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Minsheng Education Group Company Limited **民生教育集团有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1569)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ACQUISITION OF SHIJI KUANGAO

INTRODUCTION

Reference is made to the announcement dated 12 March 2018 (the “**Announcement**”) issued by Minsheng Education Group Company Limited (民生教育集团有限公司) (the “**Company**”) in relation to the acquisition (the “**Acquisition**”) of 100% equity interest of Shiji Kuangao (Beijing) Investment Management Co., Ltd* (世紀寬高(北京)投資管理有限公司) (“**Shiji Kuangao**”) by Chongqing Jierui Education Technology Co., Ltd* (重慶傑睿教育科技有限公司) (“**Jierui**”), a company designated by the Company. Unless otherwise stated, terms defined in the Announcement shall have the same meanings when used in this announcement.

To enable the Company’s shareholders and potential investors to better understand the Equity Interest Agreement and the Interest Transfer Agreement, the Company would like to provide the additional information in the aspect of (i) further information on Jierui and Shiji Kuangao; (ii) relationship between Jierui, its shareholders and the Company; (iii) further information on the Equity Transfer Agreement and the Interest Transfer Agreement; (iv) financial information on Shiji Kuangao and Bohai Experimental School; (v) further information on the West Side Rental Agreement and (vi) further information on the Entrustment Arrangement.

FURTHER INFORMATION ON JIERUI AND SHIJI KUANGAO

Jierui

Jierui is a company with limited liability established in February 2018 in the People’s Republic of China (the “**PRC**”) principally engaged in education software development, teaching instrument research and development, educational software application management and maintenance, business information consulting, market information consulting, school management consulting services, education equipment and equipment leasing, providing labor services (excluding labor dispatch). As at the date of this announcement, Jierui has not commenced business operations and has no material assets.

The equity interest in Jierui is owned as to 95% by Mr. Li Jiandong, who is the deputy officer of logistics of the Company's Chongqing College of Humanities, Science and Technology, and 5% by Mr. Li Xuechun, the controlling shareholder of the Company, a Director and the chairman of the Board. Save as disclosed in the Announcement and this announcement, there is no other relationship between Mr. Li Jiandong and the Company and/or its connected person.

The Company procured the establishment of Jierui as a legal entity in the PRC to be controlled by the Group by way of the Relevant Contracts in relation to the Group's acquisition of interests in high schools in the PRC, including but not limited to Bohai Experimental School.

Shiji Kuangao

Shiji Kuangao is a company with limited liability established in the PRC principally engaged in retail books and investment management. To the best knowledge of the Directors, Shiji Kuangao currently has no business operation. As at 31 December 2017, the major assets of Shiji Kuangao consist of (i) long-term equity investment of approximately RMB2 million and (ii) cash or equivalent of approximately RMB3 million.

RELATIONSHIP BETWEEN JIERUI, ITS SHAREHOLDERS AND THE COMPANY

It is the Company's intention to acquire the interest in Bohai Experimental School through Shiji Kuangao to such extent as permitted under PRC laws. As disclosed in the Announcement, in light of the restriction on foreign investment in the ordinary senior high school segment in the PRC, the Company is in the process of seeking legal advice from the Company's PRC legal advisers in this regard. The Company intends to enter into a series of contracts (the "**Relevant Contracts**") with Jierui and its shareholders in order to enjoy the economic benefits of Jierui's school sponsor's interest in Bohai Experimental School upon completion of the Acquisition to the fullest extent permitted under the PRC laws while complying with the relevant laws, rules and regulations applicable to Bohai Experimental School. With the advice and assistance from its PRC legal advisers, the Company is in the process of setting up the necessary legal entity and preparing the relevant contracts in order to implement the arrangement. Based on the information currently available to the Company, the relevant legal entity will be set up and the Relevant Contracts will be executed by the end of the first half of 2018. Further announcement(s) in this regard will be made as and when appropriate in compliance with the Listing Rules.

As disclosed in the Announcement, Jierui and its shareholders (including Mr. Li Xuechun and Mr. Li Jiandong) have undertaken to the Company not to exercise any rights or receive benefits under the Equity Transfer Agreement and the Interest Transfer Agreement, or directly or indirectly taking up any school sponsor's or other interests in Bohai Experimental School, until the Relevant Contracts regarding the relationship between the Group and these parties have been entered into. The Company would like to supplement that such undertaking was given pursuant to a written undertaking in favour of the Company executed by Shiji Kuangao, Jierui and the shareholders of Jierui on 12 March 2018 (the "**Undertaking**"). The Undertaking was designed to safeguard the interest of the Company during

the period after the Equity Transfer Agreement and Interest Transfer Agreement have been signed until the Relevant Contracts are executed. Pursuant to the Undertaking, each of Shiji Kuangao, Jierui and the shareholders of Jierui has confirmed and undertaken that:

- (i) Jierui is a company designated by the Company to acquire 100% equity interest of Shiji Kuangao and that Jierui, the shareholders of Jierui will enter into the Relevant Contracts to stipulate the relationships among Jierui, its shareholders and the Company; and
- (ii) unless and until the Proposed Agreement has been entered into, Shiji Kuangao, Jierui and the shareholders of Jierui should not exercise any rights under or receive benefits pursuant to the Equity Transfer Agreement and the Interest Transfer Agreement, or directly or indirectly take up any school sponsor's interests or other interests in Bohai Experimental School.

Save as disclosed above, the Company is not entitled to any other rights nor subject to any obligations under the Undertaking. As advised by the Company's PRC legal adviser, the Undertaking is legally binding under the PRC law. In case of any dispute or disagreement among the parties to the Equity Transfer Agreement or the Interest Transfer Agreement, the Company will be able to protect its interest by giving consent to and allowing Jierui and/or Shiji Kuangao, to exercise their respective rights under the Equity Transfer Agreement or the Interest Transfer Agreement, and requiring Jierui and/or Shiji Kuangao to authorise the Company (or its representative) to act on behalf of them in such dispute or disagreement as a condition to giving such consent. As at the date of this announcement, save for the Undertaking, there is no other agreement, arrangement, undertaking and/or understanding between the Company and Jierui and/or and the Jierui's Shareholders in respect of the Acquisition.

Taking into consideration that (i) the Undertaking is a legally binding agreement pursuant to which Jierui and its shareholders are prohibited from exercising any rights under or receiving any benefits pursuant to the Equity Transfer Agreement and the Interest Transfer Agreement, and that Mr. Zhang Xinle, the department head of secretarial second department of the Company's Chongqing College of Humanities, Science and Technology, is assigned by the Company to keep and control the company chop of Jierui during the Transition Period which can only be used upon approval by two Directors; (ii) the company chop and the business license of Jierui are in the custody of the Company; and (iii) the reasons for the arrangement as discussed above, the Directors are of the view that the interests of the Company and its shareholders in the Acquisition can be sufficiently protected.

Going forward, in order to ensure that the Company's interest in proposed acquisitions will be protected in all circumstances to the extent legally permissible, in the event that the Company is to acquire interests in businesses which is necessary to be held by way of contractual arrangements (as opposed to holding of equity), the Company will put in place the relevant contractual arrangements prior to procuring the relevant entity(ies) to enter into definitive agreements in respect of such acquisition.

FURTHER INFORMATION ON THE EQUITY TRANSFER AGREEMENT THE INTEREST TRANSFER AGREEMENT

Relationships between the Equity Transfer Agreement and the Interest Transfer Agreement

According to the negotiation by and among the Company, and the Original School's Sponsors and the shareholders of Shiji Kuangao, the execution of the Interest Transfer Agreement was a prerequisite for the execution of the Equity Transfer Agreement. In accordance with the procedures involved in the change in the school sponsor of Bohai Experimental School, the school sponsor's interest in Bohai Experimental School will not be transferred until the transfer of the equity interest in Shiji Kuangao under the Equity Transfer Agreement has been completed.

Basis of consideration of the Equity Transfer Agreement and the Interest Transfer Agreement

In respect of the Equity Transfer Agreement, as mentioned in the Announcement, the Company has taken into account in particular the following factors when determining the consideration:

- (i) the rights of Shiji Kuangao under the Interest Transfer Agreement;
- (ii) other high school project resources that Shiji Kuangao possess;
- (iii) the associated costs of the due diligence exercise and commercial negotiation on Bohai Experimental School conducted by Shiji Kuangao; and
- (iv) the major assets of Shiji Kuangao (as disclosed in the paragraph headed "Financial information of Shiji Kuangao and Bohai Experimental School" in this announcement).

In respect of the Interest Transfer Agreement, as mentioned in the Announcement, the Company has taken into account in particular the following factors when determining the consideration:

- (i) the current number of students enrolled in Bohai Experimental School;
- (ii) the tuition fee of Bohai Experimental School;
- (iii) the capacity and growth prospect of Bohai Experimental School;
- (iv) the brand and reputation of Bohai Experimental School;
- (v) the business synergies that Bohai Experimental School can generate with the Group's other high schools in Shandong Province; and
- (vi) the financial support from the government which is mainly the salary and the social insurance of the Government Assigned Personnel. All of the Government Assigned Personnel currently assigned by the Original School's Sponsors to work at Bohai Experimental School will be

retained, which shall represent no less than 80% of the teachers and management team of Bohai Experimental School. In the event that such ratio falls below 80%, the Original School's Sponsors shall assign the appropriate number of teacher and management personnel to restore the ratio to at least 80%. Going forward, where additional teachers and/or management will need to be recruited to accommodate the expansion of the student body of Bohai Experimental School to beyond 2,400 students, the additional Government Assigned Personnel shall represent at least 50% of the total number of such additional teachers and/or management recruited. The salary and the social insurance of the Government Assigned Personnel shall continue to be paid by the Original School's Sponsors. Such that, Bohai Experimental School will be benefit from saving human resources expenses. In addition, certain financial subsidies to the Government Assigned Personnel of Bohai Experimental School and to poor students in Bohai Experimental School have been provided. Going forward, all of the newly added policy allowances provided to the teachers and personnel by provincial, municipal and national governments shall continue to be transferred to Bohai Experimental School.

The acquisition cost for the school sponsor's interests in Bohai Experimental School under the Interest Transfer Agreement will be indirectly financed by the Group's internal resources after the Relevant Contracts have taken effect, by way of loan to or other legal financial arrangement(s) with Jierui and/or Shiji Kuangao. As at the date of this announcement, the Company has not entered into any agreement, arrangement, undertaking with Jierui or its shareholders in relation to the financing of the acquisition cost under the Equity Transfer Agreement and the Interest Transfer Agreement which would constitute a notifiable transaction under Chapter 14 of the Listing Rules.

The executive Directors, together with the management team of the Company, have participated in the negotiation of the terms of the Equity Transfer Agreement, the Interest Transfer Agreement and the West Side Rental Agreement (the "**Bohai Agreements**") with the Vendor and the Original School's Sponsors on behalf of the Company. The terms of the Bohai Agreements have been approved and ratified by the Board prior to the execution of the Equity Transfer Agreement.

FINANCIAL INFORMATION ON SHIJI KUANGAO AND BOHAI EXPERIMENTAL SCHOOL

The net asset value of Shiji Kuangao and Bohai Experimental School as at 31 December 2017 were approximately RMB44,000 and RMB12,800,000, respectively.

The table below sets out the net profits before and after taxation of Shiji Kuangao and Bohai Experimental School for the two years ended 31 December 2017:

	31 December	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Shiji Kuangao		
Net profits (loss) before taxation	35	(111)
Net profits (loss) after taxation	35	(111)
Bohai Experimental School		
Net profits (loss) before taxation	10,142	6,155
Net profits (loss) after taxation	10,142	6,155

Consolidation of financial results

Upon completion of the Acquisition and the signing of the Relevant Contracts, the Company will consolidate the financial results of Jierui, Shiji Kuangao and Bohai Experimental School to the Company's financial statements under the prevailing accounting principles.

FURTHER INFORMATION ON THE WEST SIDE RENTAL AGREEMENT

The term of the West Side Rental Agreement is 10 years commencing from 15 August 2018. As mentioned in the Announcement, the first year is rental free period. From the second year onwards, the rent payable under the West Side Rental Agreement for any given year will be such amount that is equal to 10% of the tuition fee received by Bohai Experimental School from students enrolled independently by Bohai Experimental School during that year, payable by Bohai Experimental School.

FURTHER INFORMATION ON THE ENTRUSTMENT ARRANGEMENT

Pursuant to the Entrustment Arrangement amongst (i) Shiji Kuangao, (ii) the Original School's Sponsors (namely, Shouguang Hongjing and Shouguang City No. 1 Middle School*) and (iii) Bohai Experimental School, Shiji Kuangao is entrusted to manage Bohai Experimental School, including but not limited to aspects of the assets, business operation, human resources, students and the legal documents of Bohai Experimental School. The Entrustment Arrangement is for a period of 20 years since the completion of the first installment of payment by Shiji Kuangao under the Interest Transfer Agreement (the "**Entrustment Period**"). During the Entrustment Period, in return of its management services, Shiji Kuangao is entitled to 100% of the net profits of Bohai Experimental School.

Under the Entrustment Arrangement, the Original School's Sponsors is obliged to: (i) ensure smooth implementation of the Entrustment Arrangement; (ii) transfer the management of the existing students, teachers and operation of Bohai Experimental School to the school council; (iii) ensure successful execution of the entrustment agreement in connection with the Entrustment Arrangement; (iv) be fully responsible for all debts, third party guarantees and other liabilities occurred before the Entrustment Arrangement and to repay and discharge before the Entrustment Period; (v) to ensure the enrollment plan of Bohai Experimental School; (vi) ensure that the number and status of the Government Assigned Personnel remain unchanged; and (vii) bear the salary and social insurance of the Government Assigned Personnel.

Under the Entrustment Arrangement, Shiji Kuangao is entitled to: (i) manage Bohai Experimental School independently; (ii) to revise the articles of Bohai Experimental School by way of board resolutions in accordance with the needs of operation and management of Bohai Experimental School; (iii) manage all the teachers and management personnel of Bohai Experimental School; (iv) 100% of the net profits of Bohai Experimental School as its management fees during the Entrustment Period. Shiji Kuangao is also obliged to ensure the normal teaching and operation of Bohai Experimental School and improve the overall treatment of the Government Assigned Personnel.

The Entrustment Arrangement shall become effective from the completion of the first instalment of payment by Shiji Kuangao under the Interest Transfer Agreement. According to the Interest Transfer Agreement, the first instalment is payable upon the satisfaction of the following main conditions (1) a written approval issued by Shouguang City People's Government to approve the change of 100% of the school sponsor in Bohai Experimental School to Shiji Kuangao has been obtained; (2) School License (辦學許可證) from the Weifang City Bureau of Education (濰坊市教育局) having been obtained; and (3) Private Non-Enterprise Registration Certificate (民辦非企業單位登記證書) from Shouguang Civil Affairs Bureau (壽光市民政局) having been obtained, reflecting the change of school sponsor of Bohai Experimental School to Shiji Kuangao. In view of time required for the change of school sponsor in Bohai Experimental School, the Entrustment Arrangement will not come into effect before the Relevant Contracts are entered into.

By the order of the Board
Minsheng Education Group Company Limited
Li Xuechun
Chairman

Hong Kong, 13 April 2018

As at the date of this announcement, the executive Directors are Mr. Li Xuechun, Ms. Zhang Weiping, Mr. Zuo Yichen and Mr. Lam Ngai Lung, the non-executive Directors are Mr. Lin Kaihua and Ms. Li Yanping, and the independent non-executive Directors are Mr. Chan Ngai Sang, Kenny, Mr. Yu Huangcheng and Mr. Wang Wei Hung, Andrew.

* *for identification purpose only*