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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
UPDATE ON ACQUISITION OF SHIJI KUANGAO
AND
BOHAI EXPERIMENTAL SCHOOL

INTRODUCTION

Reference is made to the announcements dated 12 March 2018 and 13 April 2018 (collectively, the “**Announcements**”) issued by Minsheng Education Group Company Limited (民生教育集團有限公司) (the “**Company**”). Unless otherwise stated, terms defined in the Announcements shall have the same meanings when used in this announcement.

The Company would like to provide an update to its shareholders and potential investors regarding (1) the acquisition of 100% equity interest of Shiji Kuangao by Jierui; and (2) the acquisition of 100% school sponsor’s interest of Bohai Experimental School by Shiji Kuangao as disclosed in the Announcements.

The Company is pleased to announce that as of the date of this announcement:

- (i) the Group has entered into the Relevant Contracts with Shiji Kuangao, Jierui and its shareholders;
- (ii) Jierui has completed the acquisition of 100% equity interest of Shiji Kuangao;
- (iii) Shiji Kungao has become the sole school sponsor of Bohai Experimental School, has obtained approval documents, a Permit for Operating a Private School* (民辦學校辦學許可證) and a Registration Certificate for Private Non-Enterprise Legal Representatives* (民辦非企業法人登記證) of Bohai Experimental School from the relevant governmental authorities, and has acquired the 100% school sponsor’s interest in Bohai Experimental School.

In view of the above, the financial results of Jierui, Shiji Kuangao and Bohai Experimental School have been consolidated in the financial results of the Group under the prevailing accounting principles since the date of this announcement.

Further details regarding the Relevant Contracts, the status of the Acquisition and Bohai Experimental School is set out below.

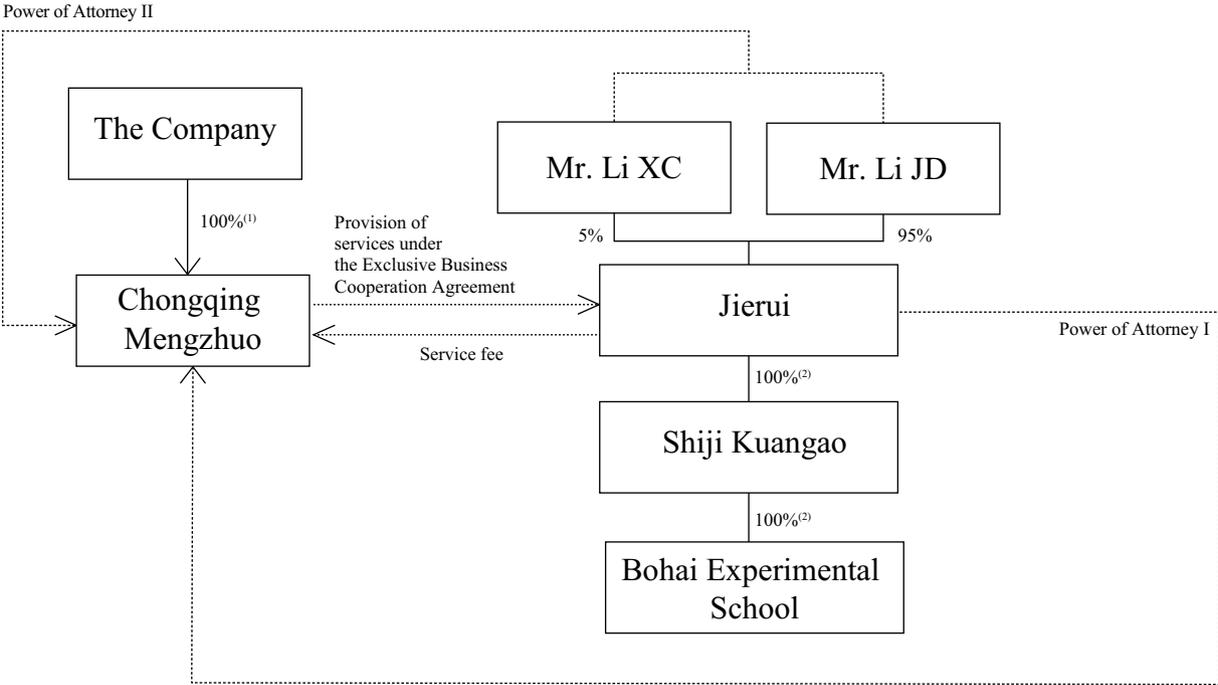
I. THE CONTRACTUAL ARRANGEMENTS

On 2 May 2018, Chongqing Mengzhuo Education Technology Co., Ltd.* (重慶夢卓教育科技有限公司) (“**Chongqing Mengzhuo**”), an indirect wholly-owned subsidiary of the Company, entered into the Relevant Contracts in relation to Shiji Kuangao, Jierui and its shareholders, Mr. Li Xuechun (“**Mr. Li XC**”) and Mr. Li Jiandong (“**Mr. Li JD**”), namely, the (a) Exclusive Business Cooperation Agreement, (b) Equity Pledge Agreements, (c) Exclusive Call Option Agreements, (d) Shareholders’ Rights Entrustment Agreements; and (e) Power of Attorneys, and (f) Spouse Undertakings, (as defined below) (collectively, the “**Contractual Arrangements**”).

Pursuant to the Contractual Arrangements:

- (i) the Group is able to exercise control over Shiji Kuangao as the school sponsor of Bohai Experimental School;
- (ii) the Group has the right to govern the management of Jierui and Shiji Kuangao;
- (iii) the Group has the right to deal with the assets of Jierui and Shiji Kuangao;
- (iv) the Group has the right to acquire the entire equity interest of Jierui and Shiji Kuangao (as and when the PRC relevant rules and regulations allow it to do so);
- (v) the Company is able to consolidate the financial results of Jierui, Shiji Kuangao and Bohai Experimental School into the Group’s results from the commencement date of the Contractual Arrangements; and
- (vi) none of Jierui (as the sole shareholder of Shiji Kuangao) and Mr. Li XC and Mr. Li JD (as the shareholders of Jierui) will obtain or receive any financial or commercial benefits from the equity interest in Jierui or Shiji Kuangao (as the case may be) under the Contractual Arrangements despite holding direct or indirect equity interest in Shiji Kuangao.

The following diagram illustrates the relationship among the Company, Chongqing Mengzhuo, Jierui, Shiji Kuangao, Bohai Experimental School and the shareholders:



Note:

- (1) Chongqing Mengzhuo is indirectly wholly-owned by the Company.
- (2) Upon completion of the relevant Acquisition.

Reasons for use of the Contractual Arrangements

According to the PRC laws and regulations, the business of Bohai Experimental School is a restricted business to foreign investors at present.

Bohai Experimental School engages in high school education in the PRC. From March 2002, in accordance with the Catalogue of Industries for Guiding Foreign Investment (2002 Revision), high school education has been revised as restricted business for foreign investors. At present, pursuant to Catalogue of Industries for Guiding Foreign Investment (2017 Revision), high school education is a restricted business for foreign investors and limited to Sino-foreign cooperative operations led by Chinese nationals. The Company is an overseas company registered outside the PRC, which is a foreign investor; and accordingly, if the equity interest in Shiji Kuangao was owned by the Company, it would be regarded as a foreign investor as well.

Furthermore, pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund’s Entry into the Education Sector and Promoting Healthy Development of Private Education (《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》)

promulgated by the Ministry of Education of the PRC on June 18, 2012 (the “**Implementation Opinions**”), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the “**Foreign Ownership Restriction**”).

As advised by the legal advisor to the Company as to the laws of the PRC, Global Law Office (the “**PRC Legal Advisor**”), pursuant to Regulations on Sino-foreign Cooperation of Educational Institutions (《中外合作辦學條例》) and its Implementing Measures (the “**Implementing Measures**”), the foreign investor of a Sino-foreign cooperative educational institution shall be a foreign educational institution with relevant qualification and the quality of education services provided by it is relatively high (the “**Qualification Requirement**”). There are no specific criteria or guidance on the Qualification Requirement under the current PRC laws and regulations.

As further advised by the PRC Legal Advisor, the principal business of Bohai Experimental School falls within the aforesaid industry, and the Company, as a foreign investor investing in the business of operating high school education in the PRC, is subject to the Qualification Requirement. Based on its interview with the Education Bureau of Shouguang City (the “**Education Bureau**”) in May 2018, the PRC Legal Advisor was informed that: (i) the restrictions to foreign investors as stipulated in the relevant PRC laws and regulations apply to Sino-foreign cooperative education in Shouguang City; and (ii) no further implementation measures or specific guidance have been promulgated under the Regulations on Sino-foreign Cooperation of Educational Institutions and the Implementing Measures in Shandong or Shouguang which sets out the procedures and specific criteria for the satisfaction of the Qualification Requirement. The PRC Legal Advisor is therefore of the view that (i) there are no specific requirements in the Implementing Measures or specific criteria or guidance under the current PRC laws and regulations as to how Shiji Kuangao can be regarded as an educational institution; and (ii) if Shiji Kuangao were a subsidiary of the Group, it would not be qualified to act as a foreign investor in a Sino-foreign cooperative educational institution, until the relevant specific implementation measures and/or guidance have been promulgated to enable the Group to attain such qualification.

Based on the above and as confirmed by the PRC Legal Advisor, in order to achieve the business purpose of the Company, the Contractual Arrangements, through which the Group will be able to exercise full control over Shiji Kuangao and consolidate the financial results of Jierui, Shiji Kuangao and Bohai Experimental School into the accounts of the Group, have been utilized to minimize the potential conflict with relevant PRC laws and regulations.

Unwinding of the Contractual Arrangements

The Directors confirm that the Company will monitor the development of the relevant PRC laws and regulations on the Foreign Ownership Restriction and the Qualification Requirement and other relevant restrictions on foreign investors and work closely with Jierui and Shiji Kuangao

to take all reasonable steps to comply with the other requirements or unwind the Contractual Arrangements to the extent possible and practicable under the relevant PRC laws and regulations.

In addition to monitoring the development of the relevant PRC laws and regulations on the Qualification Requirement, the Company is also minded to further develop its capabilities to provide higher education services overseas in order to be prepared to satisfy the Qualification Requirement when the relevant specific criteria and guidance become available. As disclosed in the Company's 2017 annual report, the Group owns approximately 25.6% equity interest in Beacon International College PTE LTD. in Singapore and is one of two members of Hong Kong Nang Yan College of Higher Education Limited in Hong Kong. Please refer to the 2017 annual report of the Company for further details of these investments. The Group currently participates in the management of these two schools mainly through its representatives who are appointed as directors or governors of each school. As these schools are overseas schools of higher education, which are in line with the principles set out in the Regulations on Sino-foreign Cooperation of Educational Institutions and the Implementation Measures in relation to the status of a foreign investor in a Sino-foreign cooperative educational institution, the Directors believe such investment and involvement in overseas educational institutions will be conducive to the Group's satisfaction of the Qualification Requirement when the relevant laws, regulation, procedures and/or guidance are promulgated.

Details of the Contractual Arrangements

The major provisions of the contracts in the Contractual Arrangements are summarized as follows:

(1) Exclusive Business Cooperation Agreement

Pursuant to the exclusive business cooperation agreement entered into between Chongqing Mengzhuo and Jierui (the "**Exclusive Business Cooperation Agreement**"), Chongqing Mengzhuo agreed to provide exclusive technical services to Jierui, including but not limited to, technical services, network support, business consulting, market consulting, system maintenance and other services necessary for the business of or as required by Jierui and allowed under the PRC law.

Under the Exclusive Business Cooperation Agreement, Chongqing Mengzhuo is entitled to charge Jierui each financial year for a service fee equals to all the amount of its net profit (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law) and the statutory provident fund as required by law) for the corresponding period. Chongqing Mengzhuo has the right (but not the obligation) to adjust the amount of such service fee by reference to, among others, the actual services provided and the actual business operations and needs of Jierui, provided that any adjusted amount shall not cause any difficulties for the operation of both of Chongqing Mengzhuo and Jierui.

(2) Equity Pledge Agreements

Pursuant to the equity pledge agreement entered into by and among Chongqing Mengzhuo, Jierui and Shiji Kuangao (the “**Equity Pledge Agreement I**”), Jierui agreed to pledge and grant the first priority security interests over the entire equity interest of Shiji Kuangao owned by Jierui together with all related rights thereto to Chongqing Mengzhuo as security for performance the Contractual Arrangements and all direct, indirect, consequential damages and foreseeable loss of interest incurred by Chongqing Mengzhuo as a result of enforcement of the obligations of Jierui and Shiji Kuangao under the Contractual Arrangements until all such obligations are discharged to the satisfaction of Chongqing Mengzhuo or as required by PRC laws and regulations.

In addition, pursuant to the equity pledge agreement entered into by and among Chongqing Mengzhuo, Jierui, Mr. Li XC and Mr. Li JD (the “**Equity Pledge Agreement II**”, together with the Equity Pledge Agreement I, the “**Equity Pledge Agreements**”), Mr. Li XC and Mr. Li JD agreed to pledge and grant the first priority security interests over the 100% equity interest of Jierui owned by Mr. Li XC and Mr. Li JD in aggregate together with all related rights thereto to Chongqing Mengzhuo as security for performance the Contractual Arrangements and all direct, indirect, consequential damages and foreseeable loss of interest incurred by Chongqing Mengzhuo as a result of enforcement of the obligations of Mr. Li XC, Mr. Li JD and Jierui under the Contractual Arrangements until all such obligations are discharged to the satisfaction of Chongqing Mengzhuo or as required by PRC laws and regulations.

(3) Exclusive Call Option Agreements

Pursuant to the exclusive call option agreement entered into by and among Chongqing Mengzhuo, Jierui and Shiji Kuangao (the “**Exclusive Call Option Agreement I**”), Jierui has irrevocably and unconditionally granted Chongqing Mengzhuo the right to, as and when permitted by the applicable PRC laws and regulations during the term of the Contractual Arrangements, acquire all or part of the 100% equity interest of Shiji Kuangao held by Jierui at a consideration which is the lower of the registered capital contribution by Jierui to Shiji Kuangao and nominal consideration, or otherwise at the lowest price permitted by the then applicable PRC laws and regulations. In addition, pursuant to the Exclusive Call Option Agreement I, Jierui has irrevocably undertaken that, subject to the PRC laws and regulations, they will return to the Company any consideration they receive in the event that the Company acquires the equity interest in Shiji Kuangao when unwinding the Contractual Arrangements.

In addition, pursuant to the exclusive call option agreement entered into by and among Chongqing Mengzhuo, Jierui, Mr. Li XC and Mr. Li JD (the “**Exclusive Call Option Agreement II**”, together with Exclusive Call Option Agreement I, the “**Exclusive Call Option Agreements**”), Mr. Li XC and Mr. Li JD have irrevocably and unconditionally granted Chongqing Mengzhuo the right to, as and when permitted by the applicable PRC

laws and regulations during the term of the Contractual Arrangements, acquire all or part of the 100% equity interest of Jierui together held by Mr. Li XC and Mr. Li JD for the lower of the registered capital contribution by Mr. Li XC and Mr. Li JD to Jierui and nominal consideration, or otherwise at the lowest price permitted by the then applicable PRC laws and regulations. In addition, pursuant to the Exclusive Call Option Agreement II, Mr. Li XC and Mr. Li JD have irrevocably undertaken that, subject to the PRC laws and regulations, they will return to the Company any consideration they receive in the event that the Company acquires the equity interest in Jierui when unwinding the Contractual Arrangements.

(4) Shareholders' Rights Entrustment Agreements and Power of Attorneys

Shareholders' Rights Entrustment Agreement I and Power of Attorney I

Pursuant to the shareholders' rights entrustment agreement executed by and among Chongqing Mengzhuo, Jierui and Shiji Kuangao (the "**Shareholders' Rights Entrustment Agreement I**"), Jierui executed a power of attorney in favour of Chongqing Mengzhuo (the "**Power of Attorney I**") pursuant to which Jierui has irrevocably and unconditionally authorized Chongqing Mengzhuo to, among other things:

- (i) act as the agent of Jierui and to make decisions which Jierui is entitled to make as the shareholder of Shiji Kuangao on behalf of Jierui;
- (ii) exercise all its rights of shareholder and voting rights in Shiji Kuangao as granted by the PRC law and the articles and associations of Shiji Kuangao, including but not limited to selling, transferring, pledging or otherwise dealing in all or any of the equity interests in Shiji Kuangao; and
- (iii) serve as the legal representative, chairman, executive director or manager of Shiji Kuangao in accordance with its articles and associations, or nominate, appoint or change the legal representative, chairman, directors, supervisors, chief executive officer, manager or other management level personnel of Shiji Kuangao.

Chongqing Mengzhuo is entitled to authorize any person or entity, any directors of the Company or any successor or liquidator of such directors to exercise the rights which Chongqing Mengzhuo is authorized to exercise under the Power of Attorney I.

In addition, pursuant to the Shareholders' Rights Entrustment Agreement I, Jierui guarantees and undertakes that:

- (i) in the event it receives any asset (including the equity interest of Shiji Kuangao) in relation to the liquidation, winding-up, dismissal or termination of Shiji Kuangao, Jierui agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Chongqing Mengzhuo such asset; and
- (ii) without prior approval of Chongqing Mengzhuo, it will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of Shiji Kuangao or its associated companies, or be engaged by any entity which is or may be in competition with the business of Shiji Kuangao or its associated companies, or hold any assets of such entity or hold more than 5% interest in such entity.

Pursuant to the Shareholders' Rights Entrustment Agreement I, any successor to Jierui shall hold the respective equity interest in Shiji Kuangao subject to conditions, requirements and obligations under the Shareholders' Rights Entrustment Agreement I.

Shareholders' Rights Entrustment Agreement II and Power of Attorney II

Pursuant to the shareholders' rights entrustment agreement executed by and among Chongqing Mengzhuo, Mr. Li XC, Mr. Li JD and Jierui (the "**Shareholders' Rights Entrustment Agreement II**", together with the Shareholders' Rights Entrustment Agreement I, the "**Shareholders' Rights Entrustment Agreements**"), Mr. Li XC and Mr. Li JD executed a power of attorney in favour of Chongqing Mengzhuo (the "**Power of Attorney II**", together with the Power of Attorney I, the "**Power of Attorneys**") pursuant to which Mr. Li XC and Mr. Li JD have irrevocably and unconditionally authorized Chongqing Mengzhuo to, among other things:

- (i) act as the agent of Mr. Li XC and Mr. Li JD to convene and attend shareholder meetings of Jierui in accordance with its articles and associations;
- (ii) exercise all their rights of shareholders and voting rights in Jierui as granted by the PRC law and its articles and associations, including but not limited to selling, transferring, pledging or otherwise dealing in all or any of the equity interests in Jierui; and
- (iii) serve as the legal representative, chairman, executive director or manager of Jierui in accordance with its articles and associations, or nominate, appoint or change the legal representative, chairman, directors, supervisors, chief executive officer, manager or other management level personnel of Jierui.

Chongqing Mengzhuo is entitled to authorize any person or entity, any directors of the Company or any successor or liquidator of such directors to exercise the rights which Chongqing Mengzhuo is authorized to exercise under the Power of Attorney II.

In addition, pursuant to the Shareholders' Rights Entrustment Agreement II, each of Mr. Li XC and Mr. Li JD guarantees and undertakes that:

- (i) in the event he receives any asset (including the equity interest of Jierui) in relation to the liquidation, winding-up, dismissal or termination of Jierui, each of them agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Chongqing Mengzhuo such asset; and
- (ii) without prior approval of Chongqing Mengzhuo, neither of them will, directly or indirectly, participate or engage in any business which is or may be in competition with the business of Jierui or its associated companies, or be engaged by any entity which is or may be in competition with the business of Jierui or its associated companies, or hold any assets of such entity or hold more than 5% interest in such entity.

Pursuant to the Shareholders' Rights Entrustment Agreement II, in the event of death, loss of capacity, marriage, divorce or bankruptcy of Mr. Li XC and Mr. Li JD, or other similar events affecting Mr. Li XC or Mr. Li JD in exercising their respective shareholders' rights of Jierui, any successor to Mr. Li XC or Mr. Li JD shall hold the respective equity interest in Jierui subject to conditions, requirements and obligations under the Shareholders' Rights Entrustment Agreement II.

(5) *Spouse Undertakings*

Pursuant to the spouse undertakings ("**Spouse Undertakings**") executed by Ms. Xin, the spouse of Mr. Li JD, Ms. Xin has irrevocably undertaken that:

- (a) she has full knowledge of and has consented to the entering into of the Contractual Arrangements to which Mr. Li JD is a party, and in particular, the equity interest in Jierui owned by Mr. Li JD is not part of the common assets of Mr. Li JD and herself, she is not entitled to any rights attached to such equity interests of Mr. Li JD in Jierui (including the rights arising from the Contractual Arrangements), she shall not engage in any activities interfering the performance of the Contractual Arrangements (including but not limited to claiming her entitlement to the equity interest of Jierui owned by Mr. Li JD and any rights arising from the Contractual Arrangements);
- (b) she has not, is not and shall not in the future participate in the operation and management in relation to Jierui and claim any interest in relation to the equity interest and assets of Jierui;

- (c) in the event she receives all or part of the equity interest of Jierui for any reason, she agrees to be a party to the Contractual Arrangements and be bound by the relevant restrictions as set out in the Contractual Arrangements and perform any act and execute all necessary documents in order to give effect to such restrictions.

Further information about the Contractual Arrangements

Authorization to obtain assets of Shiji Kuangao

Pursuant to the Shareholders' Rights Entrustment Agreement I and the Power of Attorney I, Chongqing Mengzhuo has been authorized to exercise all rights of Jierui as the sole shareholder of Shiji Kuangao under applicable laws and the articles of association of Shiji Kuangao, including but not limited to the right to dividends and right to deal with the assets of Shiji Kuangao. It is also the guarantee and undertaking that, in the Shareholders' Rights Entrustment Agreement I, in the event it receives any asset (including the equity interest of Shiji Kuangao) in relation to the liquidation, winding-up, dismissal or termination of Shiji Kuangao, Jierui agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Chongqing Mengzhuo such asset.

Dispute resolution

Pursuant to the Contractual Arrangements, any dispute arising from the validity, interpretation and performance of the Contractual Arrangements between the parties thereto should first be resolved through negotiation. If the parties are unable to settle the dispute within 30 days, any party may submit the said dispute to the Chongqing Arbitration Commission with a view to resolving the dispute through arbitration in accordance with the arbitration rules thereof. The results of the arbitration shall be final and binding on all relevant parties. The arbitral commission shall have the right to award remedies over the equity interest and property interest and other assets of Jierui, injunctive relief (for the conduct of business or to compel the transfer of assets) or order the winding up of Jierui (the "**Arbitral Award Provisions**").

The Contractual Arrangements also provide that pending formation of the arbitral tribunal or in appropriate cases, the courts of Hong Kong, the Company's place of incorporation (the Cayman Islands), Jierui's place of establishment (the PRC), the jurisdiction where the principal assets of Chongqing Mengzhuo or Jierui are located (the PRC) have the power to grant interim remedies in support of the arbitration (the "**Interim Remedies Provisions**").

However, as advised by the PRC Legal Advisor, according to the PRC laws and regulations, the arbitral tribunal normally would not grant such kind of remedies or injunctive relief or winding up order of such PRC operational entities as Jierui under the PRC laws and regulations. For instance, the arbitral commission has no authority to grant such injunctive relief, nor will it be able to order the winding up of the PRC operational entities pursuant to existing PRC laws and regulations. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and Cayman Islands may not be recognizable or enforceable in China.

Conflict of interests

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between Shiji Kuangao and the Group. In particular, the undertakings executed by Jierui in favour of Chongqing Mengzhuo provide that it will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of Shiji Kuangao or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interest between itself and Chongqing Mengzhuo. Pursuant to Shareholders' Rights Entrustment Agreement I and the Power of Attorney I, Jierui guarantees and undertakes that the exercise of the rights as granted to Chongqing Mengzhuo or as authorized by Jierui shall not give rise to any conflict of interests.

Legality and enforceability of the Contractual Arrangements

The PRC Legal Advisor confirmed that (i) the Contractual Arrangements comply with the relevant laws and regulations in the PRC applicable to Shiji Kuangao and the respective articles of association of Shiji Kuangao and Chongqing Mengzhuo; (ii) the Contractual Arrangements would not be deemed as concealing illegal intentions with a lawful form and void under the PRC Contract Law (《中華人民共和國合同法》).

In addition, pursuant to the Shareholders' Rights Entrustment Agreement I and the Power of Attorney I, appropriate arrangements have been made to protect the Company's interests in the event of winding up or liquidation of Shiji Kuangao to avoid any practical difficulties in enforcing the Contractual Arrangements.

As advised by the PRC Legal Advisor, other than the Arbitral Award Provisions and the Interim Remedies Provisions, which may not be enforced under the relevant laws of the PRC, all the contractual rights and obligations under the Contractual Arrangements are enforceable under PRC laws. Based on the legal opinion from Global Law Office, the Directors believe that, other than the Arbitral Award Provisions and the Interim Remedies Provisions, each of the Contractual Arrangements which confers significant control and economic benefits from Jierui or Shiji Kuangao to Chongqing Mengzhuo is enforceable under the relevant laws and regulations of the PRC.

Consolidation of financial results

Based on the Contractual Arrangements and the legal opinion provided by the PRC Legal Advisor, the Directors are of the view that the Contractual Arrangements has allowed the Company to consolidate the financial results of Jierui, Shiji Kuangao and Bohai Experimental School under the prevailing accounting principles.

Risks involved in the Contractual Arrangements

As the primary beneficiary of Shiji Kuangao, the Group is exposed to the business risks and financial risks faced by Shiji Kuangao. There is no assurance that Shiji Kuangao will generate any profit which can be paid to the Group through the Exclusive Business Cooperation Agreement and the Shareholders' Rights Entrustment Agreement I. Any profit or loss of Shiji Kuangao (net of intra-group transactions) will be reflected in the consolidated financial results of the Group. The exercise of the Exclusive Call Option Agreement I is subject to applicable laws and regulations of the PRC. There is no assurance that the acquisition of the equity interest in Shiji Kuangao held by Jierui under the Exclusive Call Option Agreement I will be permitted in the future, or whether such acquisition will incur any costs and expenses to the Group in addition to the consideration stipulated under the Exclusive Call Option Agreement I. Due to these limitations, the transfer of equity interest in Shiji Kuangao pursuant to the exercise of the call option under the Exclusive Call Option Agreement I may still be subject to substantial costs.

The PRC Legal Advisor is of the opinion that as at the date of this announcement, the execution, delivery and performance of the Contractual Arrangements by each of the parties thereto, is in compliance with (i) the provisions under the articles of association of such party and (ii) any applicable PRC laws and regulations. However, the interpretation and implementation of the laws and regulations concerning the foreign investment in the PRC, and their application to and effect on the legality, binding effect and enforceability of contracts, are subject to the discretion of competent PRC legislative, administrative and judicial authorities. In particular, there is no assurance that PRC legislative, administrative or judicial authorities will not adopt a different or contrary interpretation or view against view of the Company and its legal advisor in respect of the legality, binding effect and enforceability of the Contractual Arrangements, and may determine that the contracts do not comply with applicable regulations.

Further, the Contractual Arrangements may not provide control over Jierui and Shiji Kuangao as effective as direct ownership; Mr. Li XC, Mr. Li JD and Jierui may have potential conflicts of interest with the Company; and the Contractual Arrangements may be subject to scrutiny of the tax authorities and additional tax may be imposed on the Group.

We believe that there are limited business insurance products available in the market, and to the best knowledge of our Directors, no insurance products specifically designed for protecting the risks relating to the Contractual Arrangements are available in the PRC market. Further, it is not compulsory for Jierui and Shiji Kuangao to maintain an insurance policy to cover risks relating to the Contractual Arrangements under the applicable PRC laws and regulations. Accordingly, the Group has not purchased any insurance to cover the above risks.

Internal control

The Company has put in place effective internal controls over Chongqing Mengzhuo, Jierui and Shiji Kuangao to safeguard its assets held through the Contractual Arrangements. As a wholly-owned subsidiary of the Company, Chongqing Mengzhuo is subject to all the internal control process and procedures applicable to the Group.

The operations of Jierui and Shiji Kuangao are exclusively controlled by Chongqing Mengzhuo through the Contractual Arrangements and the Group has applied its internal control processes and procedures to Jierui and Shiji Kuangao. In particular, pursuant to the Contractual Arrangements, (i) Chongqing Mengzhuo has the right to nominate, appoint or terminate, the legal representatives, chairman, directors, supervisors, chief executive officer, manager and other senior management members of Jierui and Shiji Kuangao; (ii) without the prior consent of Chongqing Mengzhuo, Jierui and Shiji Kuangao is not allowed to dispose of, transfer, pledge or in any way deal with, any of their respective assets (except, within the ordinary course of business, with a value of RMB1,000,000 or less), business, operation power and or revenue.

Financing arrangements

It is expected that the funds necessary for Jierui to satisfy its payment obligations under the Interest Transfer Agreement will be indirectly financed by the Group's internal resources by way of loan(s) or other legal financial arrangement(s) with Jierui and/or Shiji Kuangao.

Other information

Apart from Shiji Kuangao, Jierui does not generate revenue from any other subsidiaries of the Company.

As at the date of this announcement, Chongqing Mengzhuo has not encountered any interference or encumbrance from any governing bodies in operating its business through Jierui or Shiji Kuangao under the Contractual Arrangements.

The Directors confirm that the Company has complied in full with the guidance letter HKEx-GL77-14 issued by the Stock Exchange in relation to listed issuers using contractual arrangements for their business in respect of the Contractual Arrangements.

Listing Rules implications

Since Mr. Li XC is an executive Director and a controlling shareholder of the Company, he is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Accordingly, the Equity Pledge Agreement II, the Exclusive Call Option Agreement II and the Shareholders' Rights Entrustment Agreement II constitute connected transactions of the Company under the Listing Rules.

In relation to the Equity Pledge Agreement II, as Jierui and Shiji Kuangao have no material assets and not yet generated any revenue, and that the equity pledge granted by Mr. Li XC under the Equity Pledge Agreement II is not for any consideration, the applicable percentage ratios are all below 0.1%. Accordingly, the Equity Pledge Agreement II constitutes a fully exempt connected transaction.

In relation to the Exclusive Call Option Agreement II, as exercise of the call option under the Exclusive Call Option Agreement II is at the discretion of the Company and no premium is payable for the grant of the call option to the Company under the Exclusive Call Option Agreement II, the applicable percentage ratios in relation to the grant of the call option by Mr. Li XC are below 0.1%. Accordingly, the grant of the call option under the Exclusive Call Option Agreement II by Mr. Li XC constitutes a fully-exempt connected transaction. The Company will comply with applicable requirements under the Listing Rules upon exercise of the call option under the Exclusive Call Option Agreement II.

In relation to the Shareholders' Rights Entrustment Agreement II, as Jierui and Shiji Kuangao have no material assets and not yet generated any revenue and there is no consideration given for Mr. Li XC's entrustment of his shareholder's right to Chongqing Mengzhuo, all applicable percentage ratios are all below 0.1%. Accordingly, the Shareholders' Rights Entrustment Agreement II constitutes a fully exempt connected transaction.

Jierui is treated as a member of the Group for the purpose of compliance with the applicable requirements under the Listing Rules. The Company will comply with the relevant requirements under the Listing Rules in respect of future transactions of Jierui, including but not limited to Chapters 13, 14, 14A and 17 of the Listing Rules, accordingly.

II. STATUS OF THE ACQUISITION

The completion of the Equity Transfer Agreement and the Interest Transfer Agreement took place on 2 May 2018. As all the conditions precedent to the Equity Transfer Agreement and the Interest Transfer Agreement have been satisfied and the relevant obligations of the respective parties to the Equity Transfer Agreement and the Interest Transfer Agreement have been duly performed, (i) Shiji Kuangao has become a wholly-owned subsidiary of Jierui; and (ii) Shiji Kuangao has become the sole school sponsor of Bohai Experimental School.

Accordingly, the financial results of Jierui, Shiji Kuangao and Bohai Experimental School have been consolidated into the Company's financial statements under the prevailing accounting principles from 2 May 2018.

III. INFORMATION OF BOHAI EXPERIMENTAL SCHOOL

Bohai Experimental School (also known as The Experimental High School associated with University of Chinese Academy of Sciences Basic Education Institute* (中國科學院大學基礎教育研究院附屬實驗中學) and Shouguang City No.1 Secondary School Branch School* (壽光市第一中學分校)), with its further information set out as follow :

- (i) an outstanding teaching team – Bohai Experimental School has about 260 outstanding teachers, 20 of which are teaching experts above the prefecture and city level, special teachers, excellent teachers and subject leaders.
- (ii) outstanding achievement in teaching:
 - a. in the first mock exam for the third year of high schools* (高三一模統考) of Weifang City held in March 2018, a student of Bohai Experimental School, namely Niu Zichen, won the first place in science in Shouguang City and has obtained the title of “Outstanding Camper* (優秀營員)” in the Peking University Summer School, which means passing the Peking University’s General Education Talent Program* (北京大學博雅人才計劃) and he will be entitled directly to the written examination of Peking University without attending any interview session upon the completion of the college entrance examination* (高考). The Peking University’s General Education Talent Program* (北京大學博雅人才計劃) is to focus on selecting outstanding students with excellent character and excellent academic performances, which is the most prestigious among all independent entry exams held by higher education colleges and universities. A total of 29 students from the Department of Arts and Sciences at the Summer School in Shandong Province* (山東全省北京大學暑期學堂文理科) received the title of “Outstanding Camper* (優秀營員)” this year;
 - b. in the second mock exam for the third year of high schools* (高三二模統考) of Weifang City held in April 2018, a student of Bohai Experimental School, namely Wang Yunfeng, won the first place in science in the city with 673 points. This was another student winning the first prize in science at Shouguang City followed by the outstanding performance of Niu Zhichen in the first mock exam;
 - c. in the mid-term exam in Shouguang City held in April 2018, a second year high school student of Bohai Experimental School, namely Qi Chang, was named the first in science subject in Shouguang City;
- (iii) outstanding teaching facilities – Bohai Experimental School has two individual campuses, classrooms and dormitories are equipped with air-conditioning and heating, integrated teaching and learning equipment, multi-function reading rooms, swimming pools, gymnasiums, 3D cinemas, lifting stages and other facilities which have reached the leading domestic standard; and

- (iv) potential for expansion – Bohai Experimental School currently has approximately 2,500 students. There are two independent campuses which can accommodate more than 5,000 students, and there are more than 200 acres of land with education purpose are ready for expansion.

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

Hong Kong, 2 May 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*