



**Capital Mining Limited**

ASX: CMY, CMYO

Level 11, 216 St Georges Terrace  
Perth WA 6000

Telephone +61 8 9481 0389

Fax +61 8 9463 6103

[www.capitalmining.com.au](http://www.capitalmining.com.au)

**Directors**

**Dr James Ellingford**  
(Non-Executive Chairman)

**Mr Robert McCauley**  
(Executive Director/CEO)

**Mr Peter Torney**  
(Non-Executive Director)

**Company Secretary**

Mrs Elizabeth Hunt  
+61 8 9481 0389

**Corporate Structure**

Shares on issue  
(at 6 October 2014):  
790,654,618

**Capital Mining signs MOU for potential investment in  
Chinese Cloud-based learning and education platform  
HexStudy**

**Highlights:**

- Capital signs Memorandum of Understanding to conditionally acquire up to 35% of HexStudy's holding company
- Capital to commence due diligence to consider the initial acquisition of a 10% interest in HexStudy's holding company for A\$5.7 million
- Subject to conditions precedent, 35% shareholding to be acquired in HexStudy's holding company progressively within a twelve month period for total consideration of A\$20 million (inclusive of the initial 10% interest)
- Capital's board and Management to be strengthened with representatives from HexStudy
- Acquisition subject to various conditions precedent, including shareholder approval and Capital will be required to re-comply with Chapter 1 and 2 of ASX Listing Rules if the Acquisition is to be completed

**Capital Mining Limited (ASX:CMY) ('Capital' or the 'Company')** is pleased to announce it has entered into a Memorandum of Understanding (**MoU**) pursuant to which it may acquire, subject to certain conditions precedent, up to 35% of the shares in Beijing Xingang Zhiyuan Technology Co., Ltd (**XGZY**), a company incorporated in the People's Republic of China.

XGZY owns, develops and operates the HexStudy Platform; an intelligent Cloud-learning platform, which integrates advanced internet technology with latest teaching concepts through the experience of intelligent teaching and digital textbooks, to provide an individualised, comprehensive, collaborative education solution (**HexStudy**).

Under the terms of the MoU, Capital will, subject to certain conditions precedent, initially acquire a 10% interest in XGZY for a total consideration of A\$5.7 million. Subject to the conditions precedent, Capital also has the option, exercisable in the six month period after the date of the MoU, to acquire a further 10% of XGZY for an additional A\$5.7 million, and a further option, exercisable within 12 months of entering into the MoU, to acquire, a further 15% of XGZY for a further A\$8.6 million. The total consideration for Capital to acquire 35% of XGZY is A\$20 million (**Acquisition**).

The Company advises that Chapter 1 and 2 of ASX Listing Rules will need to be complied with prior to completion of the Acquisition.

There is the potential for further negotiations for Capital to acquire up to a 51% total equity interest in XGZY (inclusive of the 35% described above), which is subject to further agreement.

### **Change of Activities**

In the event that the acquisition of an interest in XGZY proceeds, the Acquisition will constitute a change in the nature and scale of the Company's activities from mining exploration to both mining exploration and a supplier of Cloud-based education.

In this circumstance, the Company will be required, pursuant to Listing Rule 11.1.2, to obtain approval from Capital's shareholders at a general meeting. The Company will also be required, pursuant to Listing Rule 11.1.3, to re-comply with chapters 1 and 2 of the Listing Rules. The indicative timetable for the Acquisition is set out below, to the extent presently ascertained (which is subject to change).

### **HexStudy Business**

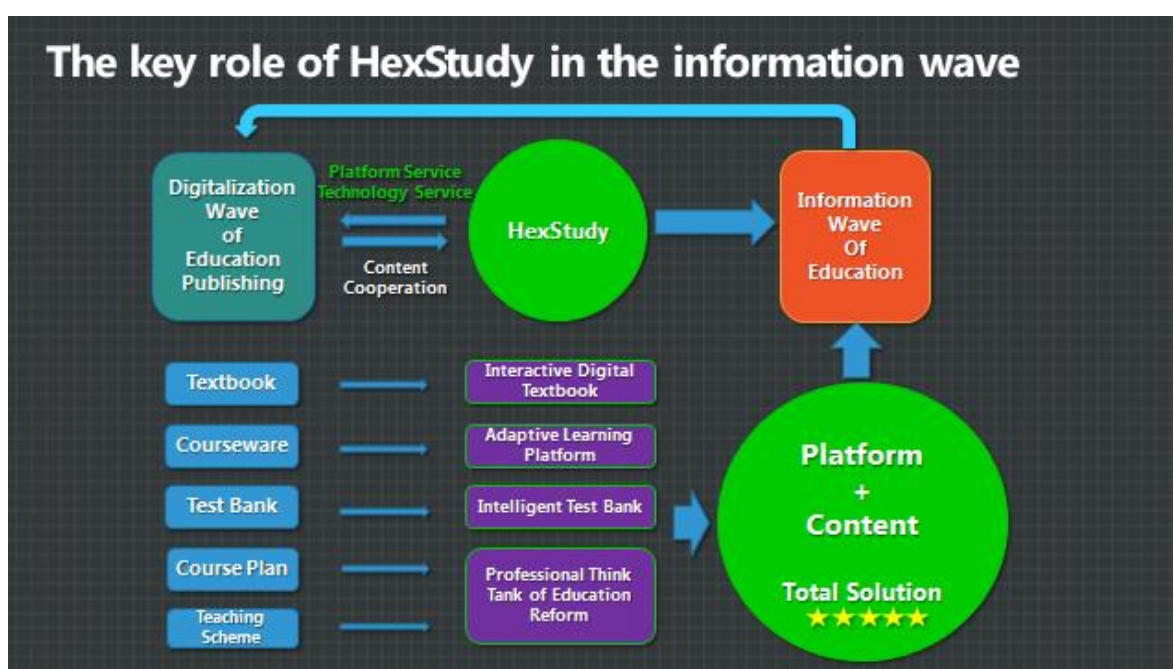
XGZY was established in 2012 and is headquartered at Tsinghua University near Beijing. XGZY employs over 50 people in China and the team has a broad mix of experience in the technology, education and publishing sectors.

Current XGZY CEO Lu Feng has previously been retained as a Senior Consultant for Microsoft and Texas Instruments, while Chief Editor and CMO Zheng Qi is a former Senior Sales and Marketing Manager at Pearson Education, providing a deep understanding of the Chinese education market.

The HexStudy platform works to digitise curriculums by allowing lectures and tutorials to be conducted remotely, and provides teachers with the ability to track their students' progress. Sixty textbooks are currently in the process of being digitised and stored on the HexStudy Cloud platform.

XGZY holds registered intellectual property over the computer software for delivery of this education material.

The Chinese education market is experiencing growth with competition in the labour market intensifying as a result of the country's recent economic prosperity. This competition is forcing large sections of the Chinese population to seek ways to improve their knowledge and skill sets and increase their value in the labour market.



**Figure 1: Schematic of how HexStudy works**



Figure 2: Statistics on China's education market

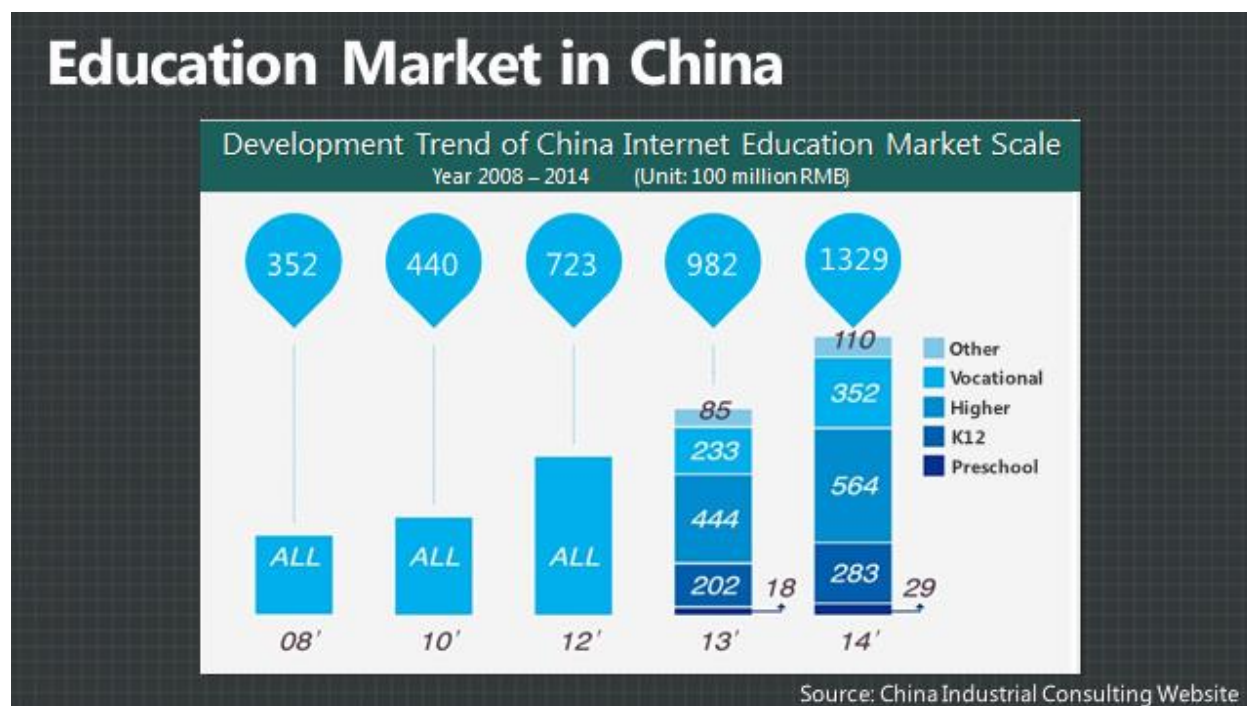


Figure 3: Historical growth of Internet-based education market in China

### Consolidation

As part of Capital's proposed re-compliance with Chapters 1 and 2 of the Listing Rules, the Company proposes to consolidate its issued capital to facilitate a theoretical share price and option exercise price of at least \$0.20. Accordingly, in this circumstance, the Company proposes to consolidate its issued capital on the basis that every 40 securities will consolidate into 1 security subject to whether the Acquisition proceeds and to shareholders' approval. This ratio is subject to change and will be confirmed in the notice of meeting issued to shareholders.

## **Acquisition Terms**

Pursuant to the MoU, Capital agrees to acquire up to a 35% interest in XGZY, subject to the satisfaction or waiver of the conditions precedent (summarised below). The shareholders of XGZY are not associated with Capital's existing Directors. A summary of the terms of the Acquisition is set out below.

### **1. Consideration**

Capital has agreed to pay the following consideration to acquire an interest in XGZY, subject to satisfaction of the conditions precedent, including shareholder approval.

- In exchange for a 10% interest in XGZY, Capital will pay \$5.7 million (**Initial 10%**)
- In exchange for an additional 10% interest in XGZY, Capital will pay an additional \$5.7 million (**Additional 10%**)
- In exchange for an additional 15% interest in XGZY, Capital will pay an additional \$8.6 million (**Additional 15%**)

### **2. Option Fee**

On signing the MoU Capital paid a \$50,000 option fee to You-I Education Limited (**You-I**). Prior to the signing of the MoU, You-I held the exclusive right to acquire an interest in XGZY which right terminates with effect upon satisfaction of conditions precedent to the MoU (which are summarised below)

### **3. Condition Precedent**

The Acquisition is subject to a number of conditions precedent, including:

- **Due Diligence:** Capital completing legal and financial due diligence on XGZY.
- **Shareholder and regulatory approval:** Capital complying in all respects with the Australian Corporations Act and ASX Listing Rules (which will require shareholder approval amongst other matters).
- **Definitive Agreements:** Execution of definitive agreements providing fuller terms of the MoU.

If the conditions precedent to the MoU are not all satisfied on or prior to 3 April 2015 then the MoU may be terminated.

### **Shareholder approval**

Unless Capital's Board elects not to proceed with the Acquisition beforehand, it is expected that the Company will convene a general meeting of its shareholders to approve the change in activities (pursuant to Listing Rule 11.1.2) referred to above, among other approvals.

### **Proposed change in Capital's board and management and change of name**

It is proposed that, subject to completion of satisfactory due diligence in relation to the Acquisition, Capital will review the structure of the Company's board and management team with the potential addition of directors being appointed from the XGZY Board. Details of the board and managements changes are unknown at this stage.

If the Acquisition proceeds, the Company also proposes to seek shareholders' approve to change its name to "HexStudy Limited".

### ***Proposed Share Issue to You-I Education Limited***

The MoU provides for a proposed issue of fully paid ordinary shares in Capital in consideration for termination of a further memorandum of understanding (similar to the MoU) between XGZY and You-I Education Limited. The number of shares proposed to be issued by Capital has not yet been agreed and Capital has accordingly not yet determined whether and when shareholders' approval will need to be sought for that issue, if it is agreed.

### ***Capital Raising***

If the Acquisition proceeds, the Company will need to raise capital in order to fund the purchase price pursuant to the Acquisition and to comply with Chapters 1 and 2 of the Listing Rules (which is proposed to include the issue of a prospectus).

The nature, structure and timing of the capital raising has not yet been ascertained, but will be announced to the market in the event that it is ascertained.

The Company has received a non-binding letter from Union Pacific Pty Ltd to facilitate the raising of A\$20 million by way of several tranches of fully paid ordinary shares. The terms of this capital raising facility are yet to be finalised, subject to completion of satisfactory due diligence. Shareholder approval will be sought for these issues of securities. The number of shares and subscribers are as yet unknown.

In the event that this capital raising is not successful, Capital will not achieve the funding required to acquire up to 35% interest in XGZY.

### ***Indicative Timetable***

Set out below is the indicative timetable for the Acquisition, subject to the conditions precedent described above. These dates are indicative only and are subject to change without notice.

If the Acquisition proceeds to the stage of seeking Capital shareholders' approval, securities of Capital are anticipated to enter into suspension on and from the day of the shareholders' meeting, until that date that Capital is re-listed on the ASX, subject to compliance with Chapters 1 and 2 of the Listing Rules to the satisfaction of ASX (which may or may not occur).

Completion of due diligence by Capital	No later than 3 April 2015
Meeting of Capital shareholders to approve the Acquisition	No later than 3 April 2015
Completion of conditions precedent	No later than 3 April 2015
Acquisition of Initial 10% of XGZY	No later than 30 days after completion of due diligence
Acquisition of Additional 10% XGZY	No later than 3 April 2015
Acquisition of Additional 15% XGZY	No later than 3 October 2015

### ***Indicative Capital Structure***

The indicative capital structure of the company following completion of the acquisition and associated capital raising is currently uncertain. When the proposed capital structure is ascertained, it will be announced to the market in accordance with ASX requirements.

### ***Risks***

There are risks associated with the Acquisition. Given that Capital has not yet undertaken due diligence in relation to the Acquisition, Capital is not yet aware of potential risk factors which may be ascertained from such due diligence. However, Capital's Board anticipates various key risks arising from the Acquisition, including (but not limited to) the following:

- The Acquisition is subject to, among other things, shareholder approval which may not be granted and due diligence investigations, which have not been completed and may not be satisfactory to warrant the Company proceeding with the Acquisition.
- Definitive agreements may not be negotiated for the Acquisition, in which case it may not proceed or the terms of such agreements may be adverse to the Company.
- The Acquisition involves an investment in the People's Republic of China, a country with different political and legislative systems to Australia, involving various risks for Capital and its security holders. The Company has not yet conducted due diligence on XGZY or HexStudy and there is no guarantee that the Company's due diligence will successfully identify further risks and potential detrimental aspects of XGZY or HexStudy. There can be no forecast or assurance given of whether the acquisition of XGZY will be successful, whether Capital will be able to recompile with Chapters 1 and 2 of the ASX Listing Rules or whether the HexStudy Platform will be commercialised.
- The MoU allows Capital to acquire up to a 35% interest in XGZY which is not a majority interest.
- If the Acquisition is not successful, Capital's only assets will be its existing Australian-based exploration assets. There can be no guarantee that exploration on these assets will result in a discovery that can be developed.

### ***Pro forma balance sheet and budget***

Given the highly contingent and early stage of the Acquisition, Capital has not yet obtained sufficient due diligence information to prepare a pro forma balance sheet or budget respectively displaying the effect of the Acquisition on the Company's financial position and estimated budgeted expenditure.

If the Acquisition proceeds that information will be provided as required by ASX.

### ***Conclusion***

Capital's Chairman, Dr James Ellingford commented as follows.

"We believe XGZY represents a very unique opportunity to seek to establish a learning and education business initially focused on the Chinese market.

The digitisation of education publishing is still in its infancy in China, and XGZY is regarded as having early-mover advantage in developing interactive digital textbooks, adaptive e-learning, lecturing, tutoring and online exams for Chinese universities. The business is backed by a very experienced Board and Management team that have a unique mix of technology, education and publishing skills gained from working with some of the world's leading organisations.

Our immediate priority is to commence due diligence on XGZY and HexStudy and to keep the market informed of the status of the Acquisition."

**-ENDS-**

### **For further information please contact:**

Mrs Elizabeth Hunt  
**Company Secretary**  
 +61 8 9481 0389

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