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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)**

### **INSIDE INFORMATION**

#### **LATEST UPDATE IN RELATION TO THE CONVERSION OF DIANCHI COLLEGE OF YUNNAN UNIVERSITY**

Reference is made to the announcements (“**Announcements**”) issued by the Company respectively on 21 August 2018 and 5 October 2018 and circular (“**Circular**”) issued by the Company on 20 December 2018, in relation to the acquisition by Minsheng Vocational Education Company Limited (a wholly-owned subsidiary of the Company) acquired 51% of the issued share capital of Leed International Education Group Inc. Unless otherwise stated, terms used in this announcement shall have the same meanings as those defined in the Announcements and Circular.

#### **BACKGROUND**

Dianchi College is an independent college co-sponsored by Dianchi Co (an indirect subsidiary of the Company) and Yunnan University. On 9 December 2013, Yunnan University and Dianchi Co entered into the Yunnan University and Yunnan Dianchi Education Training Company Ltd\* (雲南滇池教育培訓有限公司) Cooperative Education Agreement (“**Cooperative Education Agreement**”) for co-sponsoring Dianchi College. According to the Cooperative Education Agreement, Yunnan University is mainly responsible for (1) coordination between Dianchi College and relevant regulatory authorities; and (2) provide guidance and personnel support for Dianchi College, and have the right to receive 10% of the tuition income of Dianchi College (“**Cooperative Education Fees**”); and Dianchi Company is responsible for (1) development planning and execution (2) capital investment in campus infrastructure, facilities and related construction, and (3) contribution to the working capital of Dianchi College, and be entitled to 100% of the net profit of Dianchi College.

The Ministry of Education has vigorously promoted the full conversion of independent colleges to independently established general undergraduate colleges in recent years, and issued the “Notice on Well Establishment of Higher Education Institutions in 2018”\* (關於做好2018年度高等學校設置工作的通知), “Notice on Well Establishment of Undergraduate Schools in 2019”\* (關於做好2019年度本科學校設置工作的通知) and the “Notice on the Implementation Plan for Accelerating the Promotion of the Conversion of Independent Colleges” issued by the General Office of the Ministry of Education\* (關於加快推進獨立學院轉設工作的實施方案) and a series of policy documents, requesting to accelerate the promotion of independent colleges that can be transferred “as quick and as many as possible”, “By the end of 2020, all independent colleges will need to formulate its conversion plan, and at the same time promote a group of independent colleges to achieve conversion and have clearly stated that “the sponsored university, the sponsor after the conversion, and the independent college must jointly sign the conversion agreement”.

## **CONVERSION AND TERMINATION OF COOPERATIVE EDUCATION**

The Board announced that after friendly negotiation between the parties, on 15 September 2020 (after trading hours), Yunnan University, Dianchi Co and Dianchi College signed the “Agreement on the Conversion of Dianchi College of Yunnan University”\* (關於雲南大學滇池學院轉設事宜的協議) (“**Conversion Agreement**”) and has come into effect on 15 September 2020.

According to the Conversion Agreement, Yunnan University, Dianchi Co and Dianchi College unanimously agreed to the conversion application of Dianchi College, upon the conversion approved by the Ministry of Education, the original Cooperative Education Agreement will be terminated. Yunnan University have given Dianchi College the support for the conversion. Yunnan University confirmed that Dianchi Co owns all the assets and property rights of Dianchi College and the college after conversion. Upon completion of the conversion, the college will carry out enrollment publicity and various management tasks in accordance with the requirements and regulations of independent private undergraduate ordinary colleges and universities, and will be liable for all economic and legal responsibilities independently.

According to the Conversion Agreement, Dianchi College (college after conversion) will pay Yunnan University a total of RMB280,000,000 in compensation (“**Compensation Fees**”) in four installments, of which RMB100,000,000, RMB60,000,000, RMB60,000,000 and RMB60,000,000 shall be payable before 30 October 2020, 30 October 2021, 30 October 2022 and 30 October 2023, respectively. Since the date of entering into the Conversion Agreement, Yunnan University will no longer charge Cooperative Education Fees according to the Cooperative Education Agreement, Dianchi Co and Dianchi College will no longer pay Yunnan University Cooperative Education Fees according to the Cooperative Education Agreement. Except for the abovementioned compensation, Dianchi Co and Dianchi College are no longer required to make other payments to Yunnan University.

The Compensation Fees as stipulated in the Conversion Agreement are determined by Yunnan University, Dianchi Co and Dianchi College after arms-length negotiation with reference to the size of Dianchi College, the future prospect of Dianchi College and the compensation or other similar fees paid by other independent colleges to their co-sponsors when they were in conversion and was determined on general commercial terms.

The Directors believe that the Compensation Fees are fair, reasonable and in the interests of the Company and its shareholders.

## **THE FINANCIAL IMPACT OF THE CONVERSION AGREEMENT ON THE COMPANY**

According to the Conversion Agreement, Dianchi College (college after conversion) will pay Yunnan University a total of RMB280,000,000 for Compensation Fees, except for the Cooperative Education Fees in year 2020 being incurred before entering into the Conversion Agreement, it will be recognized as one-time expenses in the annual comprehensive income statement of the Company for the year ended 31 December 2020. The one-time expenses are non-recurring expenses, so they will be adjusted in the core net profit to reflect the recurring operating performance of the Group.

## **REASONS AND BENEFITS OF THE CONVERSION AND TERMINATION OF COOPERATIVE EDUCATION**

The level and quality of Dianchi College is in the leading position among the private universities in Yunnan Province. The total number of students in Dianchi College has increased from 18,948 students as of 31 December 2018 to 21,187 students as of 30 June 2020. Revenue increased from approximately RMB257.1 million for the year ended 31 December 2017 to approximately RMB346.2 million for the year ended 31 December 2019, representing a compound growth rate of approximately 16.4%. Net profit increased from RMB88.4 million for the year ended 31 December 2017 to approximately RMB137.4 million for the year ended 31 December 2019, representing a compound growth rate of approximately 24.7%, which lay a good foundation for sustainable development after the conversion.

The Directors are of the view that:

- (i) After the conversion of Dianchi College, it will no longer pay any Cooperative Education Fees to Yunnan University, therefore reduce costs and expenses, and further enhance the profitability of the Group;
- (ii) After the conversion of Dianchi College, it will further release the student incremental potential, the enrollment scale and the total scale of students will be greatly enhanced, and the tuition fee will be greatly increased through high-quality teaching, and the income level will be enhanced. The gross enrollment rate of higher education in Yunnan Province in 2019 is 46.1%, which is about 5.5 percentage points lower than the national average. There is a large demand for higher education, and the enrollment scale has much room for growth in the future;

- (iii) The conversion of Dianchi College will help enrich the level of schooling, add high-end and high-quality higher vocational education that the market urgently needs, explore the development of professional master's programs, develop graduate education, and build its own core competitiveness and high-quality school brand; and
- (iv) After the conversion of Dianchi College, according to the Education Development Department [2020] No. 2 Document, it will enjoy more beneficiary policy and development bonus. "For the independently established college after conversion, the enrollment plan, project declaration, professional setting, etc., provide preferential support in terms of per-student allocation, financial rewards and subsidies, loan interest discounts, talent introduction, purchase services, land supply, tax reduction and exemption, and financial support."

Therefore, the Directors are of the view that the Dianchi College Conversion is in the interests of the Company and its shareholders.

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

Hong Kong, 16 September 2020

*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.*