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Goldway Education Group Limited

金滙教育集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8160)

SUPPLEMENTAL ANNOUNCEMENT ON DISCLOSEABLE TRANSACTION

Reference is made to the announcement of the Company dated 6 September 2022 (the “**Announcement**”) relating to the Acquisition. Terms used herein shall have the same meanings as defined in the Announcement unless otherwise stated.

The Board would like to provide the following additional information relating to the Acquisition:

Business of the Target

The Company has been advised by its PRC legal adviser that (i) neither the OPCO’s nor JSG’s business is subject to any foreign ownership restriction and (ii) no specific licence other than the business licence is required for the OPCO’s business.

The business of the OPCO is the provision of management, operation, consulting and administration services to JSG in respect of 9 teaching centres located in Shenzhen on an exclusive basis. The teaching centres were owned and controlled by JSG who is entitled to all income coming from the teaching centres. The OPCO currently has approximately 50 full time employees including chief operating officers with up to 15 years of experience in managing operations of teaching centres, course management supervisor, HR manager, finance manager and teaching staffs. The funding of OPCO mainly comes from the monthly service fees under the Management Agreement. The major expenses of the OPCO are employee salaries.

In terms of competitive advantage, the Management Agreement grants to the OPCO the exclusive right to provide the services to JSG. In addition, the branding and relations of JSG with the reputable Chinese painter (Qi Baishi) will facilitate recruitment of potential students.

The OPCO's management is headed by two experienced chief operating officers who report directly to the board of directors of OPCO. Other senior management staff include a course management supervisor, an HR manager and a finance manager. The OPCO has the usual administrative procedures and internal control systems for managing its operations, accounting, financial reporting and human resources. In particular, the Company will implement within the OPCO adequate procedures and policies on internal control regarding the monitoring, reporting and approval of possible notifiable transactions and connected transactions under the GEM Listing Rules.

According to the Management Agreement, the services provided by the OPCO includes: (a) providing student recruitment and admission proposals and guidance; organising competitions; providing training to marketing personnel; (b) providing course materials and products; advising on curriculum development and improvement; (c) advising on teaching and management of teaching staff; providing teaching staff; advising on improving teaching quality; (d) advising on and ensuring standardised shop front decoration and branding for all teaching centres; (e) advising on the implementation of routine operational procedures, policies and systems; (f) providing book keeping and accounting services; handling banking and tax matters; arranging annual audit; (g) handling employee payroll, social insurance and provident fund; advising on human resources policies. JSG shall cooperate in good faith with the OPCO and shall provide all necessary information and assistance to the OPCO to facilitate performance of its obligations under the Management Agreement.

The management fee was determined by the parties with reference to the estimated costs in providing the required services and an agreed margin on top of the costs. The Management Agreement is for a fixed term of 6 years and neither party is entitled to terminate prior to expiry of the term. Any party in breach of the Management Agreement shall compensate the innocent party for all loss suffered.

JSG recorded a revenue of approximately RMB16.9 million and a net loss of approximately RMB5.5 million for the year ended 31 December 2021. For the period from 1 January 2022 to 30 September 2022, JSG recorded a revenue of approximately RMB11.1 million and a net profit of approximately RMB3,000. In view of the increasing revenue and improving performance, the Board considered that the business of JSG is sustainable and the profit target of the Target is justifiable.

Acquisition terms

The nature of the OPCO's business is in the provision of services and mainly relies on human resources without the need for fixed capital assets. Hence the Board considers that the asset value of the OPCO is not an appropriate measure for the enterprise value of the OPCO. Given the steady income generated from the Management Agreement and the profit guarantee provided by the Vendor, the Board considers that the guaranteed earnings of the OPCO is appropriate for determining the Consideration.

The education system in the PRC can be divided into formal education (which grants certificates approved by PRC governments) and non-formal education. The principal activities of the OPCO involves provision of non-formal education. The Company has searched for companies listed on the Stock Exchange whose principal businesses are in the provision of education services and has identified the following companies whose principal activities are in the provision of non-formal education and training services in the PRC:

No.	Name	Stock code	P/E
1.	China East Education Holdings Limited	667	20
2.	China 21st Century Education Group Limited	1598	13
3.	Chuangliang Holdings Limited	2371	6.1

Since the OPCO has no material assets and the business model for the provision of education services does not rely on investment in capital assets, the Board considers that the amount of assets is not an appropriate factor in assessing the value of the OPCO. The average price-to earnings ratio of the above companies as at the date of the Agreement was 13x. The Company was only able to identify the three comparable companies listed in Hong Kong whose principal business are similar in nature to the OPCO's business. Despite the wide range of P/E ratios in the companies, two out of the three have P/E ratios over 10x. Both the average and median P/E ratio of the comparable companies is 13x. The difference in size and business model, together with the lack of marketability of the OPCO, have been taken into account in assessing the P/E ratio of 10x of the Acquisition which is at a discount of approximately 23% to the average P/E ratio of 13x of the comparable companies. The Board considered that the comparable companies were fair, representative and comparable under the above circumstances. Accordingly the Board considered that the P/E ratio of 10x for the Acquisition is fair and reasonable and the Consideration for the Acquisition is fair and reasonable.

The guaranteed profit was determined with regard to the revenue generated from the Management Agreement and the estimated costs and expenses in performing the Management Agreement. The estimated annual costs and expenses for the OPCO in performing the Management Agreement, which consist of mainly employee remunerations, represents approximately 75% of the annual revenue and the profit margin before tax is approximately 25%. The Board considers that the profit guarantee is reasonable and achievable.

The Vendor is wholly owned by Mr. Ng Pak Kui who is an experienced businessman and investor who is principally engaged in real estate and other investments. To the best of the Company's information and belief, Mr. Ng Pak Kui is a high net worth individual with assets of over HK\$10 million consisting of mainly real estate properties, securities and cash in Hong Kong. Mr. Ng Pak Kui has agreed to guarantee the performance of the Vendor's obligations under the Agreement. If the profit guarantee for the two years after completion was not met, the Vendor and Mr Ng Pak Kui shall be liable to pay compensation to the Company pro-rata to the shortfall within 7 business days after determining of the actual profit. The compensation shall be made by cash and/or set off against the Promissory Note. The Company is of the view that the Vendor and Mr. Ng Pak Kui will and is able to pay the compensation if required and honour their obligations under the profit guarantee.

Mr. Ng Pak Kui will be the ultimate beneficial owner holding the remaining 45% interest in the Target after completion of the Acquisition. To the best of the Company's information and belief, Mr. Ng Pak Kui and Ms Qi Fu and their respective associates have no relationship, transaction, agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) between each other save for the Management Agreement made between the OPCO and JSG.

The Company has sufficient cash reserve to finance the Acquisition. It is expected that the Acquisition will provide a steady income stream to the Group. The Company will also consider possible debt and equity financing to support its operation and business development where appropriate. Hence the Board considers that the Acquisition will not have any adverse impact on the Company's existing operation.

Confirmation on loan arrangement

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, there is, and in the past twelve months, there has been, no material loan arrangement between (a) the Vendor, its directors and legal representatives and any ultimate beneficial owner(s) of the Vendor who can exert influence on the transaction; and (b) the Company, any connected person at the Company's level and/or any connected person of the Company's subsidiaries involved in the transaction.

By Order of the Board
Goldway Education Group Limited
Tao Wah Wai Calvin
Executive Director

Hong Kong, 31 October 2022

As at the date of this announcement, the executive Directors are Mr. Hui Ka Fai and Mr. Tao Wah Wai Calvin, and the independent non-executive Directors are Mr. Yu Lap Pan, Mr. Hu Chao and Mr. Wong Chi Man.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 announcement 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 announcement misleading.

This announcement will remain on the "Latest Listed Company Information" page of the website of the Exchange at www.hkexnews.hk for at least seven days from the day of its publication. This announcement will also be published on the Company's website at www.goldwayedugp.com.

* *For identification purpose only*