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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 51% OF THE EQUITY INTEREST OF QUFU
CHANGYONG CORPORATE MANAGEMENT CONSULTING COMPANY
LIMITED AND ENTRUSTMENT ARRANGEMENT OF QUFU FAREAST
VOCATIONAL AND TECHNICAL COLLEGE**

INTRODUCTION

Reference is made to the announcement dated 25 November 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 equity interest of Qufu Changyong Corporate Management Consulting Company Limited* (曲阜昌永企業管理諮詢有限責任公司) (“**Qufu Changyong**”) by Chongqing Yuecheng Zhiyuan Education Technology Co., Ltd.* (重慶悅誠智遠教育科技有限公司) (“**Chongqing Yuecheng**”), a consolidated affiliated entity 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 the Share Transfer Agreement, the Fareast College Entrustment Agreement, Qufu Changyong and Fareast College.

FURTHER INFORMATION ON THE SHARE TRANSFER AGREEMENT

Basis of Consideration

As disclosed in the Announcement, the Consideration was determined after arm's length negotiations between the parties to the Share Transfer Agreement. The Company has taken into account of, among others, the following factors when determining the Consideration:

1. the unaudited net profit of Fareast College of approximately RMB11.16 million for the year ended 31 December 2017, reflecting an implied price-to-earnings (“P/E”) ratio of 16.1 times with reference to the Consideration;
2. the unaudited net asset of Fareast College approximately of RMB87.77 million as at 31 October 2018, reflecting an implied price-to-book value (“P/B”) ratio of 2.1 times with reference to the Consideration;
3. the implied P/E and P/B ratios in comparable transactions in the market (as set out below);
4. the stable increase in the number of students of Fareast College over the last three years from 3,642 in the school year of 2015-2016 to 5,417 in the school year of 2018-2019;
5. the stable increase in the tuition fee rate of Fareast College over the last three years from between RMB3,800 to RMB6,780 per year per student for the school year 2015-2016 to between RMB4,300 to RMB9,680 per year per student for the school year; and
6. that Fareast College is entitled to set its own tuition fee rate with reference to the tuition fee guidance issued by the relevant departments.

In determining the Consideration, the Company also considered the implied P/E and P/B ratios in the following transactions in the market^(note):

Hong Kong-listed company and its principal business	Transaction nature and total consideration	Nature of Target School	No. of students	Net profit of the target (RMB'000)	Net asset / (liabilities) value of the target (RMB'000)	Implied P/E ratio	Implied P/B ratio
China Education Group Holdings Limited (stock code: 839) (“China Education Group”), a private higher education provider in the PRC	(a) Acquisition of 62% equity interest in a target company, which indirectly owns the entire school sponsor interest in a technician college in Xi'an at a consideration of RMB576.6 million	Mechanic and technician college	20,000	(13,233)	(8,239)	N/A, the target company was in a loss position	N/A, the target company was in a loss position

Hong Kong-listed company and its principal business	Transaction nature and total consideration	Nature of Target School	No. of students	Net profit of the target (RMB'000)	Net asset / (liabilities) value of the target (RMB'000)	Implied P/E ratio	Implied P/B ratio
	(b) 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.	Vocational training school	20,000	23,488	(395,403)	45.5x	N/A
	(c) 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 and injection of capital of RMB881.3 million	Undergraduate programmes and higher vocational college	12,000	74,060	581,716	19.1x	2.4x
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 (including injection of new capital of RMB294 million)	Private higher education institution providing junior college education	18,243	16,821	74,816	42.7x	9.6x
The Company	Acquisition of 51% equity interest in a target company, which indirectly owns a target school in Kunming, at a consideration of RMB813.5 million	Private higher education institution providing undergraduate courses	18,470	87,638	204,195	18.2x	7.8x

Note:

The information set out in the table above are extracted from (a) the announcements of China Education Group Holdings Limited dated 13 March 2018 and 14 June 2018, (b) the announcement of China New Higher Education Group Limited dated 8 January 2018 and (c) the announcement of the Company dated 21 August 2018.

The above transactions were selected and considered by the Directors based on the following criteria (1) the target school is located in the PRC, (2) the target school provides intermediary education and/or higher (or above) education services, (3) the acquisition of the target school took place in 2018,

and (4) the purchaser is a listed company in Hong Kong, which represent the key characteristics of the Acquisition. Accordingly, the Directors considered that these transactions are fair and representative comparables and reference to the Acquisition.

As at the date of this announcement, the conditions precedent to any instalment of the Consideration are not yet satisfied. Accordingly, the Consideration has not been paid. Pursuant to the Share Transfer Agreement, in the event that the conditions precedent to any instalment of the Consideration are not satisfied within specified timeframe, Chongqing Yuecheng shall be entitled to unilaterally terminate the Share Transfer Agreement, the Vendors shall return all amounts paid by Chongqing Yuecheng, and for amounts which Chongqing Yuecheng has lent to Fareast College, the principal and interest of the loan (interest being calculated on a daily basis) shall be returned to Chongqing Yuecheng. If the Vendor fails to return the above-mentioned amounts paid by Chongqing Yuecheng to the Vendor, and Fareast College fails to repay the amount lent by Chongqing Yuecheng to Fareast College, the Vendor and/or Fareast College should pay a late charge of 0.2% each day plus the interest on the unpaid portion.

Loan arrangement

Pursuant to the Share Transfer Agreement, after the settlement of the First Instalment of the Consideration, Chongqing Yuecheng shall provide loan(s) of up to RMB170 million in total to Fareast College in accordance to the financial needs of Fareast College. As at the date of this announcement, Chongqing Yuecheng has not entered into any loan agreement(s) with Fareast College.

The capital expenditure required for the infrastructure establishment of the Gaotie Campus and assisting Fareast College to satisfy the requirements of transformation into a private normal university is currently estimated to be approximately RMB170 million. Such amount is expected to be funded by loan(s) to be extended by Chongqing Yuecheng (which in turn will be funded by the Group's internal resources or external borrowing) to Fareast College and the internal resources of Fareast College.

The Put Option

As disclosed in the Announcement, pursuant to the Share Transfer Agreement, Chongqing Yuecheng has the right to grant the Put Option to the Vendor after the 4th anniversary but no later than the 5th anniversary of the effective date of the Share Transfer Agreement, provided that Fareast College has been approved to be a private ordinary undergraduate higher education institution from the Ministry of Education of the People's Republic of China (the "MOE").

Exercise price

The maximum P/E ratio of 20 times was determined by the parties through arm's length negotiation with reference to (a) the average P/E ratio of the Company approximately 21.4 time¹ based on the Company's market capitalization during the period between 16 April 2018 (being the date when the Group commenced its due diligence on Fareast College) to 22 November 2018 (being the last trading date before the date of the Share Transfer Agreement); and (b) the implied P/E ratio of the Acquisition and the estimated growth rate in the revenue of Fareast College (assuming that it is successfully converted into a private ordinary undergraduate higher education institution). Based on the Company's current estimation, assuming that Fareast College will be converted into a private ordinary undergraduate higher education institution and will start to enroll students for its bachelor's programs from the 2021 – 2022 school year, Fareast College is expected to achieve a compound growth rate of approximately 19.5%². The implied P/E ratio of the Acquisition of 16.1 times increased by the said growth rate of 19.5% is approximately 19.2 times.

The Company considers it appropriate to set the exercise price of the Put Option by reference to the Company's P/E ratio because (i) the P/E ratio of the Company can be derived from public information, which allows the exercise price to be determined in a fair, transparent and efficient manner; (ii) such formula is expected to provide incentives to the Vendor to cooperate with the Group in the development of Fareast College with a view to create value for the Group which will in turn increase the exercise price of the Put Option; and (iii) the maximum P/E ratio of 20 times is within the range of the comparable transactions as illustrated above. In addition, given that Chongqing Yuecheng has the right to grant the Put Option to the Vendor, subject to condition that Fareast College has been approved to be a private ordinary undergraduate higher education institution by the MOE, thereby providing an opportunity for the Company to acquire the remaining 35% equity interest in Qufu Changyong. In order to encourage and reward the Vendor for its efforts in turning Fareast College into a private ordinary undergraduate higher education institution by the time such Put Option is granted, the Company has offered a premium over the P/E ratio of the Acquisition to the Vendor in determining the exercise price. Taking into account of the above, the Directors are of the view that such premium offered to the Vendor is justifiable and the above valuation of the exercise price is in the interest of the Company and the shareholders of the Company.

¹ The formula used to calculate the average P/E ratio of the Company is: the market capitalisation of the Company (i.e. the average closing price extracted from the website of the Stock Exchange during the period between 16 April 2018 to 22 November 2018 multiplied by the number of the Company's issued shares) divided by the profit after tax of the Company for the year ended 31 December 2017.

² Assuming that (i) the number of students of Fareast College (other than bachelor degree program(s)) will increase by 150, 200 and 250 for the 2019 – 2020, 2020 – 2021 and 2021 – 2022 school years, respectively; (ii) average tuition fee of Fareast College will be increased to RMB6,500 per annum from the 2020 – 2021 school year; (iii) 2,500 students will be enrolled for bachelor degree program(s) in the 2021 – 2022 school year; and (iv) average tuition fee for bachelor degree programs offered by Fareast College will be RMB10,000 per annum.

The formula for determining the exercise price of the Put Option is only applicable to the Put Option. In the event that Chongqing Yuecheng (or its associated company(ies)) determines to acquire the remaining 35% of Qufu Changyong by exercising its pre-emptive right arising from an offer provided by a third party purchaser and the Vendor does not exercise the Put Option, Chongqing Yuecheng will not be bound to acquire the remaining 35% of Qufu Changyong at a price determined according to the formula for determining the exercise price of the Put Option.

Conversion into Private Ordinary Undergraduate Higher Education Institution

Fareast College is currently an ordinary private higher vocational education institution. One of the conditions for the exercise of the Put Option is that Fareast College has been approved to be a private ordinary undergraduate higher education institution by the MOE. Below is a summary of the major qualification requirements of an ordinary private undergraduate institution according to the Provisional Regulations Regarding the Establishment of Ordinary Undergraduate Schools (《普通本科學校設置暫行規定》) promulgated by the MOE in 2006.

Ordinary Undergraduate Higher Education Institute

Scale	:	5,000 or more full time students
Disciplines	:	The main subject category should cover more than three academic disciplines in such subject category
Faculty	:	At least qualified 280 teachers at the initial stage.
Basic facilities	:	<ol style="list-style-type: none">1. Land. School campus should be at least 500 mu.2. Construction area. The average floor area of campus per student should be at least 30 square metres per student.3. Machine and equipment. The value of academic instrument and equipment per student in science, engineering, agriculture, medicine and education schools should be no less than RMB5,000 per student, in humanities and social sciences schools should be no less than RMB3,000 per student and in sports and art schools should be no less than RMB4,000.

4. Book. The quantity of book applicable for Ordinary Undergraduate Higher Education Institutes per student in science, engineering, agriculture and medicine schools should be no less than 80 volumes, in humanities, social sciences and education schools should be no less than 100 volumes, and in sports and art schools should be no less than 80 volumes. All schools should build a modern electronic book system and a computer network service system.

The school should possess the relevant facilities for students to practice the relevant subject matters.

Source of funding : The school must have a stable and reliable source of funding for investment in its basic infrastructure and education expenses.

For the avoidance of doubt, the Vendor is not obliged to procure the conversion of Fareast College into a private ordinary undergraduate higher education institution. The Group will not grant the Put Option to the Vendor unless Fareast College has been approved as a private ordinary undergraduate higher education institution. As the implied P/E of the exercise price of the Put Option (if granted) is expected to be higher than the implied P/E of the Acquisition, the Put Option is intended to serve as an incentive for the Vendors to facilitate the approval of Fareast College as a private ordinary undergraduate higher education institution.

FURTHER INFORMATION ON THE FAREAST COLLEGE ENTRUSTMENT AGREEMENT

As one of the conditions precedents to the First Installment, on 23 November 2018, Chongqing Yuecheng, the Vendor, Qufu Changyong and Fareast College entered into an entrustment agreement (the “**Fareast College Entrustment Agreement**”), pursuant to which the Vendor, Qufu Changyong and Fareast College agreed to entrust the rights to manage Fareast College to Chongqing Yuecheng.

Set out below are the major terms of the Fareast College Entrustment Agreement:

Term of entrustment arrangement : With effect from the date of the completion of the payment of the First Instalment until the date of Completion

Scope of entrustment arrangement : Chongqing Yuecheng has a full scope of management under the entrustment arrangement, including but not limited to, all the operation, asset, financial, human resources, students and legal aspects of Fareast College. In particular, with respect to:

- (a) the business operation of Fareast College, Chongqing Yuecheng has the right to management the human resources of the Fareast College and appoint the senior management team of Fareast College through the board of directors of Fareast College;
- (b) the assets of Fareast College, Chongqing Yuecheng has the right to manage the existing school campuses of Fareast College and the construction of new infrastructure and facilities of Fareast College;
- (c) the financial matters of Fareast College, Chongqing Yuecheng has the right to supervise the finance department of Fareast College and the review, approval and performance of finance documents; and
- (d) the legal aspect of Fareast College, obtain possession of the company chop and other chops of the Company, and the relevant Private Education License for Private Schools of the People's Republic of China and Private Non-Enterprise Unit Registration Certificate (Legal Person) such that the Vendors, Qufu Changyong and Fareast College may not take any actions that require the use of such document and chops.

Management fee : Chongqing Yuecheng is entitled to 51% of the net profit of Fareast College during the term of the entrustment arrangement.

Consequence of breach : In the event that any party breaches her/its respective obligations under the Fareast College Entrustment Agreement, the non-breaching party(ies) is entitled to demand the breaching party to take remedial actions and/or to claim for compensation for any loss (including any direct economic loss and anticipated loss). In the event that Chongqing Yuecheng terminates the Fareast College Entrustment Agreement in accordance with its terms as a result of a breach of the terms of the Fareast College Entrustment Agreement by the Vendor, Qufu Changyong and/or Fareast College, the Vendor shall return any amount paid to her by Chongqing Yuecheng with accrued interests.

Dispute resolutions : Any dispute arising from the validity, interpretation and performance of the Fareast College Entrustment Agreement between the parties thereto should first be resolved through negotiation. If the parties are unable to settle through negotiation, any party may submit the said dispute to the Shanghai International Economic and Trade Arbitration Commission for arbitration.

Pursuant to its terms, the Fareast College Entrustment Agreement is binding on the successors and assignees of the parties; and unless a prior written consent is obtained from the other party, the rights of one party to the Fareast College Entrustment Agreement shall not be transferred to others unilaterally. If the Vendor sell or dispose part of her remaining 35% interest in Qufu Changyong during the entrustment period under the Fareast College Entrustment Agreement, the terms of the Fareast College Entrustment Agreement will be binding on the transferee of such interest and such transfer will not result in the termination of the Fareast College Entrustment Agreement. The Directors confirmed that, if the transferees or the assignees of the Vendor do not agree to be bound by the Fareast College Entrustment Agreement as it stipulated, the Company will not agree or consent to such transfer(s) from the Vendor.

During the entrustment period under the Fareast College Entrustment Agreement (being the period between the execution of the Share Transfer Agreement and the Completion), Chongqing Yuecheng will be entitled to 51% of the net profit of Fareast College as management fee, which is expected to be recognized by the Group as income. The assets of Fareast College will not be recognized as assets of the Group during the entrustment period. The Company currently estimated that the Completion will take place in approximately six months from the date of the Share Transfer Agreement (subject to the relevant approval procedures of the relevant authorities).

FINANCIAL INFORMATION ABOUT QUFU CHANGYONG

Qufu Changyong was established in October 2017. According to the financial information of Qufu Changyong provided by the Vendor, Qufu Changyong did not record any profit or loss since its establishment up to 31 October 2018. As at 31 October 2018, the unaudited net asset of Qufu Changyong amounted to approximately RMB1,000,000.

FURTHER INFORMATION ABOUT FAREAST COLLEGE

The original Private Education License for Private Schools of Fareast College was valid for a period from November 2012 to November 2016. Due to the fact that the registered school sponsor who was from Taiwan area, Mr. Wang Naichang (王乃昌) (“**Mr. Wang**”), of Fareast College as stated on the original Private Education License for Private Schools passed away before its expiration, it is necessary for Fareast College to change its school sponsor at the same time as the renewal of its Private Education License for Private Schools. After Mr. Wang has passed away, his successors have appointed a member of Mr. Wang’s family, as the school sponsor of Fareast College through Qufu

Changyong. Such member of Mr. Wang's family then transferred the entire equity interest in Qufu Changyong to the Vendor on 6 November 2018. This was the only transfer of equity since Qufu Changyong was established in October 2017.

The due diligence conducted by the Company on Qufu Changyong and Fareast College in relation to the governmental approval of the said transfer and ownership history include: (i) retrieve all corporate filings of Qufu Changyong filed with the relevant administration of industry and commerce; (ii) retrieve a copy of the Private Education License of Fareast College; (iii) retrieve a copy of the Private Non-Enterprise Certificate (Legal Person) of Fareast College; (iv) reviewed a copy of the application made by Fareast College to Jining Higher Education School Office (濟寧市高校辦公室) regarding the proposed change of school sponsor of Fareast College; (v) reviewed a copy of the report of the Jining Municipal Government to the Shandong Provincial Government regarding the proposed change of school sponsor of Fareast College; (vi) reviewed the comments from the education department of the Shandong Province providing guidance on the application for the proposed change of school sponsor of Fareast College and requesting the relevant revisions to the application documents.

As further advised by the PRC Legal Advisors, according to (1) the latest effective articles of association of Qufu Changyong, the Vendor holds the entire equity interest of Qufu Changyong; and (2) the industrial and commercial registration documents of Qufu Market Supervision and Administration Bureau (曲阜市市場監督管理局) and the public search result on the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) conducted on 5 December 2018, the Vendor is the sole registered shareholder of Qufu Changyong, holding 100% equity interests in Qufu Changyong. Therefore the Vendor is the legal owner of Qufu Changyong. According to the equity entrustment agreement signed between the Vendor and the member of Mr. Wang's family who is authorized to deal with Mr. Wang's assets in the PRC (the "**Authorized Family Member**"), (i) the Vendor holds the equity of Qufu Changyong on behalf of the Authorized Family Member; (ii) the Authorized Family Member has the right to instruct the Vendor to transfer the equity interest held by the Vendor to any transferee designated by the Authorized Family Member. Pursuant to a letter of instruction signed by the Authorized Family Member and the Vendor, the Authorized Family Member has authorized and instructed the Vendor to transfer the equity interest in Qufu Changyong to Chongqing Yuecheng and to handle the matters in connection with such transfer. Therefore the Authorized Family Member is the beneficial owner of Qufu Changyong and Fareast College and the Vendor has the necessarily authorization and capacity to enter into the Share Transfer Agreement and the Fareast College Entrustment Agreement and to conduct the transactions contemplated under them.

After the death of the original sponsor, Mr. Wang, the family of Mr. Wang had been deliberating on the successorship of the sponsor interest in Fareast College and preparing for the establishment of a new sponsor, Qufu Changyong. In June 2018, Fareast College submitted the Report of Qufu Fareast Vocational and Technical College on Change of the Sponsor to Jining College Office, and intended to change the sponsor into Qufu Changyong. As at the date of this announcement, Fareast College has submitted the application to the Education Department of Shandong Province to change the school

sponsor of Fareast College from Mr. Wang to Qufu Changyong and the application has been accepted. Prior to such completion of change of school sponsor, the registered school sponsor of Fareast College remains as Mr. Wang.

Fareast College had attempted to apply for renewal of its Private Education License prior to its expiration. However, Fareast College was advised by the education department of the Shandong Province that it must first change its school sponsor before applying for the renewal of its Private Education License as Mr. Wang, the original school sponsor, has passed away. Accordingly, Fareast College submitted the initial application to renew its Private Education License on 5 April 2017, which have been revised and supplemented from time to time to adhere to the guidance from the education department of the Shandong Province. The latest revised application for the renewal of its Private Education License was submitted by Fareast College on 21 June 2018.

Generally, as advised by the PRC Legal Advisors, once the Private Education License for Private Schools is expired, certain documents (as further described below) are required to be submitted for renewal of a new license to the Private Education and Continuing Education Office of the Education Department of Shandong Province (山東省教育廳民辦教育與繼續教育處) for preliminary examination, and the Education Department of Shandong Province (山東省教育廳) will then handle and issue a new Private Education License for Private Schools. According to the Notice issued by the Private Education and Continuing Education Office of the Education Department of Shandong Province on 28 November 2016, the following documents shall be submitted:

- (1) red-titled document for the application of replacing the Private Education License for Private Schools;
- (2) annual audit report;
- (3) registration form of the Private Education License for Private Schools (with credentials and supporting material);
- (4) articles of the school; and
- (5) the original and the copy of the expired Private Education License for Private Schools.

In addition to the above documents to be submitted for a new license, further documents are required to be submitted for the change of school sponsor. According to the public information query on Shandong Government Affairs Service Network (山東政務服務網), the following documents shall be submitted for the change of school sponsor of the higher vocational school of special course and for a renewal of license:

- (1) application letter for change of school sponsor from the original sponsor and the application letter for undertaking from the new school sponsor;
- (2) qualification certificate (資質證明) of the new school sponsor;

- (3) the articles of the school and the articles of board of directors (or school council members) after the change of school sponsor;
- (4) profile of the proposed legal representative of the school and the list of proposed directors or members to the board of directors (or school council);
- (5) the agreement for the transfer of the school sponsor interest;
- (6) financial liquidation report; and
- (7) board resolutions of the original school sponsor, approving the change of school sponsor; and resolutions of the board of directors (or school council members) approving the change of school sponsor.

While the renewal of the Private Education License for Private Schools of Fareast College is in process, the Private Non-Enterprise Certificate (Legal Person) (effective from 21 December 2016 to 20 December 2020) of Fareast College has passed the latest 2017 annual inspection of Qufu Civil Affairs Bureau and completed in April 2018, which was agreed by the Education Department of Shandong Province as the competent authorities in respect of Fareast College's business. The enrollment and teaching works of Fareast College have been carried out orderly. In light of the abovementioned circumstances and as advised by the PRC Legal Advisors, the Company is not aware of and does not foresee any material obstacles or legal obstacles for Qufu Changyong to obtain the new Private Education License for Private Schools.

Private Education Promotion Law of the People's Republic of China does not stipulate the formalities required for the extension of a Private Education License for Private Schools held by private schools after its expiration nor the legal consequences of any delay in carrying out the formalities for such extension.

According to the Administrative License Law of the People's Republic of China ("**Administrative License Law**"), the issue of the Private Education License for Private Schools by an approving authority to private schools is an administrative licensing act. In accordance with Administrative License Law, where a licensee requests for modifying the matters under administrative license, it shall file an application to the administrative body that made the decision about the administrative license. If such application meets the relevant statutory conditions and standards, the administrative body shall handle the modification procedures in accordance with the law. Where a licensee needs to extend the valid period of an administrative license it obtained in accordance with the law, it shall file an application with the administrative body that made the decision about the administrative license 30 days prior to the expiry of the valid period of this administrative license, unless otherwise provided for in the laws, regulations and rules, in which case the relevant laws, regulations and rules shall prevail. An administrative body shall decide whether to approve the extension prior to the expiry of the valid period of this administrative license; if it fails to make a decision within the time limit, it

shall be deemed that the extension has been approved. If an administrative license fails to be extended at the expiry of its valid period, an administrative body shall carry out the procedures for the cancellation of the pertinent administrative licenses.

According to an interview of the Company, Fareast College and PRC Legal Advisors with the supervisor of the Development Planning Office of Shandong Education Department, the competent authorities will not take any punishment measures against Fareast College or Qufu Changyong, will not require Fareast College to stop running the school or cancel the original Private Education License for Private Schools by reason of the expiration of its original Private Education License for Private Schools and its new license still being in the process of renewal.

In addition, Fareast College has obtained the Private Non-Enterprise Certificate (Legal Person) issued by Qufu Civil Affairs Bureau and effective till December 2020. According to interview of the Company, Fareast College and PRC Legal Advisors with the supervisor of Qufu Civil Affairs Bureau, the business scope registered on the Private Non-Enterprise Certificate (Legal Person) held by Fareast College is higher vocational technical education, the certificate allows Fareast College to conduct the business of higher vocational technical education and the expiration of the original Private Education License for Private Schools will not influence the validity of the Private Non-Enterprise Certificate (Legal Person) of Fareast College.

IMPACT OF THE DRAFT FOREIGN INVESTMENT LAW

As advised by the Company's PRC legal advisors, the Ministry of Commerce of the PRC ("MOFCOM") issued the Foreign Investment Law of the People's Republic of China (Draft for Comments) ("**Drafted Foreign Investment Law**") on January 19th, 2015. Meanwhile, MOFCOM launched the Notes on Drafted Foreign Investment Law stipulating drafted guiding thoughts and basic principles, main contents, transitional arrangements, etc. The Drafted Foreign Investment Law proposes to replace current the Law on Sino-Foreign Equity Joint Ventures, the Law on Foreign-invested Enterprises and the Law on Sino-Foreign Cooperative Joint Ventures.

Chongqing Yuecheng is a domestic enterprise controlled by the Company by contracts. In accordance with Drafted Foreign Investment Law, if a foreign investor controls a domestic enterprise or holds the rights and interests of a domestic enterprise by contracts, the domestic enterprises will be deemed as a foreign investment enterprise, which will be restricted or forbidden to engage in the business listed in the Negative List unless obtaining approvals of the competent authorities in China. The actual controller of the Company is Mr. Li Xuechun, a Chinese natural person, and both the Company and Chongqing Yuecheng are controlled by a Chinese investor. In accordance with the Notes on Drafted Foreign Investment Law, there are three possible treatments as set out below for the existing

investments which are made by agreement-based control prior to the effective date of the Foreign Investment Law and fall within the fields where foreign investment is prohibited or restricted after the Foreign Investment Law comes into effect:

- (1) If the foreign-invested enterprise that has obtained agreement-based control declares to the competent foreign investment department of the State Council that it is actually controlled by a Chinese investor, the said foreign-invested enterprise may continue to retain the structure of agreement-based control, and relevant parties may continue with their business activities;
- (2) The foreign-invested enterprise that has obtained agreement-based control shall apply to the competent foreign investment department of the State Council for being recognized as being actually controlled by a Chinese investor; after the said department has recognized that the said foreign-invested enterprise is actually controlled by a Chinese investor, it may continue to retain the structure of agreement-based control, and relevant parties may continue with their business activities; and
- (3) The foreign-invested enterprise that has obtained agreement-based control shall apply to the competent foreign investment department of the State Council for entry licensing, and the said department shall, in conjunction with other departments concerned, make a decision by taking into comprehensive consideration the actual controller of the said foreign-invested enterprise and other factors.

It has not been determined which treatment will be adopted.

Despite the Drafted Foreign Investment Law is issued for soliciting public opinions, there are several uncertainties including the actual content of the Foreign Investment Law, the adopted date and effective date of its final version. At present, it is unclear whether the new Foreign Investment Law will influence the structure and/or business of the Company significantly when it is adopted and effective.

Furthermore, the Foreign Investment Law of the People's Republic of China (Draft) (the "**New Draft**") has been deliberated at the seventh session of the Standing Committee of the 13th National People's Congress of the People's Republic of China, and the New Draft has been released to the public soliciting opinions on 26 December, 2018. Compared with the Drafted Foreign Investment Law, the New Draft deleted contents of agreement-based control. According to the New Draft, foreign investment refers to investment activity directly or indirectly conducted by foreign natural persons, enterprises and other organizations (the "**Foreign Investor**"), including a Foreign Investor that invests within the territory of China in any other way stipulated under laws, administrative regulations or provisions of the State Council. A Foreign Investor shall meet the investment conditions stipulated under the negative list for any field with investment restricted by the negative list of access of foreign investment.

Chongqing Yuecheng is a domestic enterprise controlled by the Company by contracts. The New Draft does not further explain whether a domestic enterprise controlled by contracts is a foreign investment. At present, it is unclear whether the New Draft will influence the structure and/or business of the Company significantly when it is adopted and effective.

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

Hong Kong, 15 January 2019

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*