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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)**

## **DISCLOSEABLE TRANSACTION ENTERING INTO A CAPITAL INCREASE AGREEMENT IN CONNECTION WITH THE ACQUISITION OF 51% SCHOOL SPONSOR'S INTEREST IN THE TARGET SCHOOL**

### **THE CAPITAL INCREASE AGREEMENT**

On 6 November 2017 (after trading hours), Chongqing Yuecheng, a consolidated affiliated entity of the Company, entered into the Capital Increase Agreement with Chongqing Chuangsite and the Target School, pursuant to which Chongqing Yuecheng agreed to make a capital contribution of RMB125 million to the Target School. Upon completion of such capital contribution, 51% of the school sponsor's interest in the Target School will be owned by Chongqing Yuecheng.

### **IMPLICATIONS UNDER THE LISTING RULES**

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Capital Contribution is more than 5% but less than 25%, the Capital Contribution constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements but exempt from the circular and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

## FINANCIAL HIGHLIGHTS OF THE TARGET SCHOOL

	For the year ended 31 December			
	2016	2015	Change	Percentage
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	Change
	(unaudited)	(unaudited)		
Revenue	<b>48,369</b>	45,205	<b>+3,164</b>	+7.0%
Profit for the period	<b>6,791</b>	10,008	<b>-3,217</b>	-32.1%
Student numbers	<b>5,512</b>	4,734	<b>+778</b>	+16.4%

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### Date

6 November 2017 (after trading hours)

### Parties

- (1) Chongqing Yuecheng;
- (2) Chongqing Chuangsite; and
- (3) the Target School

Both Chongqing Yuecheng and Chongqing Chuangsite are limited liability companies established in the PRC. The Target School is a full-time ordinary higher education institution established in the PRC.

As at the date of this announcement, Chongqing Chuangsite is the sole school sponsor of the Target School, holding the entire school sponsor's interest in the Target School.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Target School, Chongqing Chuangsite and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

## **Assets to be acquired through the Capital Contribution**

Pursuant to the Capital Increase Agreement, Chongqing Yuecheng agreed to make a capital contribution of RMB125 million to the Target School. Upon completion of such capital contribution, 51% of the school sponsor's interest in the Target School will be owned by Chongqing Yuecheng.

## **Earnest Money**

Upon duly signing and being effective of the Capital Increase Agreement, Chongqing Yuecheng shall pay the Earnest Money of RMB31.32 million to the Target School within five (5) business days upon satisfaction of the conditions below. The payment of the Earnest Money by Chongqing Yuecheng is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

- (i) the Capital Increase Agreement having been executed and taken effect;
- (ii) the Target School having obtained the school audited report in accordance with the requirements of the Education Commission of Chongqing City (重慶市教育委員會);
- (iii) Chongqing Yuecheng having satisfied with the results of the legal, financial and business operation due diligence on the Target School;
- (iv) the representations, warranties and undertakings made by Chongqing Chuangsite in the Capital Increase Agreement and other related written documents having been true, accurate, complete and not misleading;
- (v) (a) the new board of directors of the Target School having been established; (b) the principal and/or the executive principal, the financial director of the Target School having been appointed by the new board of directors; and (c) the composition of the new board of directors and the change of legal representative of the Target School having been approved by and/or registered with the Education Commission of Chongqing City (重慶市教育委員會) and the Chongqing City Civil Affairs Bureau (重慶市民政局);
- (vi) the legal representative of Chongqing Zhenzhi, a wholly-owned subsidiary of the Target School, having been appointed by Chongqing Yuecheng and the relevant change in the legal representative having been registered with Chongqing Administration for Industry and Commerce (重慶市工商行政管理局);
- (vii) all relevant application documents in relation to the change of school sponsor in the Target School stipulated under the Capital Increase Agreement having been signed by Chongqing Chuangsite for approval and filing (as the case maybe) in accordance with the requirements of the Chongqing Municipal People's Government (重慶市人民政府), the Education Commission of Chongqing City (重慶市教育委員會) and the Chongqing City Civil Affairs Bureau (重慶市民政局), and such application documents having been approved and filed by Education Commission of Chongqing City (重慶市教育委員會);

- (viii) the relevant approval and filing with the Education Commission of Chongqing City (重慶市教育委員會) and/or the Chongqing City Civil Affairs Bureau (重慶市民政局) in relation to the Entrustment Arrangement (as defined below) stipulated under the Capital Increase Agreement having been obtained and/or completed;
- (ix) (if applicable) the approval for the Capital Contribution and the Entrustment Arrangement (as defined below) stipulated under the Capital Increase Agreement having been obtained from the Board and shareholders' meeting of the Company; and
- (x) Documents, information and company chops of the Target School and Chongqing Zhenzhi as listed out in the Capital Increase Agreement having been handed over from Chongqing Chuangsite (and/or the Target School) to the management team of the Target School and Chongqing Zhenzhi designated by the new board of directors and Chongqing Yuecheng (the **"Handover"**).

Pursuant to the Capital Increase Agreement, Chongqing Yuecheng may waive any of the above conditions for making the payment of the Earnest Money.

Subject to the satisfaction of the conditions as disclosed under the section headed "Capital Contribution" below, the Earnest Money will be transferred to the Target School as the 2<sup>nd</sup> instalment of the Capital Contribution to be contributed by Chongqing Yuecheng.

If the change of school sponsor of the Target School is not completed within 180 days upon payment of Earnest Money by Chongqing Yuecheng, the Earnest Money shall be treated as a loan to the Target School from Chongqing Yuecheng. Such loan shall be repayable on demand by the Target School.

### **Capital Contribution**

The Capital Contribution of RMB125 million under the Capital Increase Agreement shall be made by Chongqing Yuecheng to the Target School in the following manner:

1. an amount of RMB93.68 million is to be contributed as the 1<sup>st</sup> instalment of the Capital Contribution within five (5) business days upon the satisfaction of the following conditions:
  - (i) the Target School having obtained the written approval from Chongqing Municipal People's Government (重慶市人民政府) for the Capital Contribution and the subsequent change of school sponsor of the Target School;
  - (ii) the amended articles of the Target School having been approved by and/or filed with the Education Commission of Chongqing City (重慶市教育委員會) and the Chongqing City Civil Affairs Bureau (重慶市民政局);

- (iii) the written application documents for the Capital Contribution having been approved and signed by the Education Commission of Chongqing City (重慶市教育委員會) and a new Permit for Operating a Private School (民辦學校辦學許可證) showing Chongqing Yuecheng as one of the school sponsors of the Target School having been granted by the Education Commission of Chongqing City (重慶市教育委員會);
  - (iv) the procedure for registering Chongqing Yuecheng as a school sponsor of the Target School having been completed with Chongqing City Civil Affairs Bureau (重慶市民政局) and a new registration certificate for private non-enterprise legal entities (民辦非企業法人登記證) having been granted by Chongqing City Civil Affairs Bureau (重慶市民政局); and
  - (v) a certificate in relation to the fulfillment of conditions (i) to (iv) having been received from Chongqing Chuangsite by Chongqing Yuecheng.
2. The Earnest Money will be transferred to the Target School as the 2<sup>nd</sup> instalment of the Capital Contribution to be contributed by Chongqing Yuecheng upon the satisfaction of the following conditions:
- (i) the legal ownership of lands and properties having been registered under the name of the Target School;
  - (ii) all previously charged, frozen and/or seized lands and properties owned by the Target School (including Chongqing Zhenzhi) having been discharged, unfroze and/or unseized, free from any pledges, liens or other restrictions of any nature;
  - (iii) all external guarantees provided by the Target School in favour of any third parties having been lawfully released and without any other related obligations; and
  - (iv) a certificate in relation to the fulfillment of conditions (i) to (iii) having been received from Chongqing Chuangsite by Chongqing Yuecheng.

In the event that any of the above conditions is not fulfilled causing the non-payment of the 2<sup>nd</sup> instalment of the Capital Contribution by Chongqing Yuecheng on or before 5 November 2018, the parties to the Capital Increase Agreement confirm that (a) Chongqing Yuecheng should be considered as fully complied with its investment obligation of the Capital Contribution under the Capital Increase Agreement; and (b) Chongqing Chuangsite and the Target School should not, under whatever circumstances, request Chongqing Yuecheng to make the payment of the 2<sup>nd</sup> instalment of the Capital Contribution or to return the 51% school sponsor's interest in the Target School.

The capital contribution and the percentage of school sponsor's interest in the Target School to be acquired by Chongqing Yuecheng under the Capital Increase Agreement were determined after arm's length negotiation between the parties with reference to the net asset value of the Target School as at 30 June 2017 and the value which the Group will create by operating the Target School under its

management. It is expected that the funds necessary for Chongqing Yuecheng to satisfy its payment obligations under the Capital Increase Agreement will be provided by the subsidiary of the Company or will be arranged by the Company with third party banks to Chongqing Yuecheng by way of loan(s).

## **Completion**

The Completion shall take place upon the issuance of (i) a new Permit for Operating a Private School (民辦學校辦學許可證) and (ii) a new registration certificate for private non-enterprise legal representatives (民辦非企業法人登記證) to the Target School by the Education Commission of Chongqing City (重慶市教育委員會) and the Chongqing City Civil Affairs Bureau (重慶市民政局), respectively, showing that Chongqing Yuecheng is one of the registered school sponsors of the Target School.

Following the Handover, the financial results of the Target School will be consolidated in the financial results of the Group under the prevailing accounting principles.

Due to the regulatory restrictions on foreign ownership of schools in the PRC, the Company conducts its business in the PRC by controlling its consolidated affiliated entities in the PRC through a series of contractual arrangements. For further details of the contractual arrangements, please refer to the announcement of the Company dated 27 September 2017. Among the contractual arrangements, an exclusive business cooperation agreement was entered into among a wholly-owned subsidiary of the Company, Chongqing Ruibo Minsheng Education Technology Co. Ltd.\* (重慶睿博民晟教育科技有限公司) and Chongqing Yuecheng, a consolidated affiliated entity of the Company, on 27 September 2017. Pursuant to such agreement, Chongqing Yuecheng shall procure any subsidiary controlled by Chongqing Yuecheng that it will assume rights and obligations as a subsidiary entity of Chongqing Yuecheng under the agreement. Accordingly, Chongqing Yuecheng and Chongqing Chuangsite agree to will procure the Target School to assume its rights and obligations as a subsidiary entity of Chongqing Yuecheng under the agreement upon the Completion.

## **Entrustment Arrangement**

Pursuant to the Capital Increase Agreement, upon the completion of the Handover, Chongqing Yuecheng is entrusted to manage the Target School (including Chongqing Zhenzhi), including but not limited to the aspects of the assets, business operation, human resources, students and legal documents of the Target School (including Chongqing Zhenzhi) (the “**Entrustment Arrangement**”). In return of its management services, Chongqing Yuecheng is entitled to, subject to the terms of the Capital Increase Agreement, 51% of the net profits of the Target School (the “**Net Profits**”), which is determined by the following formula:

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

- costs of sales
- tax and associated charges
- selling expenses

- administrative expenses
- + other income
- other expense
- finance expense
- income tax

For the avoidance of doubt, the management fees payable to Chongqing Yuecheng pursuant to the Entrustment Arrangement shall not be taken into account in determining the Net Profits.

The term of the Entrustment Arrangement shall be ten (10) years upon the completion date of the Handover.

## **INFORMATION ON THE TARGET SCHOOL AND CHONGQING CHUANGSITE**

### **The Target School**

The Target School is a full-time ordinary higher education institution located in Chongqing city, the PRC. The Target School has a student enrolment of approximately 6,009 for the 2017/2018 school year.

Based on the financial information provided by Chongqing Chuangsite, set out below is a summary of the consolidated net profit before and after taxation of the Target School and Chongqing Zhenzhi for the two years ended 31 December 2016 and the six months ended 30 June 2017:

	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2016</b>	<b>For the six months ended 30 June 2017</b>
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(unaudited)	(unaudited)	(unaudited)
Net profit before taxation	10,007,520	6,790,998	9,556,267
Net profit after taxation	10,007,520	6,790,998	9,556,267

Based on the financial information provided by Chongqing Chuangsite, the unaudited consolidated net asset value of the Target School and Chongqing Zhenzhi as at 30 June 2017 was approximately RMB136,147,105.

## ***Financial highlights of the Target School***

	For the year ended			
	31 December			
	2016	2015	Change	Percentage
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	Change
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Revenue	48,369	45,205	+3,164	+7.0%
Profit for the period	6,791	10,008	-3,217	-32.1%
Student numbers	5,512	4,734	+778	+16.4%

### **Chongqing Zhenzhi**

Chongqing Zhenzhi is a limited liability company established in the PRC and a wholly-owned subsidiary of the Target School. Chongqing Zhenzhi is principally engaged in real estate development, real estate management, selling and lease of houses and real estate brokerage agency.

### **Chongqing Chuangsite**

Chongqing Chuangsite is a limited liability company established under the laws of the PRC, which is principally engaged in developing and selling of computer software, computer network engineering, selling of computers, communication equipment and electronic products. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Chongqing Chuangsite is owned by individuals who are third parties independent from the Company and its connected persons.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE CAPITAL INCREASE AGREEMENT**

The Group is principally engaged in providing high-quality private formal higher education in the PRC dedicated to nurturing professional talent with four schools operated in the PRC, three of which are located in Chongqing and one in Inner Mongolia. Considering that the Target School is located in Chongqing, which has synergy with the Group's three higher education institutions in Chongqing, the Company is of the view that the entering into the Capital Increase Agreement allows the Group to further expand its school network in western China.

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

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Capital Contribution is more than 5% but less than 25%, the Capital Contribution constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements but exempt from the circular and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Board”	the board of Directors
“Capital Contribution”	the aggregate capital contribution of RMB125 million which Chongqing Yuecheng agreed to make to the Target School pursuant to the Capital Increase Agreement in connection with the acquisition of 51% school sponsor's interest in the Target School
“Capital Increase Agreement”	the capital increase agreement entered into between Chongqing Yuecheng, Chongqing Chuangsite and the Target School on 6 November 2017 (after trading hours) in connection with the Capital Contribution
“Chongqing Chuangsite”	Chongqing Chuangsite Technology Company Limited* (重慶創思特科技有限公司), a company established in the PRC with limited liability
“Chongqing Yuecheng”	Chongqing Yuecheng Zhiyuan Education Technology Co., Ltd.*(重慶悅誠智遠教育科技有限公司), a limited liability company established in the PRC and a consolidated affiliated entity of the Company
“Chongqing Zhenzhi”	Chongqing Zhenzhi Zhiye Co., Ltd.* (重慶臻智置業有限責任公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Target School
“Company”	Minsheng Education Group Company Limited (民生教育集團有限公司), a company incorporated under the laws of the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1569)

“Completion”	completion of the Capital Contribution in accordance with the terms and conditions of the Capital Increase Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Earnest Money”	earnest money of RMB31.32 million for the Capital Contribution
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	has the meaning ascribed thereto under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this announcement and unless context suggests otherwise, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target School”	Chongqing Electronic Information College (重慶電信職業學院), a full-time ordinary higher education institution established in the PRC
“%”	per cent.

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

Hong Kong, 6 November 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*