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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 DISCLOSEABLE TRANSACTION UPDATE ON ACQUISITION OF 51% SCHOOL SPONSOR'S INTEREST IN THE TARGET SCHOOL

INTRODUCTION

Reference is made to the announcement dated 30 August 2017 (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% school sponsor's interest in Anhui Wonder University of Information Engineering* (安徽文達信息工程學院). Unless otherwise stated, terms defined in the Announcement shall have the same meanings when used in this announcement.

The Company would like to provide an update to the Company's shareholders and potential investors regarding the Acquisition as detailed in this announcement. In addition, to enable the Company's shareholders and potential investors to better understand the Acquisition, the Company would like to provide additional information in the following aspects of the Acquisition: (i) the background of and relationship among the counterparties to the Acquisition Agreement; (ii) the Target School and its assets; and (iii) the rationale and bases of certain terms and conditions of the Acquisition Agreement.

I. UPDATE ON THE ACQUISITION

Subsequent to the execution of the Acquisition Agreement, in light of the restrictions in the private education industry in the PRC for foreign investors, the Company sought further legal advice regarding the originally proposed shareholding structure of Chongqing Yuecheng upon completion of the Acquisition. Taking into account the advice of the legal advisor to the Company as to the laws of the PRC, Global Law Office (the “**PRC Legal Advisor**”), in order to enjoy the economic benefit of Chongqing Yuecheng's school sponsor's interest in the Target School upon completion of the Acquisition to the fullest extent permitted under PRC laws while complying with the relevant laws, rule and regulations applicable to the Target School, the Group has transferred to its equity interest in Chongqing Yuecheng to an entity owned by Mr. Li Xuechun (“**Mr. Li**”), a Director, the chairman of the Board and a controlling shareholder of the Company, and Mr. Cao Yong (“**Mr. Cao**”), an employee of the Group, and entered into a

series of contractual arrangements pursuant to which the Group will be entitled to the economic benefits from Chongqing Yuecheng and has the power to control Chongqing Yuecheng. Details of the change of the shareholding structure of Chongqing Yuecheng and the said contractual arrangements are summarized as follows.

Transfer of equity interest in Chongqing Yuecheng

- (i) With effect from 7 September 2017, Chongqing Mincheng LLP transferred 99% equity interest in Chongqing Yuecheng to Chongqing Yugangao at nil consideration. After completion of the above share transfer, Chongqing Yuecheng is wholly-owned by Chongqing Yugangao.
- (ii) With effect from 7 September 2017, Mr. Li transferred 95% equity interest in Chongqing Yugangao to Mr. Cao at nil consideration. After the completion of the above share transfer, Chongqing Yugangao is owned as to 5% by Mr. Li and 95% by Mr. Cao.

The Contractual Arrangements

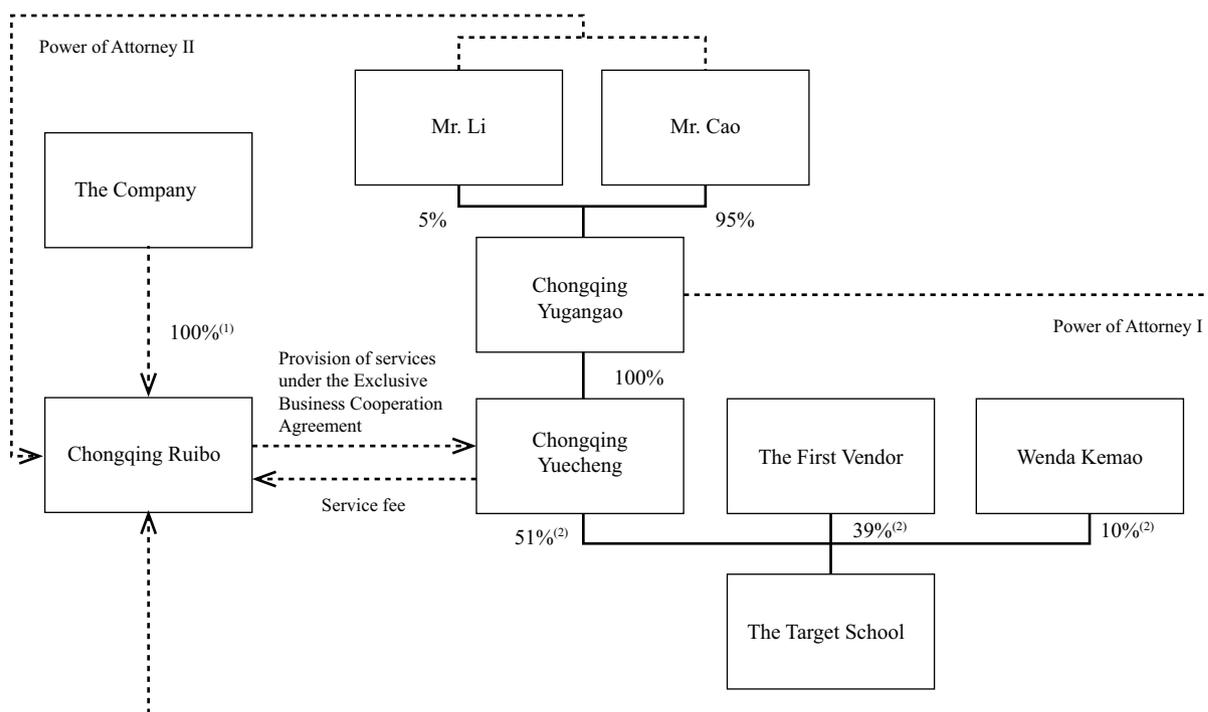
On 27 September 2017 (after trading hours), Chongqing Ruibo, an indirect wholly-owned subsidiary of the Company, entered into the following agreements in relation to Chongqing Yuecheng and its shareholders: the (a) Exclusive Business Cooperation Agreement, (b) Equity Pledge Agreements, (c) Exclusive Call Option Agreements, (d) Shareholders' Rights Entrustment Agreements and Power of Attorneys, and (e) Spouse Undertakings (as defined below)(collectively, the "**Contractual Arrangements**").

Pursuant to the Contractual Arrangements:

- (i) the Group is able to exercise control over Chongqing Yuecheng as the school sponsor of the Target School;
- (ii) the Group has the right to govern the management of Chongqing Yuecheng;
- (iii) the Group has the right to deal with the assets of Chongqing Yuecheng;
- (iv) the Group has the right to acquire the entire equity interest of Chongqing Yuecheng (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 Chongqing Yuecheng into the Group's results from the commencement date of the Contractual Arrangements; and

(vi) none of Chongqing Yugangao (as the sole shareholder of Chongqing Yuecheng) and Mr. Li and Mr. Cao (as the shareholders of Chongqing Yugangao) will obtain or receive any financial or commercial benefits from the equity interest in Chongqing Yugangao or Chongqing Yuecheng (as the case may be) under the Contractual Arrangements despite holding direct or indirect equity interest in Chongqing Yuecheng.

The following diagram illustrates the relationship among the Company, Chongqing Ruibo, Chongqing Yuecheng, the Target School and the shareholders:



Note:

- (1) Chongqing Ruibo is indirectly wholly-owned by the Company.
- (2) Subject to completion of the Acquisition.

Reasons for use of the Contractual Arrangements

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

The Target School engages in higher education in the PRC. From April 2015, in accordance with the Catalogue of Industries for Guiding Foreign Investment (2015 Revision)*, higher education has been revised from encouraged business to restricted business for foreign investors. At present, pursuant to Catalogue of Industries for Guiding Foreign Investment (2017 Revision)*, higher 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 Chongqing Yuecheng were 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 18 June 2012 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 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 the Target School falls within the aforesaid industry, and the Company, as a foreign investor investing in the business of operating higher education in the PRC, is subject to the Qualification Requirement. Based on its interview with the Education Department of Anhui Province (the **“Education Department”**) in September 2017, PRC Legal Advisor was informed that: (i) the restrictions to foreign investors as stipulated in relevant PRC laws and regulations apply to Sino-foreign cooperative education in Anhui Province; 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 Anhui 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 Chongqing Yuecheng can be regarded as an educational institution; and (ii) if Chongqing Yuecheng 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 Chongqing Yuecheng and consolidate the financial results of Chongqing Yuecheng 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 Chongqing Yuecheng 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 2016 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 2016 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 Implementing 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 Ruibo and Chongqing Yuecheng (the "**Exclusive Business Cooperation Agreement**"), Chongqing Ruibo agreed to provide exclusive technical services to Chongqing Yuecheng, 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 Chongqing Yuecheng and allowed under the PRC law.

Under the Exclusive Business Cooperation Agreement, Chongqing Ruibo is entitled to charge Chongqing Yuecheng 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 Ruibo 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 Chongqing Yuecheng, provided that any adjusted amount shall not cause any difficulties for the operation of both of Chongqing Ruibo and Chongqing Yuecheng.

(2) *Equity Pledge Agreements*

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

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

(3) *Exclusive Call Option Agreements*

Pursuant to the exclusive call option agreement entered into by and among Chongqing Ruibo, Chongqing Yugangao and Chongqing Yuecheng (the “**Exclusive Call Option Agreement I**”), Chongqing Yugangao has irrevocably and unconditionally granted Chongqing Ruibo 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 Chongqing Yuecheng held by Chongqing Yugangao at a consideration which is the lower of the registered capital contribution by Chongqing Yugangao to Chongqing Yuecheng 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 entered into by and among Chongqing Ruibo, Chongqing Yugangao, Mr. Li and Mr. Cao (the “**Exclusive Call Option Agreement II**”, together with Exclusive Call Option Agreement I, the “**Exclusive Call Option Agreements**”), Mr. Li and Mr. Cao have irrevocably and unconditionally granted Chongqing Ruibo 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 Chongqing Yugangao together held by Mr. Li and Mr. Cao for the lower of the registered capital contribution by Mr. Li and Mr. Cao to Chongqing Yugangao 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 and Mr. Cao 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 Chongqing Yuecheng 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 Ruibo, Chongqing Yugangao and Chongqing Yuecheng (the “**Shareholders’ Rights Entrustment Agreement I**”), Chongqing Yugangao executed a power of attorney in favour of Chongqing Ruibo (the “**Power of Attorney I**”) pursuant to which Chongqing Yugangao has irrevocably and unconditionally authorized Chongqing Ruibo to, among other things:

- (i) act as the agent of Chongqing Yugangao and to make decisions which Chongqing Yugangao is entitled to make as the shareholder of Chongqing Yuecheng on behalf of Chongqing Yugangao;
- (ii) exercise all its rights of shareholder and voting rights in Chongqing Yuecheng as granted by the PRC law and the articles and associations of Chongqing Yuecheng, including but not limited to selling, transferring, pledging or otherwise dealing in all or any of the equity interests in Chongqing Yuecheng; and
- (iii) serve as the legal representative, chairman, executive director or manager of Chongqing Yuecheng 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 Chongqing Yuecheng.

Chongqing Ruibo 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 Ruibo is authorized to exercise under the Power of Attorney I.

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

- (i) in the event it receives any asset (including the equity interest of Chongqing Yuecheng) in relation to the liquidation, winding-up, dismissal or termination of Chongqing Yuecheng, Chongqing Yugangao agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Chongqing Ruibo such asset; and
- (ii) without prior approval of Chongqing Ruibo, it will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of Chongqing Yuecheng or its associated companies, or be engaged by any entity which is or may be in competition with the business of Chongqing Yuecheng 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 Chongqing Yugangao shall hold the respective equity interest in Chongqing Yuecheng 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 Ruibo, Mr. Li, Mr. Cao and Chongqing Yugangao (the "**Shareholders' Rights Entrustment Agreement II**"), together with the Shareholders' Rights Entrustment Agreement I, the "**Shareholders' Rights Entrustment Agreements**"), Mr. Li and Mr. Cao executed a power of attorney in favour of Chongqing Ruibo (the "**Power of Attorney II**"), together with the Power of Attorney I, the "**Power of Attorneys**") pursuant to which Mr. Li and Mr. Cao have irrevocably and unconditionally authorized Chongqing Ruibo to, among other things:

- (i) act as the agent of Mr. Li and Mr. Cao to convene and attend shareholder meetings of Chongqing Yugangao in accordance with its articles and associations;
- (ii) exercise all their rights of shareholders and voting rights in Chongqing Yugangao 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 Chongqing Yugangao; and

- (iii) serve as the legal representative, chairman, executive director or manager of Chongqing Yugangao 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 Chongqing Yugangao.

Chongqing Ruibo 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 Ruibo is authorized to exercise under the Power of Attorney II.

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

- (i) in the event he receives any asset (including the equity interest of Chongqing Yugangao) in relation to the liquidation, winding-up, dismissal or termination of Chongqing Yugangao, he agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Chongqing Ruibo such asset; and
- (ii) without prior approval of Chongqing Ruibo, he will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of Chongqing Yugangao or its associated companies, or be engaged by any entity which is or may be in competition with the business of Chongqing Yugangao 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 Mr. Li's or Mr. Cao's death, loss of capacity, marriage, divorce or bankruptcy or other similar events affecting Mr. Li or Mr. Cao in exercising their respective shareholders' rights of Chongqing Yugangao, any successor to Mr. Li or Mr. Cao shall hold the respective equity interest in Chongqing Yugangao 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. Shi, the spouse of Mr. Cao, Ms. Shi has irrevocably undertaken that:

- (a) she has full knowledge of and has consented to the entering into of the Contractual Arrangements to which Mr. Cao is a party, and in particular, the equity interest in Chongqing Yugangao owned by Mr. Cao is not part of the common assets of Mr. Cao and herself, she is not entitled to any rights attached to such equity interests of Mr. Cao in Chongqing Yugangao (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 Chongqing Yugangao owned by Mr. Cao 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 Chongqing Yugangao and claim any interest in relation to the equity interest and assets of Chongqing Yugangao.
- (c) in the event she receives all or part of the equity interest of Chongqing Yugangao 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 Chongqing Yuecheng

Pursuant to the Shareholders' Rights Entrustment Agreement I and the Power of Attorney I, Chongqing Ruibo has been authorized to exercise all rights of Chongqing Yugangao as the sole shareholder of Chongqing Yuecheng under applicable laws and the articles of association of Chongqing Yuecheng, including but not limited to the right to dividends and right to deal with the assets of Chongqing Yuecheng. 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 Chongqing Yuecheng) in relation to the liquidation, winding-up, dismissal or termination of Chongqing Yuecheng, Chongqing Yugangao agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Chongqing Ruibo 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 Chongqing Yuecheng, injunctive relief (for the conduct of business or to compel the transfer of assets) or order the winding up of Chongqing Yuecheng (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), Chongqing Yuecheng's place of establishment (the PRC), the jurisdiction where the principal assets of Chongqing Ruibo and Chongqing Yuecheng 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 Chongqing Yuecheng 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 Chongqing Yuecheng and the Group. In particular, the undertakings executed by Chongqing Yugangao in favour of Chongqing Ruibo 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 Chongqing Yuecheng 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 Ruibo. Pursuant to the Shareholders' Rights Entrustment Agreement I and the Power of Attorney I, Chongqing Yugangao guarantees and undertakes that the exercise of the rights as granted to Chongqing Ruibo or as authorized by Chongqing Yugangao 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 Chongqing Yuecheng and the respective articles of association of Chongqing Yuecheng and Chongqing Ruibo; and (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 Chongqing Yuecheng 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 Chongqing Yuecheng to Chongqing Ruibo 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 Chongqing Yuecheng under the prevailing accounting principles.

Risks involved in the Contractual Arrangements

As the primary beneficiary of Chongqing Yuecheng, the Group is exposed to the business risks and financial risks faced by Chongqing Yuecheng. There is no assurance that Chongqing Yuecheng 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 Chongqing Yuecheng (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 Chongqing Yuecheng held by Chongqing Yugangao 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 Chongqing Yuecheng 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 Chongqing Yugangao and Chongqing Yuecheng as effective as direct ownership; Mr. Li, Mr. Cao and Chongqing Yugangao 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 the 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 Chongqing Yugangao and Chongqing Yuecheng 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 Ruibo, Chongqing Yuecheng and Chongqing Yugangao to safeguard its assets held through the Contractual Arrangements. As a wholly-owned subsidiary of the Company, Chongqing Ruibo is subject to all the internal control process and procedures applicable to the Group.

The operations of Chongqing Yugangao and Chongqing Yuecheng are exclusively controlled by Chongqing Ruibo through the Contractual Arrangements and the Group has applied its internal control processes and procedures to Chongqing Yugangao and Chongqing Yuecheng. In particular, pursuant to the Contractual Arrangements, (i) Chongqing Ruibo has the right to nominate, appoint or terminate, the legal representatives, chairman, directors, supervisors, chief executive officer, manager and other senior management members of Chongqing Yugangao and Chongqing Yuecheng; (ii) without the prior consent of Chongqing Ruibo, Chongqing Yugangao and Chongqing Yuecheng is not allowed to dispose of any of their respective assets with a value of RMB1,000,000 or more.

Financing arrangements

It is expected that the funds necessary for Chongqing Yuecheng to satisfy its payment obligations under the Acquisition Agreement will be provided by the Group to Chongqing Yuecheng by way of loan(s).

Other information

Apart from Chongqing Yuecheng, Chongqing Yugangao does not generate revenue from any other subsidiaries of the Company.

As at the date of this announcement, Chongqing Ruibo has not encountered any interference or encumbrance from any governing bodies in operating its business through Chongqing Yuecheng 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 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 Chongqing Yugangao and Chongqing Yuecheng have no material assets and not yet generated any revenue, and that the equity pledge granted by Mr. Li 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 are below 0.1%. Accordingly, the grant of the call option under the Exclusive Call Option Agreement II by Mr. Li 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 Chongqing Yugangao and Chongqing Yuecheng have no material assets and not yet generated any revenue and there is no consideration given for Mr. Li's entrustment of his shareholder's right to Chongqing Ruibo, all applicable percentage ratios are all below 0.1%. Accordingly, the Shareholders' Rights Entrustment Agreement II constitutes a fully exempt connected transaction.

Upon the Acquisition Completion, Chongqing Yuecheng will be 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 Chongqing Yuecheng, including but not limited to Chapters 13, 14, 14A and 17 of the Listing Rules, accordingly.

II. FURTHER INFORMATION ON THE BACKGROUND OF AND RELATIONSHIP AMONG THE COUNTERPARTIES TO THE ACQUISITION AGREEMENT

The Vendors and Wenda Kemao

As advised by the PRC Legal Advisor, pursuant to the Interim Administration Provisions on the Registration of Enterprise Groups* (《企業集團登記管理暫行規定》) (the “**Enterprise Group Registration Provisions**”) promulgated by the State Administration of Industry and Commerce (SAIC), with effect from 6 April 1998, “enterprise group (企業集團)” refers to a group of enterprises or legal entities of a certain scale which are connected by capital interests. The core members of an enterprise group include a parent company, subsidiaries, equity participated companies and other member companies or organizations which are bound by the articles of associations of such enterprise group. In addition, pursuant to the Enterprise Group Registration Provisions, an enterprise group is not a separate legal person or legal entity.

The Second Vendor is an enterprise group established in accordance with the Enterprise Group Registration Provisions and registered with Hefei City Administration for Industry and Commerce on 26 October 2010. Four member companies have been registered as members of the Second Vendor, including the First Vendor and Wenda Kemao. The equity interest of the First Vendor and Wenda Kemao are owned by individuals and companies who are related among themselves but, to the best knowledge of the Directors and having made all reasonable enquiries, are independent third parties of the Company. Each of the First Vendor and Wenda Kemao does not directly or indirectly own any equity interests in each other.

The creditors’ committee

According to the information provided by the Vendors, the creditors’ committee referred to in the Acquisition Agreement was set up by the creditors of the member companies of the Second Vendor in November 2015 for the purpose of managing the outstanding indebtedness owed by the member companies to the creditors on behalf of the creditors.

The equity pledge

To the best of the Company’s and the Directors’ knowledge, the shareholders of the First Vendor have pledged the entire equity interest of the First Vendor to a third party creditor of the First Vendor, who is an individual PRC citizen, and, to the best knowledge of the Directors and having made all reasonable enquiries, an independent third party of the Company, to secure the debts owed to such third party creditor by the First Vendor.

III. FURTHER INFORMATION ON THE TARGET SCHOOL AND ITS ASSETS

Ownership structure of the Target School

According to the Permit for operating a Private School* (民辦學校辦學許可證) of the Target School, the Second Vendor is the registered sole school sponsor of the Target School, with the capital of the Target School contributed as to 90% by the First Vendor and as to 10% by Wenda Kemao, respectively. The school sponsor's interest in the Target School is actually owned as to 90% by the First Vendor and as to 10% by Wenda Kemao. In light of the nature of the Second Vendor as an enterprise group, which limit its capacity in exercising its rights and executing its obligations as a school sponsor, the First Vendor and Wenda Kemao are entitled to, as the holders of the school sponsor's interest, (i) the right to receive a reasonable return on investment, and (ii) the right to participate in the decision-making process in relation to the operation and management of the Target School, and are obliged (i) to make capital contribution to the school in full and in a timely manner; (ii) not to withdraw the capital contribution after the establishment of the school and not to misappropriate the school's educational funds; and (iii) to formulate the articles of association of the school and appoint members to the school council board. Further, a sponsor of the Target School primarily participates in the decision-making process of the Target School through the directors which it appoints to the board of directors of the Target School. According to the articles of association of the Target School (as amended pursuant to the Acquisition Agreement), each director of the Target School is entitled to one vote in the board of directors of the Target School (the "School Council Board"); approval by more than two thirds of the votes of the directors in the School Council Board will be required for (i) amendment to the articles of association of the Target School, (ii) establishment of development plan for the Target School, (iii) review and approval of budget and financial statements, (iv) confirmation of appointment of senior management of the Target School, (v) division, merger, alteration and termination of the Target School, and (vi) such other major issues as stipulated under the articles of association; and other matters shall be decided by the majority of the School Council Board.

Upon the Acquisition Completion, the registered school sponsors of the Target School will be Chongqing Yuecheng as to its 51% school sponsor's interest, the First Vendor as to its 39% school sponsor's interest and Wenda Kemao as to its 10% school sponsor's interest.

According to the applicable PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as "sponsors" instead of "owners" or "shareholders." The economic substance of "sponsorship" with respect of private schools is substantially similar to that of ownership with regard to legal, regulatory and tax matters. The main difference between sponsorship and equity ownership is that the laws and regulations applicable to sponsors and owners are different, as follows:

- (i) *right to receive a return on investment.* Sponsors of a private school may choose to require "reasonable returns" from the annual net balance of the school after deduction of costs for school operations, donations received, government subsidies (if any), the

reserved development fund and other expenses as required by the regulations. Private schools are divided into three categories: private schools established with donated funds, private schools the sponsors of which require reasonable returns, and private schools the sponsors of which do not require reasonable returns; and

- (ii) *right to the distribution of residual properties upon termination and liquidation.* Under the PRC Company Law, properties that remain upon termination and liquidation of a company after payment of relevant fees and compensation are to be distributed to its owners. With respect to a school, the Law for Promoting Private Education provides that such distribution be made in accordance with other relevant laws and regulations. However, there have been no other relevant PRC laws and regulations addressing the distribution of residual properties upon termination and liquidation of a private school.

Properties occupied by the Target School

The Vendor Land and the Vendor Buildings

Based on information available to the Company, the Target School currently occupies (i) land with a total area of 703.6 mu, out of which 463.6 mu is owned by the Target School and 240 mu (the “**Vendor Land**”) is owned by the First Vendor; and (ii) buildings with a gross floor area of 257,298 square metres (“**sq.m.**”), out of which 52,085 sq.m. is owned by the Target School and 205,213 sq.m. (the “**Vendor Buildings**”) is owned by the First Vendor (or in the process of being registered as such). The First Vendor has obtained the land use right certificate(s) in respect of all the Vendor Land. The First Vendor has also obtained the relevant building certificates in respect of the Vendor Buildings situated on the Vendor Land with a gross floor area of 140,411 sq.m. in aggregate, and is at various stages of obtaining the relevant building certificates for the Vendor Buildings situated on land owned by the Target School with a gross floor area of 64,802 sq.m. in aggregate, out of which buildings with a gross floor area of 8,892 sq.m. are currently under construction.

According to the unaudited management accounts of the Target School as at 30 June 2017, the assets of the Target School were as follows:

Nature of asset	Book value <i>(RMB)</i>
Buildings and constructions ¹	353,750,121
Land ²	196,339,322
Cash	31,337,940
Specialised equipment	17,245,508
General equipment	11,561,827
Books	5,662,670
	<hr/>
Total	615,897,388

Notes:

1. Includes the Vendor Buildings with a book value of approximately RMB188,694,000.
2. Includes the Vendor Land with a book value of approximately RMB65,319,000.

Transitional arrangement

Currently, the Vendor Land and the Vendor Buildings are occupied and used by the Target School free of charge. In particular, the Vendor Buildings are primarily used by the Target School as dormitories for students and teachers with some of which are used as academic buildings. It is a condition for the 2nd instalment of the Consideration that the legal ownership of the Vendor Land and the Vendor Buildings will be transferred to the Target School at nil consideration. As at the date of this announcement, such transfer has not been completed.

However, in the event that the title to the Vendor Land and Vendor Buildings were not transferred to the Target School from the First Vendor, pursuant to the Acquisition Agreement, the First Vendor has undertaken to continue to allow the Target School to operate on the Vendor Land and the Vendor Buildings without any disruption to the operation of the Target School. As advised by the PRC Legal Advisor, the Acquisition Agreement is legal and effective under PRC law and the rights of the Target School under the Acquisition Agreement (including the provisions regarding the use of the Vendor Land and Vendor Buildings by the Target School) are protected by PRC laws.

The payment terms in relation to the Consideration is intended to motivate the Vendors to satisfy the conditions precedent to the 2nd instalment of the Consideration, including the transfer of the Vendor Land and the Vendor Buildings, as soon as practicable. For illustrative purpose, if the Group acquired 51% school sponsor interest in the Target School by paying only the 1st instalment of the Consideration of RMB200 million and the Vendor Land and the Vendor Buildings were not transferred to the Target School, the price-to-book ratio of the Acquisition would be approximately 2.2 times, which would be significant lower than the case where all the conditions precedent to the payment of both instalments are satisfied and the Group pays both instalments of the Consideration, which is 5.4 times.

The Directors consider that the risk of the Target School not being able to use the Vendor Land and the Vendor Buildings after the Acquisition Completion is not material for the following reasons:

- (a) as a condition precedent to the payment of the 1st instalment of the Consideration, the Group will have acquired management control over the Target School, so the use of the Vendor Land and the Vendor Buildings by the Target School will not be obstructed by the management or staff previously employed and appointed by the First Vendor;

- (b) as a condition precedent to the payment of the 2nd instalment of the Consideration, representing 60% of the Consideration, the Vendor Land and the Vendor Buildings will have to be transferred to the Target School at nil consideration. Hence there is strong incentive for the First Vendor to comply with the terms of the Acquisition Agreement;
- (c) subsequent to the Acquisition Completion, the First Vendor will own 39% school sponsor's interest in the Target School and it will be in its interest to continue to allow the Target School to use the Vendor Land and Vendor Buildings so that the operation of the Target School will not be disrupted; and
- (d) the Target School has been occupying and using the Vendor Land and Vendor Buildings without paying any fee or rent to the First Vendor and has never encountered any issues in such arrangement.

In the event that the Target School would not be able to use the Vendor Land and Vendor Buildings prior to the transfer of such properties by the First Vendor to the Target School, the Group plans to utilize between 150 mu and 200 mu of land owned currently by the Target School which is currently unutilized for construction of buildings to satisfy the operational requirements and further expansion of the Target School.

Taking into account, among other things, (i) the right of the Target School to continue to use the Vendor Land and the Vendor Buildings under the Acquisition Agreement; (ii) the payment terms in relation to the Consideration under the Acquisition Agreement and their financial implications on the Acquisition as mentioned above; (iii) the remoteness of the risk of the Target School not being able to use the Vendor Land and the Vendor Buildings; and (iv) the alternatives available to the Group in the event that the Vendor Land and the Vendor Buildings are not available to the Target School, the Directors consider that terms in relation to the payment of RMB200 million as the 1st instalment of the Consideration are fair and reasonable and in the interest of the Company and its shareholders as a whole.

Transfer of the Vendor Buildings

There are 28 Vendor Buildings in total. 21 of the Vendor Buildings are currently mortgaged to secure six loans with an aggregate principal amount of RMB220 million in favor of five banks. As advised by the PRC Legal Advisor, upon satisfaction of one of the following conditions, there will be no legal impediment for the transfer of such properties to the Target School: (i) the relevant loans have been repaid in full; (ii) the mortgage is released; and (iii) the transfer is permitted by the mortgagee.

The First Vendor is in the process of obtaining the relevant building certificates for six Vendor Buildings. The First Vendor is not entitled to transfer such properties to the Target School until such building certificates have been obtained.

The remaining one Vendor Building is still under construction as at the date of this announcement. It is expected that the First Vendor or the Target School will apply for the building certificate for such building after its construction is completed.

As advised by the PRC Legal Advisor, save as disclosed above, there is no legal impediment to the transfer of the Vendor Buildings.

Transfer of the Vendor Land

The Vendor Land comprises two parcels of land, each represented by a valid land use right certificate. The Vendor Buildings which are under mortgage as disclosed in the sub-section “ – Transfer of the Vendor Buildings” above are situated on these two parcels of land and accordingly, such area of the Vendor Land where the mortgaged buildings are situated is encumbered under PRC laws. As advised by the PRC Legal Advisor, upon satisfaction of one of the following conditions, there will be no legal impediment for the transfer of such land to the Target School: (i) the relevant loans have been repaid in full; (ii) the mortgage is released; and (iii) the transfer is permitted by the mortgagee.

As advised by the PRC Legal Advisor, save as disclosed above, there is no legal impediment to the transfer of the Vendor Land.

IV. FURTHER INFORMATION ON THE RATIONALE AND BASES OF CERTAIN TERMS AND CONDITIONS OF THE ACQUISITION AGREEMENT

Earnest Money

The deposit of the Earnest Money serves to demonstrate that, to the Vendors and the local authorities, the approval of which is required for the transfer of the school sponsor’s interest of the Target School under the Acquisition Agreement, the Company is willing to and has the resources necessary to complete the Acquisition.

During the 90-day observation period, the Earnest Money can only be used for the purpose of settling the Consideration, under the supervision of the Designated Bank. A 90-day observation period is set because the parties are of the view that such duration is a reasonable period for the Target School to obtain the required governmental approval, to complete the relevant registration procedures, and to form a new board of directors as necessary to satisfy the conditions precedent to the payment of the 1st instalment of the Consideration.

Valuation report

As part of its due diligence on the Target School, the Company has separately engaged an independent professional auditor for the Acquisition to review the financial statements of the Target School. For the purpose of obtaining additional information for reference and verification

purposes, one of the conditions precedent for making the deposit of the Earnest Money, a valuation report issued by an approved valuer is required to be delivered to Chongqing Yuecheng.

As at the date of this announcement, the parties are still in the process of selecting a valuer to produce the said valuation report.

Basis of the Consideration

As mentioned in the Announcement, the Company has taken into account the following factors in particular when determining the Consideration:

- (a) the financial condition of the Target School as detailed in the Announcement;
- (b) the operation history of the Target School – the Target School was established in 2001 and has been operating as a private higher educational institution for 17 years;
- (c) the reputation of the Target School in Anhui Province – the Target School has been recognized as one of the top 150 private universities in the PRC and a quality private university in the region;
- (d) the student enrollment in the Target School – as at 31 December 2015 and 2016 and 30 June 2017, the number of students enrolled in the Target School was 11,963, 11,030, and 11,030, respectively;
- (e) the growth potential of the Target School in terms of number of students enrolled and tuition fee – as schools in Anhui Province, including the Target School, are able to determine the tuition fees by itself from the 2017 school year onwards, the Company is of the view that the Acquisition will enable the Group to further expand its school network in Eastern China in terms of both student numbers and the potential tuition fee income;
- (f) the scarcity of resources for private universities in Anhui Province – at present, there are only five private universities in Anhui Province;
- (g) assets currently or potentially owned by the Target School – the legal ownership of lands and buildings currently occupied by the Target School, to the extent any of them is legally owned by the First Vendor, subject to performance of the Vendors of their obligations under the Acquisition Agreement, will be transferred to the Target School at nil consideration upon the Acquisition Completion;

- (h) indebtedness of the Target School – pursuant to the terms of the Acquisition Agreement, subject to performance of the Vendors of their obligations under the Acquisition Agreement, the Target School will no longer be liable for any debt payable to any financial institutions, companies, entities or individuals upon the Acquisition Completion; and
- (i) pricing of other education enterprises in comparable transactions conducted by other listed companies in the PRC education industry.

Based on the financial information provided by the Vendors, (i) the unaudited net profit after taxation for the year ended 31 December 2016 of the Target School amounted to approximately RMB30,676,499, which represents an implied price-to-earnings ratio (“**P/E ratio**”) of the Target School of approximately 31.9 times; and (ii) the unaudited net asset value as at 30 June 2017 of the Target School amounted to approximately RMB179,939,652, which represents an implied price-to-book ratio (“**P/B ratio**”) of the Target School of approximately 5.4 times. As illustrated in the below table, the implied P/E ratio of the Target School is below the P/E ratios of the comparable transaction and the implied P/B ratio of the Target School falls within the range of the P/B ratios of the comparable transactions.

Hong Kong-listed companies	Transaction nature and total consideration	Net asset value of the target school (RMB'000)	Net profit of the target school (RMB'000)	Implied P/E ratios	Implied P/B ratios	Remark
Wisdom Education International Holdings Company Limited (stock code: 6068)	Acquisition of 70% school sponsor's interest in a target school and 70% interest in certain lands and buildings in the target school (June 2017); approximately RMB224 million	64,500 ⁽¹⁾	7,125 ⁽¹⁾	44.9x	4.9x	Provision of primary and secondary education in the PRC
China First Capital Group Limited (stock code: 1269)	Acquisition of 70% school sponsor's interest in a target school (August 2017); approximately RMB210 million	22,400 ⁽²⁾	(7,200) ⁽²⁾	N/A, as the target school was in a loss position	13.4x	Actively invested in education industry

Source: website of the Stock Exchange

Notes:

- (1) Based on the unaudited financial accounts of the relevant target school for the year ended/as at 31 December 2016.
- (2) Based on the unaudited financial accounts of the relevant target school for the year ended/as at 31 December 2016.

Accordingly, having taken into account the above factors, the Directors are of the view that the Consideration is fair and reasonable and the Acquisition is in the best interest of the Company and its shareholders.

Assets and management of the Target School

As at the date of this announcement, the Company, the Vendors and Wenda Kemao had not reached any final decision as to (i) who will be nominated to the new board of directors of the Target School (the “**New Board**”); or (ii) who will be nominated as the executive principal or financial director of the Target School. It is the intention of the Company, the Vendors and Wenda Kemao to follow the below arrangements on the Target School:

- (i) *board of directors*. The New Board shall comprise nine directors, six of which to be nominated by the Company, and three of which to be nominated by the First Vendor. The chairman of the New Board shall be the director appointed by the Company;
- (ii) *school principal*. The school principal shall be appointed by the New Board, while the executive school principal shall be nominated by the Company and appointed by the New Board; and
- (iii) *financial director*. The financial director of the Target School shall be nominated by the Company and appointed by the New Board.

The Company is currently in the process of identifying suitable candidates to serve as the chairman of the New Board, executive school principal and financial director of the Target School within the existing management of the Group (including any connected persons of the Company) as well as other professionals outside of the Group, and has not made such decision as at the date of this announcement.

As at 30 June 2017, the balance of the relevant bank accounts of the Target School amounted to approximately RMB10 million in aggregate, which has been recognized in full in the financial statements of the Target School. After the completion of the fund transfer and procedures with the relevant authorities and bank account holders, these funds will be kept by the Target School under its own account upon the Acquisition Completion.

Prioritized Distribution

The arrangement of the Prioritized Distribution primarily represents the parties' high level consensus that the Target School should be transferred with all accumulated profits paid out and all debt settled, to the extent that is feasible. In this regard, as at 30 June 2017, according to the unaudited management accounts of the Target School, its accumulated surplus amounted to approximately RMB140,000,000. The amount of the Prioritized Distribution is intended to approximate the amount of the accumulated surplus before the Acquisition Completion. Pursuant to the Acquisition Agreement, the First Vendor and Wenda Kemao are responsible for settling the debts of the Target School and that any Prioritized Distribution is required to be used for settling such debt before any amount can be received by the First Vendor.

Taking into account the other terms and conditions of the Acquisition Agreement, including but not limited to (i) the obligations on the First Vendor and Wenda Kemao to settle the existing debts of the Target School, (ii) the specified use of the Prioritized Distribution, and (iii) the fact that the Prioritized Distribution will also be set off against any contingent liabilities, the Directors consider that the distribution arrangement as a whole is in the interest of the Group and the economic benefits of the Target School will be transferred to Chongqing Yuecheng by way of distribution of operating surplus, which is determined by the following formula:

the revenue generated from the ordinary and usual course of business of the Target School

- cost of sales
- tax and associated charges
- selling expense
- + other income
- other expense
- finance expense
- income tax

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

Hong Kong, 27 September 2017

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*