzhou Company under the Loan Agreement pursuant to Rule 14A.53 of the Listing Rules; and (ii) setting a fixed term for each of the VIE Agreements (other than the Management Services Agreement) pursuant to Rule 14A.52 of the Listing Rules. The Stock Exchange has agreed to grant the Waiver subject to the conditions as described in detail in the section headed "Waiver from the strict compliance with the Listing Rule" in the "Letter from the Board" of the Circular.

5.1 Waiver from setting a maximum aggregate annual caps for the services fees payable by Wowxue to Huzhou Company under the Management Services Agreement and the loan(s) to be made available by Huzhou Company under the Loan Agreement pursuant to Rule 14A.53 of the Listing Rules

As described in the Management Services Agreement, all economic benefits and relevant risks of Wowxue are undertaken by Huzhou Company, this arrangement is equivalent to the Group operating Wowxue. Therefore, we are of the view that it is commercially sound for Huzhou Company to not set a maximum aggregate annual caps for the potential income payable by Wowxue as it will limit the ability of the Group to operate this business.

As described in the Loan Agreement, subject to the operational needs of Wowxue, Huzhou Company may at its discretion, from time to time, provide an interest free loan to the Registered Shareholders by way of entrusted bank loans or by other legal ways. The amount and conditions of the loan, if provided, shall be determined by Huzhou Company at its sole discretion, and such loan shall be used as the paid in capital of Wowxue.

LETTER FROM ALLIANCE CAPITAL

As and when the online education business grows, the amounts of working capital needed for operation will increase, whether it is for daily operation. In the event that the online education business records losses, Wowxue would require the working capital be made available within short notice. It is commercially practicable that Huzhou Company makes the interest-free loan available to the Registered Shareholders for the use as the paid in capital of Wowxue in order to keep the amount of working capital sufficient of Wowxue. Setting a maximum amount of loan to be made available from Huzhou Company to Wowxue will limit the potential growth of the Group's online education business.

Based on the above, we are of the view that it is not feasible and is not in the interests of the Company and its Shareholders as a whole to set any restriction on the maximum aggregate amount of loan(s) to be made available from Huzhou Company.

5.2 Waiver from fixing the term of the VIE Agreements (other than the Management Services Agreement) pursuant to Rule 14A.52 of the Listing Rules

The Directors are of the view that VIE Agreements would be unduly burdensome and would add unnecessary administration costs of the Group for a renewal of the VIE Agreements every three years or less.

Subject to the granting of the waiver from setting a maximum aggregate annual caps for the service fees payable by Wowxue to Huzhou Company under the Management Services Agreement and the loan(s) to be made available by Huzhou Company under the Loan Agreement pursuant to Rule 14A.53 of the Listing Rules, the renewal of the VIE Agreements (other than the Management Services Agreement) would then become a matter of formality, as the revision on the terms and conditions would not be needed.

With respect to the Waiver from Rule 14.52 for fixing the terms of the VIE Agreements (other than the Management Services Agreement), considered that (i) the Target Company is ineligible to operate value-added telecommunication services in the PRC due to the legal constraints; and (ii) the Huzhou Company is able to exercise effective control and to safeguard the assets of the Wowxue through provisions contained in the VIE Agreements and internal control measures as disclosed in the Circular; we consider that the VIE Agreements allows the Group to be entitled to the economic benefits generated by the Wowxue, notwithstanding the lack of equity ownership in the Wowxue. The long-term contractual arrangement under the VIE Agreements is fundamental and is vital to the stability of the business operations and financial performance of the Group. It is commercially desirable and essential for the Huzhou Company to enter into the VIE Agreements with a duration of more than three years in order to secure a revenue stream from the provision of the online education services for the Group in the medium to long term until acquisition of the equity interests of the Wowxue by the Huzhou Company is permitted under the relevant PRC laws and regulations. In light of the above, the duration of the VIE Agreements, being more than three years, is required and the Management Services Agreement is subject to renewal for a further term of ten years upon the expiry of each term.

LETTER FROM ALLIANCE CAPITAL

In assessing the duration of the VIE Agreements, on a best effort basis, we have conducted a research on variable-interest-entity structures adopted by companies (the “**Comparable Companies**” and each, a “**Comparable Company**”) listed on the Stock Exchange which enable the relevant listed company to obtain control over a PRC company operating businesses in which foreign investment is restricted by relevant PRC laws and regulations (the “**Comparable Transactions**”). Set out below is a list of the Comparable Transactions disclosed during the period from 1 August 2016 to the date of the announcement that the Company, the Vendor and Mr. Zhu entered into the Sale and Purchase Agreement, we are able to identify from the website of the Stock Exchange:

Name of company	Business contemplated under the VIE arrangements	Date of announcements	Duration of VIE agreements	Restriction(s)
1. BBI Life Sciences Corporation (stock code: 1035)	Development of genetic diagnosis business	3 March 2017	Exclusive option agreement, power of attorney, equity pledge agreement: no fixed term; strategic consultation and service agreement: 3 years (renewable)	Foreign investors are prohibited from holding equity interests in PRC entities conducting genetic diagnosis and related treatment products and services business in the PRC
2. Daohe Global Group Limited (stock code: 915)	Development and operation of a mobile social networking platform	21 February 2017	Exclusive call option agreement, equity interest pledge agreement, commitment letters, spousal consent letters: no fixed term; exclusive technology consulting and services agreement, business operation agreement, powers of attorney: 10 years (may be extended)	Foreign investors are prohibited from holding more than 50% of equity interests in PRC entities conducting value-added telecommunications services and internet cultural business
3. Ourgame International Holdings Limited (stock code: 6899)	eSports business and the online games business	9 February 2017	No fixed term	Foreign investors are prohibited from holding more than 50% of equity interests in PRC entities conducting value-added telecommunications services

LETTER FROM ALLIANCE CAPITAL

Name of company	Business contemplated under the VIE arrangements	Date of announcements	Duration of VIE agreements	Restriction(s)
4. Titan Petrochemicals Group Limited (stock code: 1192)	Manufacturing and maintenance of marine engineering equipment (including modules); design, manufacturing and maintenance of vessels (including sub-blocks)	15 February 2017	Exclusive option agreement, exclusive business cooperation agreement: 10 years (renewable); share pledge agreement, power of attorney: no fixed term	Foreign investors are prohibited from being the controlling shareholder in manufacturing and maintenance of marine engineering equipment business and are prohibited from holding more than 50% of equity interests in PRC entities conducting business of design, manufacturing and maintenance of vessels (including sub-blocks)
5. SDM Group Holdings Limited (stock code: 8363)	Operation of day care centers, kindergartens and indoor theme-based kids clubs that provide branded education programs and a series of entertainment services for both children and parents	13 December 2016	Exclusive technology consultation and services agreement, equity pledge agreement: 10 years (renewable); exclusive share option agreement, voting rights proxy agreement, spouse undertaking, the right to deal with PRC subsidiaries' assets: no fixed term	Foreign investors are prohibited from holding more than 50% of equity interests in PRC pre-school institutions
6. Ping Shan Tea Group Limited (stock code: 364)	Plantation, harvest and sale of ginseng	18 November 2016	Exclusive service cooperation agreement, exclusive call option agreement: 10 years (automatically extended); shareholders' voting right entrustment agreement, equity pledge agreements: no fixed term	Foreign investors are prohibited from holding equity interest in an entity engaging in ginseng plantation and harvesting

LETTER FROM ALLIANCE CAPITAL

Name of company	Business contemplated under the VIE arrangements	Date of announcements	Duration of VIE agreements	Restriction(s)
7. Forgame Holdings Limited (stock code: 484)	Internet finance business in the PRC	3 August 2016	No fixed term	Foreign investors are prohibited from holding more than 50% of equity interests in PRC entities conducting value-added telecommunications services

Source: the website of the Stock Exchange

As shown above, the durations of the VIE agreements entered into by the Comparable Companies ranging from three years to an indefinite term. Among the seven Comparable Companies, four of them have individual VIE agreements with durations of over three years (excluding those individual VIE agreements with no fixed term). In view of the above, we consider that it is a normal business practice for contracts of similar nature to the VIE agreements to be of a term of more than three years.

5.3 Conditions of the Waiver

The Stock Exchange has agreed to grant the Waiver on 20 October 2017 subject to the conditions set out in the section headed “Waiver from the strict compliance with the Listing Rule” in the “Letter from the Board” of the Circular. The conditions safeguard the interests of Independent Shareholders as any change to the Waiver will require their approval.

D. RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder though not in the ordinary and usual course of business of the Company but are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, (ii) the terms of the VIE Agreements and the transactions contemplated thereunder upon completion of the Acquisition are in the ordinary and usual course of business of the Company and are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole, and (iii) a longer period term is required for the VIE Agreements and it is in line with the normal business practice for agreements of this type to be of such duration.

With respect to the Waiver, we concur with the Directors’ view that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of the Company for the entering into of the VIE Agreements and the transactions contemplated under the VIE Agreements to be subject to strict compliance with the requirements set forth under Rule 14A.52 and Rule 14A.53.

LETTER FROM ALLIANCE CAPITAL

Accordingly, we advise the Independent Board Committee to recommend and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution in relation to the Sale and Purchase Agreement, the VIE Agreements and transactions contemplated to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited
Andric Yew
Managing Director

The following is the report prepared for the purpose of incorporation in this circular received from Asset Appraisal, an independent professional valuer, in connection with its valuation of 100% equity interest in Wowxue as at 1 September 2017.



Asset Appraisal Limited
中誠達資產評值顧問有限公司

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145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號
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Date : 27 October 2017

The Board of Directors
Cybernaut International Holdings Company Limited

Unit 1002, AXA Centre
No. 151 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

Re: Valuation of 100% Equity Interest in Capital Wowxue (Beijing) Education Technology Limited* (京師沃學(北京)教育科技有限公司, “Wowxue”)

INSTRUCTIONS

In accordance with the instructions from **Cybernaut International Holdings Company Limited** (Stock Code: 1020, the “**Company**”), we have completed a valuation of 100% equity interest in Wowxue as at 1 September 2017 (the “**Valuation Date**”).

We confirm that we have made relevant enquiries and obtained such information as we consider necessary for the purpose of this valuation.

This report identifies the assets being valued, describes the basis and methodology of valuation, investigation and analysis, assumptions, limiting conditions and presents our opinion of value.

We must point out that this report does not constitute a technical report and does not express opinions on technologies employed by Wowxue, legal title on any of its operating assets (whether tangible or intangible) and contractual rights involved in the business operations of Wowxue.

The opinions expressed in this report have been based on the information supplied to Asset Appraisal Limited (“AAL”) by the Company or the management of Wowxue. Whilst AAL has confirmed that the Company or the management of Wowxue has represented to AAL that full disclosure has been made of all material information and that to the best of its knowledge and understanding, such information is complete, accurate and true. AAL has no reason to doubt this representation. No responsibility is assumed by AAL for any errors or omissions in the supplied information and AAL does not accept any consequential liability arising from commercial decisions or actions resulting from them.

PURPOSE OF VALUATION

It is our understanding that this report is prepared for the purpose of disclosure in the circular of the Company in relation to the discloseable and connected transaction regarding the acquisition of 100% equity interest in Cybernaut Technology International Limited (“CTIL”) involving the issue of promissory notes by the Company.

The objective of AAL is to assess the fair value of Wowxue in order to provide the Company with an independent value opinion. The responsibility for determining the agreed consideration of any transaction or share transfer involving Wowxue rests solely with the Company or its subsidiaries. The results of our analysis should not be construed to be an investment recommendation. No one should rely on this report for any purchase price determination purpose or as a substitute for their own due diligence. It is inappropriate to use this report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of Wowxue and underlying assumptions.

BACKGROUND OF WOWXUE

Wowxue is a company established in the People’s Republic of China (the “PRC”) with limited liability and is owned by Cybernaut Investment Group Limited* (賽伯樂投資集團有限公司), Cybernaut Think Tank (Beijing) International Ecological Science Research Institute* (賽伯樂智庫(北京)國際生態科學研究院), Mr. Zhao Yingming and Mr. Zhao Yingyong. Upon completion of the reorganization of CTIL, its subsidiaries, and Wowxue through the execution of a series agreements in relation to the variable interest entity arrangement, CTIL will have indirect control over Wowxue and enjoy the economic interest and benefits of Wowxue, and the financial results of Wowxue will be consolidated into the accounts of CTIL.

Wowxue is an online K-12 tutoring solution and service provider in the PRC offering comprehensive tutoring courses to K-12 students and teachers covering core academic subjects, including among others, mathematics, physics, chemistry, biology, history, geography, languages. It has successfully established its own brand “Wowxue 沃學” to gain public recognition of its high teaching quality and academic excellence, as evidenced by its ability to recruit leading and renowned tutors with solid teaching skills and strong command of specific subject areas and superior communication skills to produce and deliver customized and up-to-date courses and course materials to cater for the need of online course subscribers. Wowxue has obtained the value-added telecommunication business operating license (增值電信業務經營許可證) for carrying out its business operations in the PRC.

Currently, the courses of Wowxue are distributed via its online platforms by which live-broadcasting lectures, interactive courses and real time teaching courses, pre-recorded courses can be distributed to authorized subscribers. At the time being, Wowxue has a collection of online courses in its course library that is accessible via its online platforms.

In addition to production and distribution of online courses, Wowxue also provide online educational system solutions to schools or educational institutions and build up infrastructures with connection gateways to link up their platforms with the online platform and archive database of Wowxue.

Up to the Valuation Date, Wowxue has entered into various service agreements with various schools and educational institutions for provision of online education system solutions and/or subscription of its online courses by virtue of which the following revenues are expected to be generated for the year of 2017:

No.	Background of the counter parties	Nature of revenue	Time of revenue recognition	Net recognized/ projected revenue attributable to Wowxue for the year of 2017 (RMB)
1	An education solution provider based in Beijing	Fee charged for provision of online courses	Recognized over the period from January to August 2017	145,631.07
2	A company listing on the New York Stock Exchange which is a provider of cloud-based application platforms and conditional systems to digital television operators	Fee charged for provision of online courses	Recognized over the period from January to August 2017	19,417.48
3	An online content provider based in Hubei Province and is a subsidiary of a company listing on the Shanghai Stock Exchange	Fee charged for provision of online courses	Recognized over the period from January to August 2017	194,174.76
4	A technical centre providing operational and technical supports to educational institutions in Guangxi	Fee charged for provision of online courses	Recognized over the period from January to August 2017	289,805.83

No.	Background of the counter parties	Nature of revenue	Time of revenue recognition	Net recognized/ projected revenue attributable to Wowxue for the year of 2017 (RMB)
5	An cultural and educational content providers based in Beijing	Fee charged for provision of online courses	Recognized over the period from January to August 2017	1,941,747.57
6	An cultural and educational content providers based in Beijing	Lump sum payment charged for setting up of online education platform	Recognized in August 2017	970,873.79
7	Foshan branch of an American based educational institution	Lump sum payment charged for setting up of online education platform	Recognized in or before July 2017	970,873.79
8	Foshan branch of an American based educational institution	Profit sharing from fee charged for provision of online courses	Recognized in or before July 2017	360,388.35
9	An international school situated in Hebei Province	Profit sharing from fee charged for provision of online courses	Recognized over the period from January to August 2017	853,679.61
10	An international academy situated in Hebei Province providing both domestic and overseas academic programs	Profit sharing from fee charged for provision of online courses	Recognized over the period from January to August 2017	1,941,747.57
11	A Beijing based IT company investing in e-education industry	Lump sum payment charged for setting up of online education platform	Recognized in or before July 2017	2,912,621.36

No.	Background of the counter parties	Nature of revenue	Time of revenue recognition	Net recognized/ projected revenue attributable to Wowxue for the year of 2017 (RMB)
12	An learning and memory capability enhancement training centre based in Beijing	Lump sum payment charged for setting up of online education platform	Recognized in August 2017	2,912,621.36
13	A private tutoring center operating in Inner Mongolia	Lump sum payment charged for setting up of online education platform	Recognized in August 2017	1,698,113.21
14	An education and scientific research centre based in Zhongguancun, Beijing	Lump sum payment charged for setting up of online education platform	Recognized in August 2017	2,830,188.68
15	An international school with its campus located in Hebei Province	Profit sharing from fee charged for provision of online courses	Projected to be recognized from September to December 2017	1,246,490.57
16	Foshan branch of an American based educational institution	Profit sharing from fee charged for provision of online courses	Projected to be recognized from September to December 2017	700,377.36
17	An IT solution provider based in Fuzhou	Lump sum payment charged for setting up of online education platform	Projected to be recognized once the online platform is completed (which is scheduled not later than December 2017)	2,830,188.68
			Total	22,818,941.04

Cost of sales of Wowxue primarily comprises the following direct production costs for producing and distributing web-based content:

		Normalized annual costs for supporting existing operations of	
Cost items		Wowxue (RMB)	Remarks
1	Lecturer remuneration	1,020,440	Based on an annual live broadcasting time of 320 hours and an unit rate of RMB2,000 per hour (lecturer remunerations) and a unit rate of RMB320 per hour (studio rental expenses)
2	Studio rental	240,000	
3	Internet service charges	349,400	Based on contracted fee
4	Costs for online platform infrastructure	805,800	Based on contracted fee
5	Amortized costs on archive	77,700	Based on the information provided by the accounting department of Wowxue
6	Tax surcharges and levies	123,400	Approximately 0.5% on gross revenue
	Total	<u><u>2,620,700</u></u>	

Fixed overheads of Wowxue primarily comprises salaries and benefits, promotion and advertising expenses, office rental and sundry expenses as set out below:

		Normalized annual costs for supporting existing operations of	
Cost item	Wowxue (RMB)	Remarks	
1	Salaries and benefits	3,408,000	Based on a headcount of 28 employees as estimated by the accounting department of Wowxue
2	Promotion expenses	540,000	Based on budgeted expenses from the marketing department of Wowxue
3	Advertising expenses	180,000	Based on budgeted expenses from the marketing department of Wowxue
4	Travelling	150,000	Based on historical expenses
5	Office rental	289,200	Based on tenancy agreements
6	Telecommunication	30,000	Based on historical expenses
7	Entertainment	240,000	Based on historical expenses
8	Advisory	30,000	Based on service agreements
9	Depreciation	36,000	Based on the information provided by the accounting department of Wowxue

		Normalized annual costs for supporting existing operations of	
Cost item		Wowxue (RMB)	Remarks
10	Office expenses	90,000	Based on the information provided by the accounting department of Wowxue
11	Miscellaneous	30,000	Based on the information provided by the accounting department of Wowxue
Total		5,023,200	

Under the PRC Enterprise Income Tax Law effective 1 January 2008, all PRC entities are subject to the statutory corporate profit tax rate of 25%, subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy. Companies that qualify as “high and new technology enterprises” are entitled to a preferential rate of 15%. As confirmed by Wowxue, it satisfies all necessary criteria as a high and new technology enterprise and is entitled to a preferential rate of 15% for corporate profit tax computation. Wowxue’s application together with all supporting materials has been accepted and is under processing by the relevant government authority. Wowxue expects that the preferential tax certificate shall be obtained by end of this year such that it is entitled to apply the preferential tax rate of 15% for the taxable income of year 2017.

Given the taxation income of approximately RMB15,180,000 and the preferential tax rate of 15%, the corporate profit tax payable for year 2017 is RMB2,277,000 and the earnings after tax is calculated as follows:

	<i>RMB</i>
Projected net revenues	22,818,941.04
Less costs of sales	(2,620,700)
Less fixed overheads	(5,023,200)
Less corporate profit tax	(2,277,000)
Earnings after taxation	12,898,041.04
Rounded to	12,900,000

INDUSTRY OVERVIEW

Education and e-Commerce are two fast growing trends in the PRC.

The PRC’s education industry is considered to be a gold mine in term of the growth rate in both market size and revenue. According to the Frost & Sullivan research, the market worth

of the PRC's private education market reached US\$163 billion (RMB1.08 trillion) in 2015 and it is expected to grow at a 15.4% compound annual growth rate (CACR) to US\$333.7 billion (approximately RMB2.2 trillion) by 2020. Through years of rapid economic expansion based on the masses of low cost workers, the PRC is emerging with a growing middle class with higher disposable incomes and higher standards of living. The nation is making the transition to a more mature development model focusing more on creative innovation, domestic business, services and skilled labours with wealthier families investing in education to meet this demand and to adapt to changing market expectations. Furthermore, the amendments of laws and stipulation of supportive policies in relation to private education operations have lured many private investors to enter and participate in this industry. Currently, private education industry comprises the following major sectors:

K12 tutoring – under the existing test-oriented educational system in the PRC, this service is well received by the market with a market size of exceeding 89 million people. It is considered to be a popular investment field both online and offline.

Language training – foreign language skills are increasingly required as the basic skills in work or study in the PRC. Thus, there is great demand for foreign language training from people of all walk of life.

Early childhood education – this sector is considered to be growing with great momentum both online and offline. Many market participants expect that offline early childhood education industry will see digital transformation of physical content and more diverse distribution and monitoring channels. The influx of capital into online early childhood education will encourage comprehensive development, continuous optimization and upgrading of more new products related to content provider's digital content, teaching systems and system interfaces between the parents' devices and their children's learning history and profiles.

Vocational education – with the increasing trend of professionalism in different careers, demand on vocational education is very strong in the PRC. Online vocational training courses would offer more flexible arrangements for course takers to receive the training.

The following 4 factors would further contribute to the prosperous outlook of the industry:

1. Favourable government policies – escalating funding from the Government in educational spending and accelerated amendments of private education related laws and supporting policies has encouraged industrialization development of the education industry in the PRC (including preschool education, K12 education, higher level academic education, overseas education and vocational education).
2. Capital inflows – there has been a rapid increase of social capital flowing into the industry as evidenced in the shape rise in total amount of mergers and acquisitions in the industry and the increase in initial public offerings of educational entities in the stock exchanges of Hong Kong and the PRC.
3. Frequent cross-sector business – increase participation in education industry by enterprises from other industries such as IT companies and real estate companies

which are motivated by diverse factors. Synergies can be seen from such cross-industrial collaboration.

4. Technological innovation – explosion of internet and mobile internet facilitates development of online education and innovative teaching systems integrating with traditional education. Online education can use technologies to cater for segmentation and customization, create more application scenarios and diversify feasible teaching models so as to improve effectiveness of the teaching systems.

Online learning has become increasingly popular in the PRC over the past few years and the concept of e-education can make education more affordable and accessible to people from all levels of the society and at the same time offering more opportunities to education companies.

When e-education first emerged in around 2001, it was more commonly used in B2B market mainly for employee training as it can effectively reduce training expenses and provide flexibility of time and space that facilitates the training processes. In recent years, internet giants such as Baidu, Sina Weibo, Sohu etc. have established their market dominance followed by other private investments as opportunity seekers. In 2014, Tencent launched its online classrooms serving an e-learning centre where its registered users can take course in language study, skill training, certification and preschool preparation. Baidu entered the market in the same year by investing in the Chinese online education platform Chuanke.com.

At the time being, participation in e-education market in the PRC can be achieved through the following 4 aspects:

1. Provisions of tools and platform infrastructures such as authoring tools for producing course materials, learning management system, online examination system, active server page etc.
2. Content production
3. As custom and/or non-custom service providers
4. As consulting services providers

According to Reportlinker, the PRC's e-education industry has expanded at a rate of around 20% in recent years with the market worth of RMB150.7 billion in 2016, an increase of 23% year-on-year. User scale also increased rapidly, reaching 89.27 million in the same period, a 21.9% rise year-on-year. It is projected that the market worth and user scale of the PRC's e-education industry shall continue their rapid growth and stand at approximately RMB422 billion and 242 million in 2021 respectively. Among various market segments, K12 online education market will outperform the others and will grow at a pace of over 30% over the next five years with a market worth of approximately RMB82 billion in 2021.

BASIS OF VALUATION

The valuation of the 100% share equity interest in Wowxue has been arrived at on fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

SCOPE OF WORK AND KEY ASSUMPTIONS

The results of our valuation are based on the assumptions stated herein and on information provided by the Company, the management of Wowxue and/or their representative(s) (together referred to as the “**Management**”).

Our valuation included discussion with the Management with regard to the history, operation and prospects of the business of Wowxue, an overview of certain financial data, an analysis of the industry and competitive environment, analysis of historical and prospective financial results, an analysis of comparable transactions and review of transaction documents, operating statistics and other due diligence documents.

We made reference to or reviewed the following major documents and data:

1. Brief description of the proposed share transfer in relation to the registered capital of Wowxue;
2. Related government policies, relevant license and legal opinion on the online education industry in the PRC;
3. Historical financial information and the financial positions of Wowxue of current financial year;
4. Description of operating assets held and engaged by Wowxue in undertaking its normal operations;
5. Estimation on revenues and earnings of Wowxue for year 2017 prepared by its management;
6. Service agreements entered by Wowxue with the customers that contributing the revenue to CTIL for the year 2017;
7. Tenancy agreements in relation to the office and studio premises rented by Wowxue;
8. Service agreement entered by Wowxue with server and data storage provider for hosting its application software, application programming interface, web-based content, customer online records; and
9. Service agreement entered by Wowxue with an online live webcast platform provider for providing live webcast channels to Wowxue.

We assumed that the data we obtained in the course of our valuation, along with the opinions and representations provided to us by the Management are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading.

In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook for the PRC and specific competitive environments affecting the industry;
- the legal and regulatory issues of the industry in general;
- the business risks of Wowxue;
- the price multiples of the comparable companies engaging in business operations similar to Wowxue; and
- the experience of the management team of Wowxue and support from its shareholders.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- there will be no major changes in the laws, rules or regulations, financial, economic, market and political conditions where Wowxue operates which may materially and adversely affect its business;
- there will be no major changes in the current taxation law in the PRC;
- Wowxue will fulfill all legal and regulatory requirements necessary to conduct its business;
- Wowxue will not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;
- there will not be any adverse events beyond the control of the Management, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect its operations;
- the future movement of interest rates will not differ materially from prevailing market expectations;
- Wowxue will retain competent management, key personnel and technical staff for its operations and the relevant shareholders will support its ongoing operations;
- the unaudited financial statements of Wowxue supplied to us have been prepared in a manner truly and accurately reflected the financial position of Wowxue as at the respective balance sheet dates;
- Wowxue has obtained all necessary permits and approvals to carry out its business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;

- Wowxue shall obtain the preferential tax certificate from the relevant government authorities by end of 2017 and is eligible to apply the preferential corporate tax rate of 15% for the taxable income of year 2017;
- There is no change in the financial positions of Wowxue between 30 June 2017 and the Valuation Date;
- except those stated in the financial statements, Wowxue is free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever; and
- the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary business enterprise value of Wowxue.

VALUATION METHODOLOGY

In the appraisal of Wowxue, we have considered three generally accepted approaches namely cost approach, income approach and market approach.

Cost approach establishes value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent assets with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

Selection of Valuation Approach

The selection of a valuation approach is based on, among other criteria, the quantity and quality of the information provided, access to available data, supply of relevant market transactions, type and nature of the subject asset, purpose and objective of the valuation and professional judgment and technical expertise.

Given the nature of the business operations of Wowxue and the availability of market information, it is considered that the market approach is the most optimal approach to value Wowxue. Both the cost approach and the income approach have been disclaimed and have also not been engaged as secondary approach to cross-check the valuation results derived from the market approach.

Under the cost approach (also known as the asset based approach), the fair value of equity interest is determined based on the replacement costs or reproduction costs of assets rather than the ability to generate streams of benefits in the future. As the economic value of Wowxue is mainly attributable to its ability to generate revenues through its products and services but not the value or replacement costs of its assets, the cost approach is incapable to reliably reflect the value of its equity interest. Therefore, this approach has been disclaimed as both primary valuation approach and secondary approach for counter-checking purpose.

Under the income approach, the fair value of equity interest is the function of future net cash flows that can be generated from the business operations of Wowxue and the discount rate by which the future net cash flow stream is discounted to present values. The reasonableness of the fair value determined by the income approach depending on the estimation of various projected inputs including but not limiting to number of customers, product and service pricing, operating costs and their growth rates over the projection period. Despite the fact that a business plan has been prepared by the management of Wowxue, given the uncertainty and dynamic nature of e-education businesses, it is difficult to form a reliable basis for estimating various projection inputs. Furthermore, as discussed with the management of Wowxue, there is tremendous uncertainty in the future market size and market share of its e-education products and services since all of them are web-based and can accessible by people across the PRC and anywhere connected with internet. In the absence of reliable business projection, the income approach is considered to be not a reliable valuation approach for valuing the equity interest in Wowxue and has been disclaimed as both primary valuation approach and secondary approach for counter-checking purpose.

The market approach was considered to be the most appropriate valuation approach in this valuation, as it is the most direct valuation approach by which fair value is concluded based on market determined market prices paid by market participants for similar assets on the marketplace.

The market approach determines the fair value of the assets by reference to the transaction prices, or “valuation multiples” implicit in the transaction prices, of identical or similar assets on the market. Valuation multiples are ratios that relate business value to some measure of the company’s financial measures, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it.

Selection of Comparable Companies

Several listed entities engaging in similar line of businesses have been identified and their share trading price ratios against various economic measures have been analyzed for comparison purpose.

In selecting appropriate comparable companies, we have adopted the following selection criteria, all of which must be satisfied:

- the principal activities of the company are located in the PRC/and or Hong Kong;
- the company is principally participating in educational sector with majority of its revenue generated from education related businesses in the latest financial year;
- shares of the company are being listed on a major stock exchange and are actively traded in a reasonable period of time;
- detailed financial and operational information in respect of the company are publicly available; and
- the operating profit for the latest 12 months financial reporting period is positive.

Given the above selection criteria, the following comparable companies have been identified for comparison purpose:

Tickers	Company name	Description of business
NYSE: EDU	New Oriental Education & Technology Group Inc.	<p>The company is a provider of private educational services in the PRC. It provides educational services under its New Oriental brand. It is being operated through seven segments, which include language training and test preparation, primary and secondary school education, online education, content development and distribution, pre-school education, overseas study consulting services and study tour. It offers a range of educational programs, services and products, consisting of English and other foreign language training, test preparation courses for admissions and assessment tests in the United States, the PRC and Commonwealth countries, primary and secondary school education, development and distribution of educational content, software and other technology, and online education. Out of the total revenue of US\$1,799.5 million for 12-month period ended 31 May 2017, an amount of US\$1,609 million (89.4%) was generated from provisions of online and offline educational programs and services.</p>

Tickers	Company name	Description of business
		<p>At the time being, online courses provided by the company through its Koolearn online platform are focusing to young professionals that give professional certification, skill training and customized online training packages. There are also online courses for language training and test preparation content for all ages from children to adults. Online courses and programs are recourse to provide online and offline integrated education systems such as U-Can Visible Progress Teaching System and the revamped POP Kids Program to enhance its customer retention rate and acquisition efficiency. No separate segment revenue from online education courses and programs has been reported in the financial statement of the company.</p>

Tickers	Company name	Description of business
NYSE: DL	China Distance Education Holdings Limited	<p>The company is engaged in providing online and offline education services, and selling related products in the PRC. It is being operated in several segments include online education services, business start-up training services and the sale of learning simulation software. The Company primarily sells books and reference materials related to its courses, such as the various levels of Accounting Professional Qualification Examinations, accounting continuing education, the National Practicing Medical Doctor Qualification Examination, the National Pharmacist Qualification Examination, and Associate Constructor and Constructor Qualification Examinations. It offers college oriented online-to-offline products and services, business start-up training courses and others. It had a content library with a collection of courses offering of audio-video content. Out of the total revenue of US\$89.28 million for 12-month period ended 31 December 2016, an amount of US\$63.46 million (71.08%) was generated from provisions of online educational services, books and reference materials.</p>

Tickers	Company name	Description of business
SHE: 002261	Talkweb Information System Co., Limited	<p>The company is a China-based company, principally engaged in the provision of information technology services and software products. It operates its businesses through two segments, including the Education Services and Mobile Games. Its Education Services segment mainly provides education information, K12 smart education and online education services. Through its subsidiaries, it is also engaged in the provision of value-added telecommunication information services and investment management consulting services, among others. It operates its businesses within domestic market and to overseas markets. Out of the total revenue of RMB1,028.49 million for 12-month period ended 31 December 2016, an amount of RMB662.31 million (64.40%) was generated from provisions of online educational programs and services.</p>
SHE: 300359	QTONE Education Group (Guangdong) Limited	<p>The company is primarily engaged in the provision of family education information services. It is being operated in three segments, including Family Interaction Updating, Education Software as a Service (EdSaaS) and Continuing Education. It mainly operates its business in domestic market. Out of the total revenue of RMB977.16 million for 12-month period ended 31 December 2016, an amount of RMB949.01 million (97.12%) was generated from provisions of online educational programs and services.</p>

Tickers	Company name	Description of business
SHA: 601928 (Note 1)	Jiangsu Phoenix Publishing & Media Corporation Limited	<p>The company is a China-based company, principally engaged in the publishing and distribution of books, video and audio products, as well as the distribution of cultural products. It is engaged in the distribution of books, video and audio products, as well as cultural products. It deals with middle and primarily school teaching materials, ordinary books, periodicals, video and audio products, among others. It is also engaged in logistics, software development and educational training businesses. Out of the total revenue of RMB10,546.51 million for 12-month period ended 31 December 2016, an amount of RMB8,938.90 million (84.76%) was generated from provisions of educational materials and educational softwares.</p>
HKG: 1317 (Note 2)	China Maple Leaf Educational Systems Limited	<p>The company is principally engaged in the international school education businesses. Its business mainly includes a bilingual K-12 education in the PRC under the brand of Maple Leaf. Its core component is a dual-curriculum and dual-diploma high school education that enables high school graduates to receive a diploma fully accredited by British Columbia and a China diploma. It is also involved in the retailing and investment holding business, as well as the provision of technical support and education related services through its subsidiaries. Out of the total revenue of RMB829.77 million for 12-month period ended 31 August 2016, an amount of RMB694.78 million (83.73%) was generated from provisions of offline tutoring and educational services.</p>

Tickers	Company name	Description of business
HKG: 1565 (Note 2)	Virscend Education Company Limited	The company is a Hong Kong-based investment holding company principally engaged in the provision of education services. It operates Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the Primary School Attached to Chengdu Foreign Languages School, the Chengdu Foreign Languages Kindergarten and the Chengdu Institute Sichuan International Studies University. It provides education programs from kindergarten to university through these schools. It mainly operates businesses in China. For 12-month period ended 31 December 2016, the total revenue of RMB827.21 million was generated from provisions of offline tutoring and educational services.
HKG: 1569 (Note 2)	Minsheng Education Group Co., Limited	The company is principally engaged in the provision of education services in the PRC. It provides higher education with the focus on private education of nurturing professional. It operates four schools in the PRC. For 12-month period ended 31 December 2016, the total revenue of RMB445.00 million was generated from provisions of offline tutoring and educational services.
HKG: 2001 (Note 2)	China New Higher Education Group Limited	The company is principally involved in the provision of private formal higher education services in the PRC. It operates two schools, namely The Yunnan School and The Guizhou School. For 12-month period ended 31 December 2016, the total revenue of RMB341.00 million was generated from provisions of offline tutoring and educational services.

Notes:

1. Notwithstanding the fact that Jiangsu Phoenix Publishing & Media Corporation Limited (SHA:601928) is not itself an online education services and solution provider, its operations are sharing the same nature of Wowxue as both companies are devoting most of their efforts and costs and deriving their revenues from producing educational contents and materials to their customers.
2. The following factors have been taken into consideration for including China Maple Leaf Educational Systems Limited (HKG:1317), Virscend Education Company Limited (HKG:1565), Minsheng Education Group Co., Limited (HKG:1569) and China New Higher Education Group Limited (HKG:2001) in the peer group:
 - the four comparable companies abovementioned and Wowxue are engaged in provision of private education services;
 - the principal target customers of the four comparable companies abovementioned and Wowxue are K-12 students and young professional who are wanting of high quality supplementary learning for test preparation, overseas study preparation courses, professional skill trainings and foreign language trainings; and
 - the four comparable companies abovementioned have exercised great effort in shifting part of their existing educational services, teaching systems and revenue sources from traditional classrooms to online education platforms by offering online curricula courses, online supplementary courses, virtual learning environment, after-school tutoring services, foreign language courses and vocational training. With recourse to internet-based teaching platform, they are offering mass lectures, particularly those lectures of superb and renowned lecturers or industry experts, to wider groups of students in different geographical areas and to allow students to view replays of pre-recorded lectures. To cope with the increasing demand, to enhance their competitive edges and to leverage on their customer bases on hand, these companies have put great efforts and resources to produce and to provide, through their web-base teaching platform, supplementary online courses to their customers for additional revenue sources.

Selection of Price Multiples

Typical price multiples commonly used are:

- Price-to-Book Value Ratio;
- Price-to-Revenue Ratio; and
- Price-to-Earnings Ratio

In view of the nature of business operations of Wowxue, Price-to-Book Value Ratio is considered not appropriate for this valuation on the ground that Wowxue, which is not an asset holding company, has its fair value being determined based on its abilities to generate future income streams rather than the costs of replacement of its assets and liabilities. The company specific advantages are not captured in Price-to-Book Value Ratio. The Price-to-Revenue Ratio is also considered not appropriate for this valuation since revenues may not consider the cost structure and profitability (which are considered primary factors affecting the value of a company of the same kind). The Price-to-Earnings Ratio may be affected by the depreciation policy and the capital structure, especially where port operators are normally capital intensive.

Therefore, we have employed the Price-to-Earnings Ratio based on publicly available information including Bloomberg database and the financial statements and announcements of respective comparable companies, because it relates the business value of a company to its profitability.

Based on the latest publicly released financial figures and the closing share prices as at the Valuation Date of the selected comparable companies, the price-to-earnings ratio and the adjusted price-to-earnings ratio of comparable companies are as follows:

Company Tickers	Currency	Share closing price as at 1 Sep 17	Reported earnings per share (Note 1)	Price-to-earnings ratio	Share closing price net of cash (Note 2)	Normalized earnings per share (Note 3)	Adjusted price-to-earnings ratio
NYSE:EDU	US\$	84.12	1.74	48.34	78.81	1.41	55.20
NYSE:DL	US\$	7.30	0.63	11.52	7.11	0.60	11.78
SHE:002261	RMB	9.68	0.19	50.60	9.25	0.19	50.00
SHE:300359	RMB	12.57	0.08	161.88	12.12	0.13	92.15
SHA:601928	RMB	9.60	0.47	20.55	7.67	0.42	18.29
HKG:1317	RMB	5.693	0.24	24.11	4.78	0.18	26.54
HKG:1565	RMB	3.781	0.10	38.11	3.44	0.10	34.74
HKG:1569	RMB	1.224	0.08	15.73	0.86	0.06	14.16
HKG:2001	RMB	2.582	0.10	26.46	2.38	0.09	27.69
						Sample Mean Standard Derivation	36.73
							25.62

Notes:

1. Reported earnings per share of each of the comparable companies are based on the latest financial information released by the companies and the financial period in which the above earnings per share of each companies was reported are set out as follows:

Tickers	Company name	Financial reporting period
NYSE:EDU	New Oriental Education & Technology Group Inc.	1 Jun 16 to 31 May 17
NYSE:DL	China Distance Education Holdings Limited	1 Jul 16 to 30 Jun 17
SHE: 002261	Talkweb Information System Co., Limited	1 Jul 16 to 30 Jun 17
SHE: 300359	QONE Education Group (Guangdong) Limited	1 Jul 16 to 30 Jun 17
SHA: 601928	Jiangsu Phoenix Publishing & Media Corporation Limited	1 Jul 16 to 30 Jun 17
HKG: 1317	China Maple Leaf Educational Systems Limited	1 Sep 15 to 31 Aug 16
HKG: 1565	Virscend Education Company Limited	1 Jan 16 to 31 Dec 16
HKG: 1569	Minsheng Education Group Co., Limited	1 Jan 16 to 31 Dec 16
HKG: 2001	China New Higher Education Group Limited	1 Jan 16 to 31 Dec 16

2. Share closing price adjusted for cash represents the share closing price less reported cash and cash equivalents per share.
3. Reported earnings per share is translated into normalized earnings per share by taking out after-tax non-operating income and adding back after-tax non-operating expenses of the company.

All the adjusted price-to-earnings multiples are within 1 standard derivation away from the sample mean except QTONE Education Group (Guangzhou) Limited (SHE:300359) of which the adjusted price-to-earnings ratio is 2.16 standard derivations higher than the sample mean. This company is considered as an outlier and is excluded from the peer group.

The average adjusted price-to-earnings ratio of the sample group excluding the outlier is approximately 29.80.

Determination of Share Equity Value of Wowxue

Given the expected price-to-earnings multiple as determined above, the 100% equity interest in Wowxue is valued as follows:

	<i>RMB</i>
Projected earnings after taxation for the financial year of 2017	12,900,000
Price-to-earnings ratio	approx 29.80
Fair value of 100% equity interest in Wowxue before marketability discount	384,403,997

Discount for Lack of Marketability

Discount for lack of marketability (“**DLOM**”) is the valuation adjustment with the largest single monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

DLOM reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

As the shares of Wowxue are not being listed in any stock exchange or not marketable in any over-the-counter market, ownership interest in Wowxue is not readily marketable. However, the price-to-earnings ratio adopted in this valuation was calculated from public listed companies, which represents marketable ownership interest; market value calculated using such price-to-earnings ratio, therefore, represents the marketable interest. Thus, DLOM was adopted to adjust such marketable interest market value to market value of equity interest that is not publicly tradeable.

According to the “Determining Discounts for Lack of Marketability – A Companion Guide to The FMV Restricted Stock Study” (the “**FMV Restricted Stock Study**”), published by Business Valuation Resources, LLC in 2016, DLOM is estimated as the percentage difference between the private placement price per share and the market trading price per share. We have adopted a discount rate of 25% as the DLOM for this valuation.

According to the FMV Restricted Stock Study, DLOM was calculated by dividing the difference between the private placement price and the market reference price by the market reference price.

The fair value of 100% equity interest in Wowxue, which is non-publicly tradeable interest, can be calculated from marketable interest using the following formula:

$$\begin{aligned} &= \text{Market value of marketable interest} \times (1 - \text{DLOM}) \\ &= \text{RMB}384,403,997 \times (1 - 25\%) \\ &= \text{RMB}288,302,998 \text{ or} \\ &= \text{HK}\$342,296,913 \text{ based on an exchange rate of HK}\$1 \text{ to RMB}0.84226 \\ &\text{or rounded to HK}\$342,000,000 \end{aligned}$$

LIMITING CONDITIONS

During the course of our valuation, we have reviewed the financial information, management representations and other pertinent data and the information made available to us. We have no reason to doubt the truth and accuracy of the information provided to us. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made. No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the business enterprise and its operating assets valued. In this valuation, it is presumed that, unless otherwise noted, the owners' claim is valid, the property rights are good and marketable, and there are no encumbrances which cannot be cleared through normal processes.

No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond that customarily employed by valuers.

Our conclusions assume continuation of prudent management policies over whatever period of time considered to be necessary in order to maintain the character and integrity of the assets valued. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect their market value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

We do not investigate any industrial safety and health related regulations in association with this particular operations. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with the government legislation and guidance.

No allowance has been made in our valuation for any off-balance sheet charges, debts or amounts owing on the assets valued nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the assets valued are free from any off-balance sheet encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

CONCLUSION OF FAIR VALUE

Based on the investigation and analysis stated above and on the valuation method employed, in our opinion that the fair value of 100% equity interest in Wowxue as at **1 September 2017** is **HK\$342,000,000 (HONG KONG DOLLARS THREE HUNDRED AND FORTY TWO MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Yours faithfully,
For and on behalf of
Asset Appraisal Limited
Tse Wai Leung
CFA
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a holder of Chartered Financial Analyst (CFA). He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of assets in Hong Kong, in Macau and in the PRC. He has previous experiences in valuing online businesses in the PRC.

* For identification purpose only

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the “**Model Code**”) were as follows:

Long positions in the shares and the underlying shares of the Company

Name	Capacity/Nature of interest	Number of Shares	Percentage of the total issued share capital of the Company (approximately)
Zhu Min	Beneficial owner	706,000,000	16.84%
Lu Yongchao	Beneficial owner	6,100,000	0.15%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, none of the Directors or a proposed Director is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, there is no contract or arrangement entered into by a related party subsisting in which a Director is materially interested and significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or proposed Directors or expert has, directly or indirectly, any interest in any assets which have since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

4. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business which competes or may compete with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group which does not expire or which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinions or advice, which is contained in this circular:

Name	Qualification
Alliance Capital	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Hills & Co.	the legal adviser to the Company as to PRC laws
Asset Appraisal	the independent professional valuer

As at the Latest Practicable Date, each of Alliance Capital, the PRC Legal Adviser and Asset Appraisal has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or opinion and reference to its name, in the form and context in which they are included.

As at the Latest Practicable Date, Alliance Capital, the PRC Legal Adviser and Asset Appraisal did not have any shareholding in any member of the Group and did not have the right to subscribe for or to nominate persons to subscribe for shares in any members of the Group.

As at the Latest Practicable Date, Alliance Capital, the PRC Legal Adviser and Asset Appraisal did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. MATERIAL CONTRACT

The following contract (not being contracts entered into in the ordinary course of business) has been entered into by the members of the Group within two years immediately preceding the issue of this circular and are or may be material:

- a. the Sale and Purchase Agreement;
- b. the subscription agreement dated 6 September 2016 entered into between the Company and the subscriber pursuant to which the Company agreed to issue and the subscriber agreed to subscribe a total of 207,400,000 new Shares at the price of HK\$0.166 per Share; and
- c. the loan agreement dated 8 March 2016 entered into between Time Credit Limited, being a subsidiary of the Company, and the borrower pursuant to which Time Credit Limited agreed to grant a loan of HK\$110 million to the borrower for a term of 12 months.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2016, the date to which the latest published audited financial statements of the Group were made up.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company at Unit 1002, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM (except Saturdays and public holidays):

- (i) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
- (ii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (iii) the letter from Alliance Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from Alliance Capital” in this circular;
- (iv) the written consents from the experts as referred to in the paragraph headed “EXPERTS AND CONSENTS” of this appendix;
- (v) the material contract referred to in the paragraph headed “MATERIAL CONTRACT” of this appendix;
- (vi) the VIE Agreements; and
- (vii) this circular.

10. MISCELLANEOUS

- (i) The secretary of the Company is Mr. Sin Kwok Wai Ronald who is an associate member of HKICPA and a fellow member of the CPA Australia.
- (ii) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (iii) The principal place of business of the Company in Hong Kong is situated at Unit 1002, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.
- (iv) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (v) The English language text of this circular shall prevail over the Chinese language in case of inconsistency.

NOTICE OF EGM



CYBERNAUT INTERNATIONAL HOLDINGS COMPANY LIMITED
賽伯樂國際控股有限公司
(formerly known as Sinoref Holdings Limited)
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1020)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Cybernaut International Holdings Company Limited (the “**Company**”) will be held on Thursday, 16 November 2017 at 11 a.m. at 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions:

ORDINARY RESOLUTIONS

“THAT

- (1) the sale and purchase agreement dated 26 July 2017 (the “**Sale and Purchase Agreement**”, a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purposes of identification), entered into between Cybernaut Education Limited as vendor (the “**Vendor**”), the Company as purchaser and Mr. Zhu Min as guarantor in relation to the sale and purchase of 50,000 shares of US\$0.01 each of Cybernaut Technology International Limited, a company incorporated in the British Virgin Islands with limited liability, and the transactions contemplated thereunder be approved, confirmed and ratified, as the case may be, and any one or more of the directors (the “**Directors**”) of the Company be authorised, for and on behalf of the Company, to take all steps necessary or expedient in his/their opinion to approve and implement and/or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder, including, among other things, to sign and deliver for and on behalf of the Company or its relevant subsidiary any and all documents necessary or desirable for giving effect to such agreements, or making non-material amendments thereto but including the authority to waive any conditions (save where they are stated not capable of being waived) and the authority to amend the time by which completions of such agreements are to take place; and
- (2) the Management Services Agreement, the Equity Pledge Agreement, the Loan Agreement, the Irrevocable Option Agreement, the Power of Attorney, the Undertaking Letters and the Declaration Letters (each defined in the Company’s circular dated 27 October 2017) all dated 31 August 2017 (as amended by the supplemental letter/agreements dated 25 September 2017) (collectively, the “**VIE Agreements**”) (a copy of the VIE Agreements has been produced to the EGM

NOTICE OF EGM

marked “B” and signed by the chairman of the EGM for the purpose of identification), and the transactions contemplated thereunder be approved, confirmed and ratified, as the case may be, and any one or more of the Directors be authorised, for and on behalf of the Company, to take all steps necessary or expedient in his/their opinion to approve and implement and/or give effect to the VIE Agreements and the transactions contemplated thereunder, including, among other things, to sign and deliver for and on behalf of the Company or its relevant subsidiary any and all documents necessary or desirable for giving effect to such agreements, or making non-material amendments thereto but including the authority to waive any conditions (save where they are stated not capable of being waived) and the authority to amend the time by which completions of such agreements are to take place.”

By order of the Board
Cybernaut International Holdings Company Limited
Mr. Zhu Min
Chairman

Hong Kong, 27 October 2017

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1 – 1111
Cayman Islands

Principal place of business

in Hong Kong:

Unit 1002, AXA Centre
151 Gloucester Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than Tuesday, 14 November 2017 at 11:00 a.m. (Hong Kong time).

NOTICE OF EGM

4. Completion and return of a proxy form shall not preclude a member from attending and voting in person at the Meeting or any adjournment thereof and in such event, the proxy form appointing a proxy shall be deemed to be revoked.
5. The record date for determining the entitlement of the shareholders of the Company to attend and vote at the Meeting will be Friday, 10 November 2017. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Friday, 10 November 2017.