

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

**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  
THE ACQUISITION OF 51% OF THE ISSUED SHARE CAPITAL OF  
LEED INTERNATIONAL  
AND  
COMMENCEMENT OF THE ENTRUSTED ARRANGEMENT  
AND  
ENTITLEMENT OF 100% NET PROFITS OF DIANCHI COLLEGE**

**LEGALITY OF THE ACQUISITION UNDER PRC LAWS**

To enable the Shareholders and potential investors of the Company to better understand the Acquisition, the Company would like to provide additional information in the aspects of further information on, among other things, the relevant applicable legal and regulatory requirement in the PRC in relation to the Acquisition.

As advised by the PRC Legal Advisors, for the reasons that: (i) the establishment of Dianchi College in 2008 was approved by Yunnan Province Education Committee (雲南省教育委員會) the predecessor of Yunnan Province Education Department, being the competent regulatory authority relevant to Dianchi College, and complied with the then effective Foreign Investment Catalogue; and (ii) Dianchi College has been operated as a Sino-foreign joint venture since its establishment, that is, before the promulgation of Foreign Investment Catalogue in 2015 in which stipulated that provision of higher education is restricted to foreign investment, the Acquisition and the Entrustment Arrangements are not subject to the Sino-foreign Regulations and the Relevant Regulations, including the Qualification Requirement.

**INTRODUCTION**

Reference is made to the announcement dated 21 August 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 of 51% of the issued share capital of Leed International Education Group Inc.

(“**Leed International**”) by Minsheng Vocational Education Company Limited (“**Minsheng Vocational**”), a wholly-owned subsidiary of the Company. Unless otherwise stated, terms defined in the Announcement shall have the same meanings when used in this announcement.

To enable the Shareholders and potential investors of the Company to better understand the Acquisition, the Company would like to provide additional information in the aspects of further information on (i) the Share Purchase Agreement, (ii) the Equity Entrustment Agreement, (iii) the Dianchi College Management Agreement, (iv) Leed International and its subsidiaries, (v) financial information on Dianchi College and Dianjiao AM Co and (vi) the relevant applicable laws and regulations in the PRC.

## **APPLICABLE LAWS AND REGULATIONS IN THE PRC**

Below sets out the relevant laws and regulations in the PRC regarding the Acquisition as advised by the PRC Legal Advisors.

### **Laws in relation to Sino-foreign cooperation**

Foreign investment in higher education is guided and regulated by Foreign Investment Industry Guidance Catalogue (《外商投資產業指導目錄》)(“**Foreign Investment Catalogue**”) in China. Pursuant to Interim Provisions on the Investment by Foreign-Invested Companies (《關於外商投資企業境內投資的暫行規定》), foreign-invested enterprises (“**FIEs**”) should comply with the PRC laws and regulations, including the Foreign Investment Catalogue, for their investments in China.

In 1995, State Development Planning Commission (國家計劃委員會)(“**SDPC**”), State Economic and Trade Commission (國家經濟貿易委員會)(“**SETC**”), Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部)(“**MOFTEC**”) jointly issued the Foreign Investment Catalogue, pursuant to which provision of education service is restricted to foreign investors. The Foreign Investment Catalogue was later amended and the amendment of which was issued jointly by the SDPC, the SETC and the MOFTEC in 1997, pursuant to which provision of education through cooperation (excluding elementary education) is restricted to foreign investors. The definition and scope of education services or provision of education services through cooperation as well as classification in management of the education industry were not clearly stipulated in the amendment of the Foreign Investment Catalogue issued in 1997 (“**Foreign Investment Catalogue 1997**”).

The Foreign Investment Catalogue 1997 was further amended pursuant to the amendments jointly issued by the SDPC, the SETC and the MOFTEC in 2002 (“**Foreign Investment Catalogue 2002**”). Pursuant to the Foreign Investment Catalogue 2002, provision of higher education is encouraged to foreign investors and is restricted to joint venture and cooperation. The subsequent editions of the Foreign Investment Catalogue jointly promulgated by National Development and Reform Commission (國家發展和改革委員會)(“**NDRC**”) and the Ministry of Commerce of the PRC (中華人民共和國商務部)(“**MOFCOM**”) in 2004, 2007 and 2011 stipulated that foreign investment in provision of higher education was encouraged, but only by way of joint venture and cooperation with Chinese party.

Following the change of foreign capital utilization policy by the PRC government, the Foreign Investment Catalogue promulgated in 2015 and 2017 and the Special Management Measures (Negative List) for the Access of Foreign Investment (2018) (《外商投資准入特別管理措施(負面清單)》(2018年版)) jointly promulgated by the NDRC and MOFCOM in 2018 (the “**Special Management Measures**”), stipulate that foreign investment in provision of higher education is restricted and can only be conducted by way of Sino-foreign cooperation joint venture under the control of the Chinese party.

As set out above, the foreign-invested education industry in the PRC has experienced a process from restriction to encouragement to restriction in China, as well as the change from allowing Sino-foreign joint ventures to operate schools to only allowing through Sino-foreign cooperation to operate schools. Pursuant to Implementation Opinions of the Ministry of Education on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》)(the “**Implementation Opinions**”), the foreign portion of the total investment in a Sino-Foreign joint venture education institution should be less than 50% (the “**Foreign Ownership Restriction**”). Besides, according to Regulations on Sino-foreign Cooperative Education (《中外合作辦學條例》) and Implementation Measures for the Regulation on Sino-foreign Cooperative Education (《中外合作辦學條例實施辦法》)(the “**Sino-foreign Regulations**”), the foreign investor in the Sino-foreign joint venture education institution must be a foreign education institution with relevant qualification that provides high quality education (the “**Qualification Requirement**”).

Taking into account that (1) Dianchi College commenced its operation as a Sino-foreign joint venture school since 2008. In accordance with the then effective Foreign Investment Catalogue when it was established, provision of higher education was encouraged to foreign investors and limited to joint venture and cooperation. As advised by the PRC Legal Advisors, the establishment of Dianchi College was valid and complied with the then effective relevant laws and regulations; (2) despite the subsequent amendment of the relevant laws and regulations and that provision of higher education was amended to be restricted to foreign investors pursuant to the Foreign Investment Catalogue promulgated in 2015 and 2017 as well as the Special Management Measures (collectively, the “**Relevant Regulations**”), according to the Legislative Law of the PRC (《中華人民共和國立法法》), laws, administrative regulations, local regulations, autonomous and separate regulations and rules in the PRC are not retroactive in principle; (3) Dianchi College has passed the latest annual inspection conducted by Yunnan Province Education Department (雲南省教育廳) and is validly existing at present; and (4) on 28 August 2018, with the assistance of the PRC Legal Advisors, the Company consulted the Private Education Office (民辦教育處) of Yunnan Province Education Department, being the competent authority as advised by the PRC Legal Advisors, to confirm matters relating to the regulations relevant to Dianchi College in Yunnan (the “**Interview**”). During the Interview, the Yunnan Province Education Department confirmed the view of the PRC Legal Advisors as mentioned in (1) and (2) above that (a) Dianchi College was validly established in accordance with the then effective PRC laws and regulations and (b) the effect of the PRC Legislative Law that the relevant laws and regulations are not retroactive and therefore the subsequent promulgation of the Relevant Regulations would not render Dianchi College any non-compliance of laws and regulations in the

PRC, the Directors are of the view that the management and/or operation of Dianchi College upon Completion would not constitute a “restricted” or “prohibited” business to the Company under the relevant PRC laws and regulation.

In addition, taking into account that (1) as advised by the PRC Legal Advisors, the ownership structure of Dianchi College, being a Sino-foreign joint venture, was formed in compliance with the then effective Foreign Investment Catalogue at the time of its establishment; (2) upon Completion, except that Minsheng Vocational will own 51% of the issued share capital of Leed International, i.e. the ultimate shareholder of Dianchi Co and the Vendors will collectively hold the remaining 49% of the issued share capital of Leed International, there will be no other change to the corporate structure of Leed International as well as its subsidiaries, that is, Dianchi Co will continue to be the school sponsor of Dianchi College; (3) advised by the PRC Legal Advisors, there are no specific guidance or prohibitions on the entrustment arrangements contemplated under the Dianchi College Management Agreement and the Equity Entrustment Agreement (the “**Entrustment Arrangements**”) under the current PRC laws and regulations; and (4) during the Interview, the Company was advised that, (i) Yunnan Province Education Department confirmed the view of the PRC Legal Advisors on the validity and compliance of laws and regulations regarding the establishment of Dianchi College as mentioned in (1) above; (ii) the Acquisition (including the Entrustment Arrangements) was a normal commercial or business arrangement which shall not violate any existing laws and regulations in the PRC and shall not affect the validity of the ownership structure of Dianchi Co, the Directors is therefore of the view that the ownership structure and the Entrustment Arrangements upon Completion will comply with the relevant laws and regulations in the PRC.

Further, as advised by Yunnan Province Education Department during the Interview that (1) the Qualification Requirement does not apply to the ultimate foreign shareholder of Dianchi Co and (2) the Company will not be subject to the Qualification Requirement as a result of the Acquisition.

As at the date of this announcement, to the best knowledge of the Directors, Dianchi College has not been requested by Yunnan Province Education Department to provide information on the actual controller of Dianchi Co or to provide proof of Qualification Requirement since 2015.

**Potential impact of the review draft of the draft Amendments to the Regulations on the Implementation of the Non-state Education Promotion Law of the PRC (中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)) (“Draft Amendments”)**

In accordance with the Draft Amendments, group entities engaged in education business cannot control non-profit private school through forms such as merger and acquisition, franchising arrangement and contractual arrangement. As at the date of this announcement, there is no certainty, or a definite timeline, as to when the finalized or new Implementation Rules of the Non-state Education Promotion Law of the PRC will come into effect. Pursuant to Law for Promoting Private Education of the PRC, the school sponsor of a non-state school may independently choose to form a non-profit or for-profit non-state school. However, it shall not form any for-profit non-state school providing compulsory education. Considering that (1) Dianchi College does not engage in the provision of compulsory education and it can elect to be registered as a for-profit non-state school;

and (2) as confirmed by the Company, the Company will transfer Dianchi College to a for-profit school when it is practicable and, subject to the circumstances, the Company will acquire the remaining 49% of the issued share capital of Leed International, representing the remaining school sponsor interest of Dianchi College, the PRC Legal Advisors are of the view that even if the Draft Amendments will be promulgated in their current draft form, their impact to the Acquisition will be minimal when such Draft Amendments come into effect.

**Uncertainties of the interpretation under the draft version of the Foreign Investment Law\* (中華人民共和國外國投資法(草案徵求意見稿)) (the “Draft Foreign Investment Law”) and the accompanying explanatory note (the “Explanatory Note”) issued by MOFCOM on 19 January 2015**

On January 19, 2015, MOFCOM published the Draft Foreign Investment Law. In the meantime, MOFCOM published the Explanatory Note, which contains important information about the Draft Foreign Investment Law, including its drafting philosophy and principles, main content and plans to transition to the new legal regime. The Draft Foreign Investment Law is intended to replace the current foreign investment legal regime consisting of three laws: the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》), as well as detailed implementation rules.

According to the Draft Foreign Investment Law, an enterprise established by a foreign investor in accordance with laws and regulations of other jurisdictions and subject to the control of a Chinese party, invests in a restricted business pursuant to the Special Management Measures, may submit supporting materials to apply for having its investment deemed as investment by the Chinese investor. As such, if the Draft Foreign Investment will be promulgated in its current form and Leed HK submits the relevant materials pursuant to the Draft Foreign Investment Law to prove that it was controlled by a Chinese party, the investment of Dianchi Co by Leed China shall be treated as investment by domestic investor and therefore shall not be subject to the restrictions of the Special Management Measures.

Although the Draft Foreign Investment Law had been released for consultation purpose, substantial uncertainty exists regarding the Draft Foreign Investment Law, including, among others, what the actual content of the law will be as well as the adoption timeline or effective date of the final form of the law. While such uncertainty exists, we cannot determine whether the new Foreign Investment Law, when it is adopted and becomes effective, will have a material impact on our corporate structure and business.

## FURTHER INFORMATION ON THE SHARE PURCHASE AGREEMENT

### Basis of Consideration

As disclosed in the Announcement, the Consideration was determined by the parties through arm's length negotiation. In determining the Consideration, the Company has taken into account of, among others, the assets and profit and loss of Leed International and the valuation of actual and potential transactions in the PRC education industry as well as the following factors:

- (1) the financial information of Leed International and Dianchi College as disclosed in the Announcement and under the section headed "Financial information of Dianchi College and Dianjiao AM Co" in this announcement, respectively;
- (2) the operation history of Dianchi College, which was established in 2000 and has been offering private higher education for 18 years;
- (3) the reputation of Dianchi College in both Yunnan Province and nationwide in the PRC. In 2017, Dianchi College was ranked second in Yunnan Province and twenty-first nationwide, in the category of the best comprehensive independent college of the 2018 PRC university rankings published by the China University Alumni Association (中國校友會);
- (4) the scale of the development of students in Dianchi College. According to the Notice of the Yunnan Provincial Department of Education on the 13th Five-Year Plan for the Development of Ordinary Higher Education Scales (《雲南省教育廳關於核定「十三五」普通高等教育規模發展指導目標的通知》) issued by the Yunnan Provincial Department of Education on 13 January 2017, the Yunnan Provincial Department of Education has set a Goal Guidance of Development Scale for General Higher Education 2020 (普通高等教育2020年規模發展指導目標) for Dianchi College which shall target to reach 28,000 students in 2020; and
- (5) the tuition fee growth potential of Dianchi College. Dianchi College can now determine its relevant tuition fee for each major on the basis of the tuition fee guidance set by the relevant competent government authorities, the tuition fee of which for 2018-2019 school year is currently ranged from RMB16,000 to RMB24,500.

In terms of the valuation of Leed International by reference to its earnings and net assets, based on the financial information of Leed International provided by the Vendors, (i) for the year ended 31 December 2017, its unaudited net profit after tax amounted to approximately RMB87,638,000, representing an implied P/E ratio ("**P/E ratio**") of approximately 18.2 times; and (ii) as at 31 July 2018, the unaudited net assets amounted to approximately RMB204,195,000, representing an implied price-to-book ratio ("**P/B ratio**") of approximately 7.8 times.

By way of illustration, the table below sets forth certain transactions conducted by certain other issuers listed on the Stock Exchange which the Company considers comparable to the Acquisition in year 2018.

<b>Hong Kong-listed companies and its principal business</b>	<b>Transaction nature and total consideration</b>	<b>Net profit of the target (RMB'000)</b>	<b>Net asset value of the target (RMB'000)</b>	<b>Implied P/E ratio</b>	<b>Implied P/B ratio</b>
China Education Group Holdings Limited (stock code: 839), a private higher education provider in the PRC	Acquisition of 100% equity interest in a target company, which indirectly controls a university and a college in Guangzhou through an agreement at a total consideration of RMB537.9 million <sup>(1)</sup> and injection of capital of not more than RMB881.3 million to the target company after become the sole shareholder of the target company.	74,060	581,716	19.1x	2.4x
	Acquisition of 62% equity interests in a target company, which indirectly owns the entire school sponsor interests in a technician college in Xi'an at a consideration of RMB576.6 million <sup>(2)</sup>	(13,233)	(7,698)	Not applicable, as the target was in a loss position	Not applicable, as the target was in a loss position
	Acquisition of 80% equity interests in a target company, which indirectly owns the entire school sponsor interests in a vocational school in Zhengzhou at a consideration of RMB855 million <sup>(3)</sup>	23,488	(395,403)	45.5x	Not applicable, as the target was in a loss position

Hong Kong-listed companies and its principal business	Transaction nature and total consideration	Net profit of the target (RMB'000)	Net asset value of the target (RMB'000)	Implied P/E ratio	Implied P/B ratio
China New Higher Education Group Limited (stock code: 2001), a private higher education provider in the PRC	Acquisition of 55% school sponsor interest of a school in Henan at a total consideration of RMB395.5 million <sup>(4)</sup> (including injection of new capital of RMB294 million)	16,821	74,816	42.7x	9.6x

*Notes:*

- (1) Based on the information set out in the announcement of China Education Group Holdings Limited dated 14 June 2018.
- (2) Based on the information set out in the announcement of China Education Group Holdings Limited dated 13 March 2018.
- (3) Based on the information set out in the announcement of China Education Group Holdings Limited dated 13 March 2018.
- (4) Based on the information set out in the announcement of China New Higher Education Group Limited dated 8 January 2018.

As illustrated in the table above, the implied P/E ratio of Leed International is below the range of the comparable transactions and P/B ratio of Leed International falls within the range of the comparable transactions.

### **The Put Option**

Pursuant to the Share Purchase Agreement, in any event, the exercise price of the Put Option shall not be less than RMB981.5 million. Such minimum exercise price was determined with reference to 49% of the sum of (i) the valuation of Leed International as at the date of the Share Purchase Agreement; and (ii) the unaudited average net profit of Leed International for the two years ended 31 December 2016 and 31 December 2017 times five (which is the maximum number of years from the effective date of the Share Purchase Agreement until the date of granting the Put Option) (the “**Additional Put Option Valuation**”). The total valuation of Leed International as at the date of the Share Purchase Agreement is determined to be RMB1,595 million, by reference with the total consideration of the Sale Shares under the Acquisition. The unaudited average net profit of Leed International for the two years ended 31 December 2016 and 31 December 2017 was approximately RMB83.1 million.



In addition, when determining the exercise price of the Put Option, the Company has taken into account of (i) the use of 85% of the Company's P/E ratio was determined through arm's length negotiation between the Vendors and Minsheng Vocational, taking into account the P/E ratios in similar acquisitions conducted by other Hong Kong-listed education companies in year 2018; (ii) the maximum P/E ratio of 25 times was determined through arm's length negotiation between the parties with reference to the range of P/E ratios in similar acquisitions of other Hong Kong-listed education companies between 19.1 to 45.5 times; and (iii) the entitlement of Minsheng Vocational in the net profits of Leed International pursuant to the Equity Entrustment Agreement. Specifically, under the Equity Entrustment Agreement, Minsheng Vocational is entitled to the pro rata share of other shareholders of Leed International in the net profits of Leed International during the term of the entrustment arrangement. As part of the terms of the Acquisition, Minsheng Vocational and the Vendors agreed that in the event that the Put Option is exercised, the Vendors will be compensated for their forfeiture of their pro rata share of the net profits of Leed International during the term of the Entrustment Arrangements by including the Additional Put Option Valuation in the relevant valuation of Leed International. The Directors considered that the above valuation of the exercise price of the Put Option is in the interest of the Company and the Shareholders.

## **The Debt**

### ***Relationship between Leed International and China Education***

China Education is a company incorporated in the BVI with limited liability, which is ultimately owned by Mr. Li Hongtao ("Mr. Li"), a PRC citizen. Mr. Li is also the ultimate individual shareholder of National Education, one of the Vendors. As at the date of this announcement, Leed International was owned as to approximately 81.61% by National Education, 10.31% by Leed Education and 8.08% by Hyde Education, which the ultimate individual shareholder of each of Leed Education and Hyde Education is also a PRC citizen. Upon Completion, Leed International shall be owned as to approximately 39.99% by National Education.

To the best knowledge and belief of the Directors and having made all reasonable enquiries, other than the relationship as disclosed above, there is no other relationship between Leed International and China Education.

### ***Further information on the Debt***

As a condition precedent of the First Instalment, Leed International should cancel both of its Class A and Class B preferred shares through repurchasing and provide documents evidencing such cancellation of shares to Minsheng Vocational.

Based on the information provided by the Vendors, Mr. Li is the owner of such Class A and Class B preferred shares of Leed International which amounted to approximately US\$64,970,000. In order to fulfill the condition precedent of the First Instalment, Leed International has repurchased its issued preferred shares from Mr. Li with its internal resources and a loan from China Education equals to an amount of approximately RMB231 million.

In the event that the Acquisition could not be completed and that the Share Purchase Agreement is terminated due to:

- (i) the event of default by the Vendors or any reasons of the Vendors causing the termination of the Share Purchase Agreement, any amount paid by Minsheng Vocational to the Vendors shall be returned within 10 days from the date on which Minsheng Vocational has notified the Vendors to terminate the Share Purchase Agreement, including the return of 130% of the deposit, all monies deposited into the Joint Account and any monies paid to bank accounts designated by the Vendors. If such amount of money is not returned within the prescribed time, Minsheng Vocational will be entitled to charge a late fee of 0.2% per day on such amount since the overdue date;
- (ii) any consequences of any legitimate actions by the regulatory authorities, once it was being terminated, all parties shall not entitle to any further rights arising from the Share Purchase Agreement, similarly, all parties shall not owe any further obligations arising from the Share Purchase Agreement, and the parties shall return to the original status as if the Share Purchase Agreement has ever existed within 60 days, including but not limited to that the Vendors shall return all monies which have been paid by Minsheng Vocational. If the Vendors fail to return the corresponding amounts to Minsheng Vocational within the prescribed timeframe, the Vendors shall pay to Minsheng Vocational a late fee charge of 0.2% per day on the money having not been returned from the 30th day after the due date; and
- (iii) failure to pay the Consideration in full and on time by Minsheng Vocational in accordance with the terms and conditions of the Share Purchase Agreement and failure to pay within 10 working days after receipt of the written notice of the Vendors, Minsheng Vocational shall pay to the Vendors a daily late fee charge of 0.2% on the payable amounts.

## **FURTHER INFORMATION ON THE EQUITY ENTRUSTMENT AGREEMENT**

On 20 August 2018, the Vendors, Leed International and Minsheng Vocational entered into an entrustment agreement (the “**Equity Entrustment Agreement**”), pursuant to which Minsheng Vocational would be entrusted to manage, among others, (i) Leed International and its subsidiaries in certain aspects, and (ii) the remaining 49% of the issued share capital of Leed International.

Set out below are the major terms of the Equity Entrustment Agreement:

Entrustment of equity interest arrangement : (i) The remaining 49% of the issued share capital of Leed International owned by the Vendors, (ii) the equity interest and/or the school sponsor interest of Leed International and its subsidiaries, and (iii) the business operations, assets, human resources, financial matters, all certificates and licenses, company seals and chops, would be entrusted to Minsheng Vocational for management.

Term of the entrustment arrangement	:	With effective from the date of the Completion and until the earlier of (i) the fifth anniversary after the date of Completion, or (ii) the date the Vendors have completed disposing their remaining 49% of issued share capital of Leed International, whichever is earlier
Arrangement of net profit during the term of entrustment arrangement	:	Minsheng Vocational is entitled to the entire net profit of Leed International during the term of entrustment arrangement.

### **Reasons for entering into the Equity Entrustment Agreement**

The Equity Entrustment Agreement is part and parcel of the terms of Acquisition as determined by the parties through arm's length negotiation. In particular, given that Minsheng Vocational granted the Put Option to the Vendors under the Share Purchase Agreement, pursuant to which the Vendors will be entitled to sell their remaining equity interest in Leed International at a price to be determined through an agreed formula, the Company considered it fair and reasonable for the Vendors and Leed International to entrust the relevant equity interests which are (directly and indirectly) subject to the Put Option to Minsheng Vocational for development, such that the business of Leed International and its subsidiaries will be managed in accordance with the Company's direction.

The Directors consider that the Equity Entrustment Agreement has been entered into on normal commercial terms and the terms of the Equity Entrustment Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Risk assessment in respect of the Acquisition and the Entrustment Arrangements**

In respect of the Acquisition and the Entrustment Arrangements, the Directors have assessed the following risks:

- (1) *We may not be able to successfully obtain the approval for increasing the student enrollments at Dianchi College, which may adversely affect the tuition and accommodation income of Dianchi College*

The number of students enrolled in Dianchi College is one of the major factors affecting the profitability of Dianchi College. Dianchi College is required to submit its increment of student enrollment plan to the relevant PRC education authorities each year, if it was not approved by the relevant authorities, Dianchi College would not be able to increase the number of student enrollment for the year, and therefore adversely affecting the financial results of Dianchi College in terms of its tuition and accommodation income.

- (2) *We may not be able to sustain the growth of the tuition fee and accommodation fee of Dianchi College, which may adversely affect the tuition and accommodation income of Dianchi College*

The student tuition and accommodation fee income of Dianchi College is another major factor affecting the profitability of Dianchi College, there are uncertainties on the increment of the tuition and accommodation fees in the future due to the increasing competition between universities in Yunnan Province which may not meet our expectation of increasing the tuition fees and accommodation fees in the future.

- (3) *Various taxes imposed on private education service providers may have an impact on the profitability of Dianchi College*

Various taxes imposed on private higher education service providers will be determined along with the improvement of various laws and regulations for private education industry, which may have an impact on the profitability of Dianchi College.

After taking into above, the Directors are of the view that the Acquisition and the Entrustment Arrangements have been entered into on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the above risks are manageable.

## **FURTHER INFORMATION ON THE DIANCHI COLLEGE MANAGEMENT AGREEMENT**

As a condition precedent to the payment of the First Instalment, on 20 August 2018, Minsheng Vocational, Chongqing Huizhi, Dianchi Co, Dianjiao AM Co and Dianchi College entered into the Dianchi College Management Agreement, pursuant to which the entire management of Dianjiao AM Co and Dianchi College is entrusted to Minsheng Vocational and Chongqing Huizhi.

Set out below are the major terms of the Dianchi College Management Agreement:

Entrustment of management arrangement : The entire management of Dianjiao AM Co and Dianchi College shall be entrusted to Minsheng Vocational and Chongqing Huizhi, covering their business, assets, logistics, finance, personnel, students and legal documents.

In consideration for the management services provided by Minsheng Vocational and Chongqing Huizhi, Minsheng Vocational and Chongqing Huizhi shall be entitled to management fee as set out in the paragraph headed "Management fee" below.

Term of the entrustment arrangement : With effect from the effective date of the Share Purchase Agreement, i.e. 20 August 2018, to the date of Completion

Management fee : The management fee payable by Dianchi College and Dianjiao AM Co under the Dianchi College Management Agreement shall be equal to 100% of the net profit of Dianchi College and Dianjiao AM Co, respectively, during the effective term of the entrustment arrangement.

Such management fee shall be paid annually in arrears by Dianchi College and Dianjiao AM Co within three months after 31 December of each year during the effective term of the entrustment arrangement.

On 20 August 2018, being the effective date of the Share Purchase Agreement, the entrustment arrangement contemplated under the Dianchi College Management Agreement has commenced in accordance with the terms of the Share Purchase Agreement and the Dianchi College Management Agreement.

In the event that the Acquisition could not be completed, the Company will assess whether it is in its best commercial interests to terminate the Dianchi College Management Agreement in the circumstances.

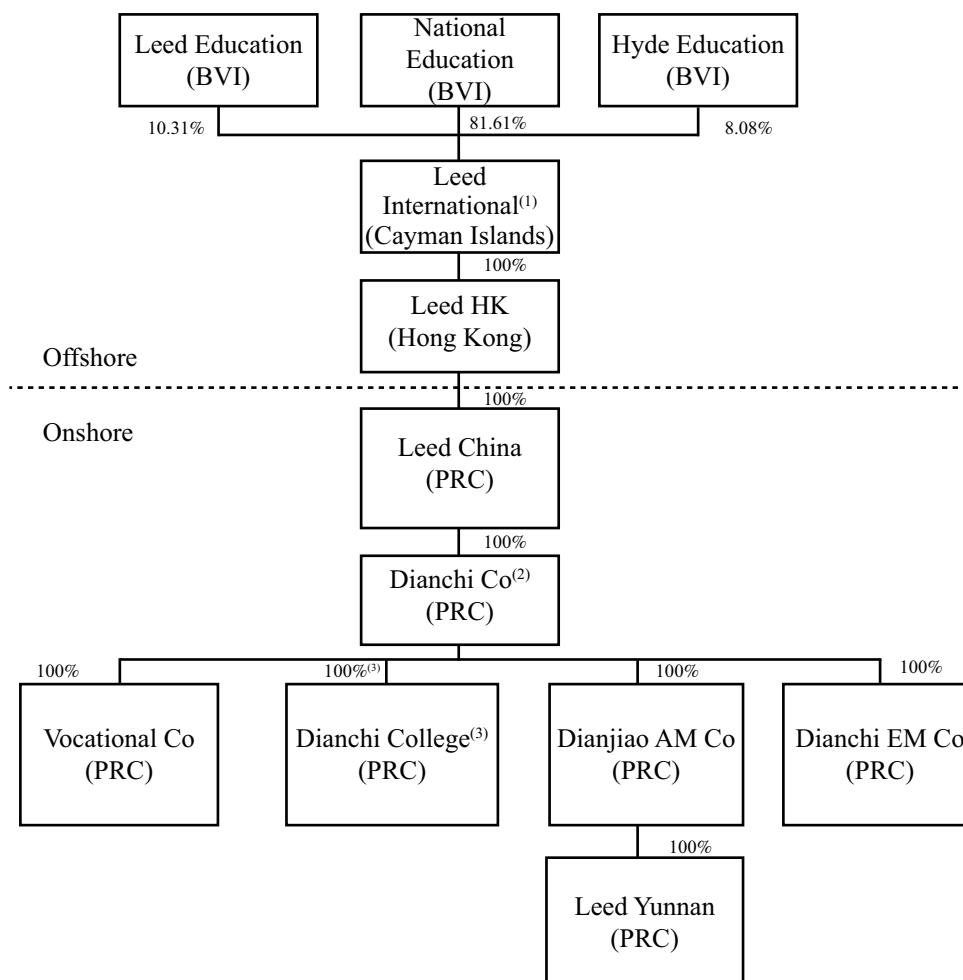
### **Reasons for entering into the Dianchi College Management Agreement**

Taking into account that (i) the entrustment arrangement under the Dianchi College Management Agreement allows the Company to commence the management of the education business operation, finance, logistics and manpower resources of Dianchi College and Dianjiao AM Co in a more effective manner by leveraging on the Company's management expertise; (ii) the entrustment arrangement of Dianchi College and Dianjiao AM Co enables the Company to enjoy the major economic benefits of the Acquisition, represented by the net profit of Dianchi College and Dianjiao AM Co, in both cases since the effective date of the Share Purchase Agreement ahead of the Completion (which involves administrative procedures that takes longer time to complete), the Directors consider that the Dianchi College Management Agreement has been entered into on normal commercial terms and the terms of the Dianchi College Management Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon Completion, Leed International and its subsidiaries (including Dianchi College and Dianjiao AM Co) will become the subsidiaries of the Company and their respective assets and liabilities will be consolidated into the balance sheet of the Group according to the relevant accounting principles, where 49% of the assets and liabilities of Leed International and its subsidiaries attributable to the Vendors will be presented as “non-controlling interests” in the financial statements of the Group.

## FURTHER INFORMATION ON LEED INTERNATIONAL AND ITS SUBSIDIARIES

The following chart sets forth the structure of Leed International and its subsidiaries as at the date of the Share Purchase Agreement:



### Notes:

- (1) Leed International was incorporated under the laws of Cayman Island on 15 April 2008 as an exempt limited liability company. The certificate of incorporation of Leed International does not have an expiry date and therefore no annual renewal requirement is needed for Leed International.
- (2) Dianchi Co was established under the laws of PRC on 16 September 1999 as a limited liability company. The registration authority of Dianchi Co is Yunnan Administration of Industrial and Commerce (雲南省工商行政管理局). According to the business license of Dianchi CO issued on 24 July 2001 which shall expire on 15 September 2019, its business scope includes training talents and scientific and technological

talents in higher education institutions, and providing education consulting services for various professionals; training services, examination services, accommodation services, conference and exhibition services. The annual inspection of Dianchi Co for 2017 was completed and publicized on the National Enterprise Credit Information Publicity System in March 2018, and the annual inspection for 2018 is expected to be completed and publicized by the second quarter of 2019.

- (3) Yunnan University Huamei College\* (雲南大學華美學院), the predecessor of Dianchi College, was approved for establishment on 18 February 2000 by Yunnan Provincial Education Committee (雲南省教育委員會), the predecessor of Yunnan Province Education Department, pursuant to the Approval of the Cooperation of Yunnan University and Yunnan Dianchi Education and Training Co., Ltd for Yunnan University Huamei College (Yun Jiao Gao [2000] No. 6) (《關於雲南大學與雲南滇池教育培訓有限公司聯合舉辦「雲南大學華美學院」的批覆》(雲教高[2000]6號)).

Pursuant to the Approval for Change of Name from Yunnan University Huamei College to Yunnan University Dianchi College (《關於「雲南大學華美學院」更名為「雲南大學滇池學院」的批覆》(黨複[2001]35號)) issued by the CPC Yunnan University Committee (中共雲南大學委員會) on 20 April 2001, Yunnan University Huamei College has changed its name to Dianchi College.

Pursuant to the written agreement between Yunnan University and Dianchi Co dated 9 December 2013 in relation to Dianchi College, Yunnan University would be mainly responsible for (1) coordination between Dianchi College and the relevant regulatory authorities and (2) providing guidance and personnel support to Dianchi College, and be entitled to 10% of the tuition fee income of Dianchi College; whereas Dianchi Co would be responsible for (1) development planning and execution, (2) capital contribution for campus infrastructure and facilities and the relevant construction, and (3) contribution to the working capital of Dianchi College, and be entitled to 100% of the net profit of Dianchi College. Dianchi Co is entitled to appoint four out of a total of seven directors of Dianchi College and Yunnan University is entitled to appoint the remaining three directors.

Dianchi College is an independent college offering full-time general undergraduate education. The registration authorities of Dianchi College are Yunnan Provincial Civil Affairs Department and Yunnan Province Education Department. The National Non-Enterprise Registration Certificate of Dianchi College was issued on 7 April 2016, expiring on 7 April 2020. The Private School Permit of Dianchi College was issued on 15 October 2014, expiring on 15 October 2019.

The 2017 annual inspection with Yunnan Provincial Civil Affairs Department of Dianchi College was completed on 23 May 2018 and the 2018 annual inspection is expected to be filed in the second quarter of 2019.

The 2016 annual inspection with Yunnan Province Education Department was completed in 2017, with the 2017 annual inspection is expected to be completed within 2018.

- (4) For details on other subsidiaries of Leed International, please refer to the Announcement issued by the Company.

According to the corporate structure of Leed International and its subsidiaries, (1) Dianchi Co is the school sponsor of Dianchi College entitled to 100% interests, and (2) Dianchi Co and Dianjiao AM Co are indirect wholly-owned subsidiaries of Leed International.

Leed International ultimate controls, through Dianchi Co, Dianchi College in terms of, including but not limited to, the composition of the decision-making body of Dianchi College and therefore controls the management, business operations and affairs of Dianchi College. Upon Completion, (i) Dianchi Co shall continue to be the school sponsor of Dianchi College and (ii) Leed International shall continue through Dianchi Co., to control the management and operation of Dianchi College and other subsidiaries.

As at the date of this announcement, the 100% net profits of Dianchi College and Dianjiao AM Co, are recorded into the financial results of the Group. Upon Completion, the financial results of Leed International and its subsidiaries, including Dianchi College and Dianjiao AM Co, will be totally consolidated into the financial results of the Group.

## **FINANCIAL INFORMATION OF DIANCHI COLLEGE AND DIANJIAO AM CO**

Set out below are the unaudited net profits (before and after tax) of Dianchi College for each of the two years ended 31 December 2017 according to the management accounts of Dianchi College provided by the Vendors:

	<b>For the year ended 31 December 2016</b>	<b>For the year ended 31 December 2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net profit before tax	78,519	87,047
Net profit after tax	78,394	86,946

Set out below are the unaudited net profits (before and after tax) of Dianjiao AM Co for each of the two years ended 31 December 2017 according to the management accounts of Dianjiao AM Co provided by the Vendors:

	<b>For the year ended 31 December 2016</b>	<b>For the year ended 31 December 2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net profit before tax	(359)	1,181
Net profit after tax	(359)	1,181

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

Hong Kong, 5 October 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*