

BUSINESS

OVERVIEW

We are the largest private education group in South China operating premium primary and secondary schools, as measured by student enrolment as of 1 September 2015, according to the Frost & Sullivan Report. Premium private schools offer higher quality education, more advanced educational facilities and a more satisfying environment to students through higher tuition fees than non-premium or mass market private schools, according to the Frost & Sullivan Report. As of 1 September 2015, we operated five premium private schools with a total student enrolment of 27,644 students.

We initially selected Dongguan, Guangdong province, to begin the development of our school network in 2003 based on its high population density, strategic location within the Pearl River Delta economic zone and rapidly expanding middle class population. In 2013, we expanded our school network to Huizhou, Guangdong province, another densely populated city with robust economic growth. After successfully establishing our presence and reputation in Guangdong province, we began to expand to other cities located in China’s major economic zones. In September 2014, our school in Panjin, Liaoning province in the Northeast Three Provinces economic zone commenced operations. We expect our new school in Weifang, Shandong province in the Bohai Economic Rim economic zone to commence operations in September 2016 and to recruit approximately 1,000 students for the 2016/2017 school year. We have entered into cooperation agreements with the local government of Guang’an, Sichuan province and the local government of Yunfu, Guangdong province, respectively, to establish a new school in each of these cities.

Our educational objectives are “to serve the society with honesty and integrity through our services” and “to cultivate talents with a warm and loving heart” (以誠心服務社會, 以愛心培育人才). As an educational service provider, we believe we are entrusted to nurture the future of our society, and we therefore seek to provide our educational services in a manner consistent with the values and attitudes in which we believe. Our schools have received various awards in Guangdong province and in China, such as “Outstanding Private School in Dongguan” awarded by Dongguan Private Education Association in 2014, “Top 100 Education and Research Institution for Primary and Secondary Education in China” awarded by National Association of Primary and Secondary Education in 2013 and “Featured School for Traditional Sports in Guangdong (track and field)” awarded by the Sports Bureau and Department of Education of Guangdong Province in 2013.

We believe that we have a reputation for providing quality private education and that our brand name is well-known in and beyond the regions where our schools are located. For each of the 2013/2014 and 2014/2015 school years, at least 94.8% of our high school graduates were admitted to universities in China and for the 2013/2014 and 2014/2015 school years, and 18.4% and 21.4% of our high school graduates were admitted to First Class Universities in China, respectively. In addition to PRC educational programmes, we provide international programmes for our high school students. Graduates from our international programmes were admitted to reputable universities and colleges overseas. We offer a wide-range of school-based elective courses, including courses for sports, art, music and Chinese culture, in order to facilitate the well-rounded development of our students.

We experienced stable growth during the Track Record Period in terms of student enrolment, teachers employed, revenue and net profit. From the year ended 31 August 2013 to the year ended 31 August 2015, our total revenue increased at a CAGR of approximately 21.1% and our net profit increased at a CAGR of approximately 27.0%, respectively. The table below sets forth certain information with respect to our growth during the Track Record Period.

		As of 1 September		
	2012	2013	2014	2015
Student enrolment	13,947	19,354	22,837	27,644
Number of teachers	808	1,162	1,359	1,666

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	For the years ended 31 August			For the nine months ended 31 May	
	2013	2014	2015	2015	2016
	(RMB million)	(RMB million)	(RMB million)	(RMB million) (Unaudited)	(RMB million)
Total revenue	320.1	450.9	568.7	435.7	540.6
Net profit	89.0	90.9	182.3	135.9	118.9

OUR STRENGTHS

We believe that the following are our key competitive strengths that have contributed significantly to our success and differentiate us from our competitors:

Largest private educational group in South China operating premium primary and secondary schools

We are the largest private education group in South China operating premium primary and secondary schools, as measured by student enrolment as of 1 September 2015, according to the Frost & Sullivan Report. As of 1 September 2015, we operated five premium private schools with a total student enrolment of 27,644 students, four of which are in Guangdong province and the other of which is in Liaoning province. 26,644 of our 27,644 students enrolled in our schools located in South China.

We established our first school in Dongguan, Guangdong province in 2003; our second and third schools commenced operations in Dongguan in 2004 and 2013, respectively; and we established our fourth school in Huizhou, Guangdong province in 2014. We have since become a leading private educational group in Guangdong province, a densely populated and economically developed province in South China. According to the National Bureau of Statistics of China, as of 31 December 2015, Guangdong province had a population of 108.5 million and contributed the largest GDP among all provinces and municipalities in China, accounting for 10.8% of the national total. After successfully established our reputation and presence in Guangdong province, we expanded into the Northeast Three Provinces economic zone by establishing a school in Panjin, Liaoning province in 2014. We expect our new school in Weifang, Shandong province to commence operations in September 2016 and to recruit approximately 1,000 students for the 2016/2017 school year. We experienced a rapid growth during the Track Record Period in terms of student enrolment, as presented in the table below:

School	Year of Establishment	Student Enrolment as of 1 September ⁽¹⁾			
		2012	2013	2014	2015
South China					
Dongguan Guangming School	2003	10,528	10,580	10,416	10,417
Dongguan Guangming Primary School	2004	3,419	4,367	5,130	5,959
Dongguan Guangzheng Preparatory School	2013	–	4,151	5,820	7,768
Huizhou Guangzheng Preparatory School	2014	–	256	1,189	2,500
Other regions					
Panjin Guangzheng Preparatory School	2014	–	–	282	1,000
Weifang Guangzheng Preparatory School ⁽²⁾	2016	–	–	–	–
Total		13,947	19,354	22,837	27,644

Notes:

(1) As of the Latest Practicable Date, based on (i) the number of prospective first year students who paid tuition fees for enrolment in our schools for the 2016/2017 school year, being approximately 10,664, and; (ii) the total number of students enrolled in our schools (excluding the graduation-year students) for the 2015/2016 school year, being approximately 20,922, the total number of student enrollment in our schools for the 2016/2017 school year is estimated to be approximately 31,586.

(2) We expect the school to commence operations in September 2016.

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According to the Frost & Sullivan Report, the fast-growing middle class and their increasing awareness of well-rounded education, as well as government support have been and will continue to be the driving forces for the development of premium private education in China. According to the Frost & Sullivan Report, from 2012 to 2015, the total revenue of private fundamental education expenditure increased from RMB124.1 billion to RMB184.2 billion, representing a CAGR of approximately 14.1% and is expected to continue to increase at a CAGR of approximately 12.1% to RMB325.5 billion from 2015 to 2020. We believe that the private education industry has strong growth potential and that we are able to capitalize on the business opportunities in the private education market based on our established reputation and school network.

All of our schools have received government support, which we believe give us access to resources that may not be available to other private schools, including high quality teachers, government administered teacher and school principal training programmes, government support in student recruitment activities, government assistance with regulatory filings and applications and preferential policies on land allocation or assignment. We believe that the relevant government authorities take a prudent approach in choosing cooperation partners and have selected our schools based on our reputation, efficient management and the quality of our educational programmes. In particular, the local government of Panjin granted us free land use rights, provided government grants and assigned experienced teachers to support the establishment of our Panjin Guangzheng Preparatory School. We believe that we are well positioned to continue to receive support from the relevant government authorities in our existing markets and in the markets into which we seek to penetrate. We have entered into cooperation agreements with the local government of Guang'an, Sichuan province and the local government of Yunfu, Guangdong province, respectively, to establish a new school in each of these cities. Pursuant to the cooperation agreements, the local government authorities have agreed to provide various types of support to our new schools, including granting land use rights for free or at a designated price, providing preferential policies and offering assistance to help facilitate campus construction and school operations.

Strong reputation for student performance and high quality PRC curriculum programmes

We focus on providing high quality PRC curriculum programmes for primary and secondary school students and emphasize the well-rounded development of our students. We believe that our brand name is well-known in and beyond the regions where our schools are located. For each of the 2013/2014 and 2014/2015 school years, 94.8% of our high school graduates were admitted to universities in China. According to the Frost & Sullivan Report, the national average admission rate to universities was 38.7% and 38.9% for the 2014/2015 and 2015/2016 school years, respectively. In addition, for the 2013/2014 and 2014/2015 school years, approximately 18.4% and 21.4% of our high school graduates were admitted to First Class Universities in China, respectively. According to the Frost & Sullivan Report, the provincial admission rate to First Class Universities in Guangdong was 8.6% and 10.0% for 2014/2015 and 2015/2016 school years, respectively. In the 2016 PRC national higher education entrance examination, one of our high school graduates was ranked in the top 10 and one was ranked in the top 20 in Guangdong province in terms of the total exam scores achieved, and 10 of our high school graduates were admitted to Peking University and Tsinghua University. We provide various resources to help our students prepare for standardised examinations for higher education, including exam preparation lectures by experienced teachers, practice tests, mock exams and review courses.

In order to emphasize the well-rounded development of our students, we offer a wide range of school-based elective courses, including courses for sports, art, music, Chinese culture, as well as activities for the development of the moral character of our students. As a private education group operating premium primary and secondary schools, we are able to encourage our students to pursue their interests from an early age and to continuously provide them with different levels of courses to enhance such interests.

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Our students have made significant achievements in areas such as basketball, track & field, martial arts, music, dance and Chinese calligraphy. Our Dongguan Guangming School high school male basketball team has won various national, provincial and municipal championships and our students have obtained various national, provincial and city prizes in Chinese calligraphy, choral and dancing competitions. Our Dongguan Guangming School was designated as the Sports-Specialty Students Training Base for Tsinghua University in 2009 and the Youth Basketball Training Base for Guangdong Province in 2011. In September 2015, our Dongguan Guangming School high school male basketball team was invited to attend the prestigious Iolani Classic Basketball Tournament held in Honolulu, Hawaii.

We consistently seek to facilitate our students' moral development and organise annual "Inspirational Students Award" events to reward students who have demonstrated outstanding moral character and personalities. We also participate, and encourage our students to participate, in a variety of social service activities, including elderly service programmes, local community volunteering and donating to Sichuan earthquake relief initiatives. In order to produce worthy and capable, sincere and upright graduates, we have sought to uphold our educational objective, namely, "serving the society with honesty and integrity through our services and cultivating talents with a warm and loving heart". We established a Love & Care Foundation to offer financial assistance to students whose families face financial difficulties and provide annual scholarships to students from low-income families. Please refer to "– Our Educational Philosophy" below for further details.

We have a team of qualified and committed teachers as we believe the quality of teachers is critical to the success of our schools. As of 1 September 2015, we employed 1,666 teachers and over 88% of our PRC-qualified teachers held bachelors or higher degrees. We provide competitive compensation to attract and retain good teachers, offer training and personalised support to our teachers and continuously monitor the teaching quality at our schools.

High business visibility through offering a full range of primary and secondary curriculum programmes

We offer both primary and secondary school curriculum programmes, which allows us to attract students at an early age and create a stable student pipeline for our schools. For the 2012/13, 2013/14 and 2014/15 school years, approximately 83.8%, 86.9% and 82.4% of our primary school graduates enrolled in our middle schools, and approximately 47.1%, 51.9% and 54.9% of our middle school graduates enrolled in our high schools. We believe that the continuity of the curriculum offered by our primary and secondary schools and the offering of art, music and sports classes from an early age at our schools have contributed to our business visibility and have helped us achieve solid track record of stable revenue growth and high profit margins. In addition, we believe that our offering of a full range of primary and secondary curriculum programmes provides us with certain advantages of economies of scale, including the ability to attract and retain qualified teachers, the ability to offer various extra-curricular courses, leverage in negotiations with suppliers for lower costs and reduced fixed costs per student.

We believe our reputation, market leadership, advanced educational facilities and our school capacities enable us to attract and retain large student bodies, which allows us to increase revenue without incurring significant additional costs. We believe our profitability largely reflects the economies of scale present at our schools. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, our net profit margin was 27.8%, 20.2%, 32.1% and 22.0%, respectively.

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Successful track record in replicating our profitable business model

We believe we are able to successfully and efficiently replicate our business model of operating reputable schools with high profit margins. We established our first and second schools in Dongguan and have successfully expanded our school network in Guangdong province in the Pearl River Delta economic zone and into other economic zones. We expect our new school in Weifang, Shandong province in the Bohai Economic Rim economic zone to commence operations in September 2016 and have entered into cooperation agreements with the local government of Guang'an, Sichuan province and the local government of Yunfu, Guangdong province, respectively, to establish a new school in each of these cities.

In order to leverage on the success of our Dongguan Guangming School and Dongguan Guangming Primary School, we apply consistent principles in all of our schools in terms of school objective, educational philosophy and management approaches, and utilise consistent systems and guidelines in all of our schools in terms of student recruitment, curriculum, teaching methods, student discipline, parent communication and daily operations. In 2014, we successfully replicated our business model in Huizhou, Guangdong province by establishing Huizhou Guangzheng Preparatory School. We assigned principals, teachers and staff who are well-trained school managers to our school in Huizhou to help implement our principles, systems and guidelines and to provide training and on-going support. We believe the success of our business model is demonstrated by our ability to quickly commence operations at our Huizhou school and the significant interest the school attracted at its early stage of operations. As of 1 September 2015, we had 2,500 students enrolled in our Huizhou Guangzheng Preparatory School, representing a year-on-year growth of 110.3%. We believe our school in Huizhou continues to hold significant potential for further scalability, and therefore increased profitability. Adopting a similar approach, student enrolment in our Panjin Guangzheng Preparatory School increased to 1,000 students within one year from its commencement of operations.

In addition, we are able to operate our schools efficiently through a centralized core management team, comprehensive and detailed guidelines, collective procurement and internal control measures, which we believe have substantially contributed to cost savings and increasing our profit margins.

Committed and stable management team

We have an experienced and stable management team with extensive knowledge in business management and the PRC private education industry. Our management team consists of our executive Directors and senior management, including principals of our schools.

Mr. Xuebin Liu (our Chairman and executive Director) and Ms. Suwen Li (our Chief Executive Officer and executive Director) co-founded our first school in Dongguan in 2003 and have since led us to become a leading provider of private primary, middle and high school education in China. Mr. Liu has over 20 years of experience in business management and over 10 years of experience in the PRC private education industry. Mr. Liu completed a graduate programme on project management from the Economics Department of Peking University in March 2004. In recognition of his accomplishments and contribution to the society, Mr. Liu received the World Outstanding Chinese Award granted by the World Chinese Business Investment Foundation in 2007. Ms. Li has over 10 years of experience in the PRC private education industry and is responsible for the overall business strategy and development of our schools and our Group. Mr. Jiuchang Li, our vice president and executive Director, has been with our Group since its establishment in 2003. Mr. Li has over 12 years of experience in the PRC private education industry and is responsible for the overall management of our schools. Mr. Cheuk Him Ng, our Chief Financial Officer and executive Director, is a member of the Hong Kong Institute of Certified Public Accountants and Hong Kong Institute of Chartered Secretaries. Mr. Ng has over 15 years of experience in financial management, investment and mergers and acquisitions, and is responsible for the overall financial management and corporate governance of our Group.

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Each of our schools is managed on a day-to-day basis by its principals, who are assisted by several vice principals. All principals and vice principals of our schools are seasoned educators with extensive experience in the education industry. Mr. Yongchun Wang, the high school principal of our Dongguan Guangming School, and Mr. Shan He, the executive vice principal of our Panjin Guangzheng Preparatory School, have been with our Group since its establishment in 2003. Mr. Wang and Mr. He each has over 10 years of experience as teachers and school administrators and have worked various positions within our Group. Mr. Shuangxi Du, the vice principal of our Dongguan Guangming Primary School, and Mr. Jingfeng Zhang, the principal of our Huizhou Guangzheng Preparatory School, joined our Group in 2006. Mr. Du has more than 14 years of experience as a teacher and school administrator and was awarded "National Top 100 Academic Leaders for Primary and Middle School Education" in 2010. Mr. Zhang has over 14 years of experience as a teacher and school administrator and worked as the vice principal of our Dongguan Guangming School before becoming the principal of our Huizhou Guangzheng Preparatory School. Ms. Xi Chen, the middle school principal of our Dongguan Guangming School and Dongguan Guangzheng Preparatory School, joined our Group in 2007. Ms. Chen has over 29 years of experience as a teacher and school administrator and has published several articles on education and school management.

We manage our schools through a centralized managing system, including a core management team and centralized finance, human resources and information technology systems. Many members of our management team, school principals and mid-level managers of our schools have worked as teachers at our schools and therefore have in-depth understanding of our culture and the operations of our schools.

OUR STRATEGIES

We intend to pursue the following business strategies:

Continue to enhance our reputation as a leading provider of premium private primary and secondary school education

Academic performance is one of the key factors that prospective parents and students consider when selecting schools. In order to maintain and improve the quality of education in our schools, we plan to continue to monitor the academic performance of our students, provide tailored guidance to our students, grant scholarships and subsidies to encourage academic achievements and maintain active contact with parents to seek their feedback on our schools. We will continue to emphasize the well-rounded development of our students. We intend to review, adjust and expand from time to time our school-based elective courses in order to provide a happy learning environment that stimulates interests and helps build the confidence of our students. We believe good teachers and appropriate teaching methods are critical to the success of our schools. We will continue our efforts to recruit and retain high-quality teachers. We plan to further enhance discussion and experience-sharing among our teachers by holding regular group meetings and subject-specific seminars. We also plan to organise campus visits to, and exchange programmes with, other schools and educational institutions from time to time, with a view to provide our teachers with insights on the latest teaching methods and approaches. In addition, we intend to further promote our brand name through various marketing channels, including increasing media coverage of our schools and our Group, conducting promotional events, donating to good causes, organizing campaigns to help the underprivileged groups and participating in community services.

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Increase the utilisation rate of our existing schools

We intend to increase the utilisation rate of our schools, especially our relatively recently established schools in Huizhou and Panjin. We believe a further increase of student enrolment at our existing schools can help us further improve our financial results. For our schools in Dongguan, which we believe are more established and influential amongst parents and students, we intend to attract more students primarily through public recognition of our brand name and word-of-mouth referrals. For our schools in Huizhou and Panjin, which were established relatively recently, we intend to further promote our brand name and strengthen our student recruitment efforts, including advertising through newspapers and other media, visiting potential feeder schools to introduce our educational programmes, inviting prospective parents and students for campus tours, distributing information booklets, providing free trial classes and providing scholarships and tuition discounts. We plan to continue to encourage our primary and middle school students to enrol in our middle and high schools, respectively, by offering priority to our students in the admission process. In addition, we intend to upgrade and expand our facilities, further improve the curriculum and course contents we offer and employ additional high quality teachers in our schools, which we believe will help attract more high quality students to enrol in our schools.

Continue to focus on the Pearl River Delta economic zone and strategically expand in or into other economic zones to enlarge our school network

As of the Latest Practicable Date, we had established three schools in Guangdong province in the Pearl River Delta economic zone. We intend to continue to strengthen our leading position in the Pearl River Delta economic zone with a focus on Guangdong province. We have entered into a cooperation agreement with the local government of Yunfu, Guangdong province to establish a new school in the city. We also intend to engage in discussions with the local government authorities of various other cities in Guangdong province to explore the possibility of establishing a new school in each city.

In addition, we have expanded into the Northeast Three Provinces economic zone by establishing a school in Panjin, Liaoning province, which commenced operations in September 2014, and into the Bohai Economic Rim economic zone by establishing a school in Weifang, Shandong province, which we expect to commence operations in September 2016 and to recruit approximately 1,000 students for the 2016/2017 school year. The school will offer primary and middle school education for the 2016/2017 school year and may also offer high school education and international programmes in the future. We intend to further expand into the West Delta economic zone and have entered into a cooperation agreement with the local government of Guang'an, Sichuan province to establish a new school in the city. We also intend to engage in discussions with the local government authorities of various cities in Shandong and Sichuan provinces to explore the possibility of establishing a new school in each city.

We consider various factors when selecting the location for our new schools, including geographic location, economic development, social and cultural environment, population, number of school-aged children, birth rate, average household income, government support and competition. Moreover, we generally choose to establish new schools in regions that we believe have high growth potential and relatively less competition in the premium private education market.

We plan to establish new schools primarily through constructing our own schools with government support or partnering with local schools that are reputable and have stable student enrolment. We may also expand our school network through acquisition of high-quality local schools. To identify suitable acquisition targets, we plan to use various methods including providing management services to a potential target school to gain a better understanding of the school's business and operations, conducting due diligence on potential target schools and seeking references from third parties.

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Enhance profitability by optimizing pricing strategies and increasing revenue sources

We expect tuition and boarding fees to continue to be the primary source of our revenue. We intend to upgrade and expand our facilities, further improve the contents of the courses we offer and employ additional high quality teachers in our schools, which we believe will help us remain attractive to prospective parents and students even at higher tuition levels. Subject to regulatory approval and market conditions, we plan to increase tuition and boarding fees in schools where we believe there is high demand for our educational programmes and where we have built sufficient parent and student loyalty. We believe that our economies of scale enable us to improve our facilities and educational programmes in the manner necessary to attract new students at lower costs than schools with a smaller student body. In August and December 2015, the Standing Committee of the PRC State Council reviewed the amendment to The Law for Promoting Private Education that allows private schools to register as for-profit entities and to make their own decisions on tuition levels. We believe that, once this is implemented, this may give us more flexibility in setting and adjusting tuition fees charged at our schools if they are registered as such.

Continually adapt to changing educational preferences in target markets

We believe that education plays an important role in the development of modern society. We have successfully serviced and capitalised on the educational demands for premium private primary, middle and high school education in the past and intend to continue to contribute to China's development by providing high quality educational services to our students. We believe globalization and economic development has created an increasing demand for international schools and international programmes. We intend to continually monitor the educational preferences of our target consumer group and adapt to such preferences by making changes to our services accordingly, which may include adjusting the contents of courses offered at our schools, offering additional school-based elective courses and gearing our facilities towards attractive features. To foster the quality of our services, we intend to cooperate with renowned institutions that have extensive experience in operating educational programmes overseas. In February 2016, we entered into a memorandum of understanding with Dewey College, an independent high school subject to inspection by the Ontario Ministry of Education, Canada, with respect to the parties' proposed cooperation in establishing a private school in Canada, offering secondary and pre-university education, as well as other proposed cooperation in international education. As at the Latest Practicable Date, we were in the process of establishing a joint venture company in Canada, which we expect to be established prior to [REDACTED] and owned by our Group and Dewey Education Group Inc. for our potential investment and development of a new school in Canada.

OUR EDUCATIONAL PHILOSOPHY

Our educational objectives are "to serve the society with honesty and integrity through our services" and "to cultivate talents with a warm and loving heart" (以誠心服務社會, 以愛心培育人才). To achieve our objectives, we have established the following educational philosophy: enhance morality and foster talents; nurture worthy and capable, sincere and upright graduates (賢良方正, 立德樹人). As an educational service provider, we seek to provide our educational services in a manner consistent with the values and attitudes in which we believe. We established a Love & Care Foundation to offer financial assistance to students whose families are in difficulties, provide annual scholarships to students from low-income families and organized a successful fundraising event to help one of our teachers fight cancer.

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With the aim of facilitating the well-rounded development of our students, we offer a wide-range of school-based elective courses, including courses for sports, art, music and Chinese culture. In order to emphasize the moral aspects of our education, we encourage our students to participate in a variety of social services, including serving the elderly, volunteering in local communities and donating to Sichuan earthquake relief initiatives. We also organize free summer camps for children from under-privileged regions in China. We consistently seek to reward positive behavior and foster our students' capability for moral reasoning. In our annual "Inspirational Students Award" event, we reward students who have demonstrated outstanding moral character and personalities. In addition, we believe our teachers have acted as positive role models to our students. For instance, one of our teachers donated his entire annual salary to under-privileged children in Western China to support their educational programmes.

OUR SCHOOLS

As of the Latest Practicable Date, we operated five premium private schools on four campuses. Four of our schools are located in Guangdong province in the Pearl River Delta economic zone: Dongguan Guangming School, Dongguan Guangming Primary School (located at the same campus site as Dongguan Guangming School), Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School. Our fifth school, Panjin Guangzheng Preparatory School, is located in Liaoning province in the Northeast Three Provinces economic zone. Panjin Guangzheng Preparatory School commenced operations in September 2014 and is our first school outside of Guangdong province as part of our expansion strategy. In addition, we expect our new school in Weifang, Shandong province in the Bohai Economic Rim economic zone to commence operations in September 2016, for which we expect to recruit approximately 1,000 students for the 2016/2017 school year.

The following table sets forth the type of education that we provide in each of our schools:

School	Primary School	Middle School	High School	
	PRC Curriculum Programme	PRC Curriculum Programme	PRC Curriculum Programme	International Programme
Dongguan Guangming School		√	√	√
Dongguan Guangming Primary School	√			
Dongguan Guangzheng Preparatory School	√	√	√	√
Huizhou Guangzheng Preparatory School	√	√	√	
Panjin Guangzheng Preparatory School	√	√		
Weifang Guangzheng Preparatory School ⁽¹⁾	√	√		

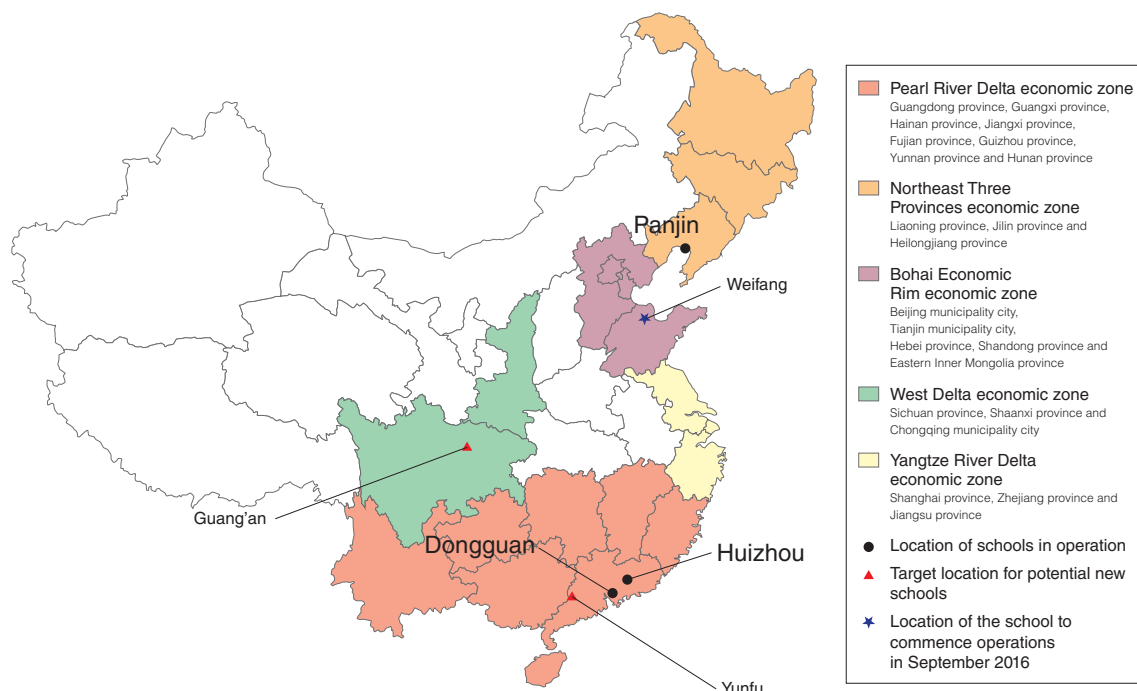
Note:

(1) We expect the school to commence operations in September 2016.

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As of the Latest Practicable Date, we entered into cooperation agreements with the local government of Guang'an, Sichuan province and the local government of Yunfu, Guangdong province, respectively, to establish a new school in each of these cities. We also intend to engage in discussions with the local government authorities of various cities in Guangdong, Shandong and Sichuan provinces to explore the possibility of establishing a new school in each city. In addition, in February 2016, we entered into a memorandum of understanding with Dewey College, an independent high school subject to inspection by the Ontario Ministry of Education, Canada, with respect to the parties' proposed cooperation in establishing a private school in Canada, offering secondary and pre-university education, as well as other proposed cooperation in other areas of international education. Please refer to "– Development of New Schools" below for further details of our plans for the development of new schools.

The following map sets forth the geographical location of our schools as of the Latest Practicable Date, as well as our school under construction and the proposed location for our schools in the PRC to be built in the future:



Each of our schools offers a PRC curriculum programme that is tailored to, among other things, the learning patterns and interests of the student body of the respective school, as well as the cultural and social characteristics of the city in which the school operates. We also offer international programmes at two of our schools. All of our schools are boarding schools with on-campus dormitories.

As of 1 September 2015, our school campuses varied in size from 69,471.9 sq.m. to 123,763.8 sq.m. with the existing capacity ranging from 1,455 to 10,532 students. We equip our schools with advanced education facilities, which enables us to offer a variety of courses. Our school facilities generally include classrooms, multi-media rooms, a gymnasium, outdoor fields, sports courts (such as basketball, badminton or soccer courts), table tennis centres, laboratories, library, art rooms (such as dancing and drawing rooms), administrative offices, canteen, laundry rooms and student dormitories, as well as staff apartments. We also offer school supplies, daily necessities and other items at our schools for the convenience of our students.

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Number of Students

As of 1 September 2015, we had a total student enrolment of approximately 27,644 students, including 6,834 high school students, 10,748 middle school students, 9,759 primary school students and 303 students in the international programmes. The following table sets forth information with respect to the approximate student enrolment, capacity and utilization rate of each of our schools as of the dates indicated:

School	Student Enrolment as of 1 September				Capacity for Students ⁽¹⁾ as of 1 September				School Utilisation Rate (%) ⁽¹⁾ as of 1 September			
	2012 ⁽²⁾	2013 ⁽³⁾	2014 ⁽⁴⁾	2015 ⁽⁵⁾	2012 ⁽²⁾	2013 ⁽³⁾	2014 ⁽⁴⁾	2015 ⁽⁵⁾	2012 ⁽²⁾	2013 ⁽³⁾	2014 ⁽⁴⁾	2015 ⁽⁵⁾
Dongguan Guangming School⁽⁶⁾												
High school	3,806	3,362	2,908	2,744	3,810	3,394	2,954	2,760	99.9	99.1	98.4	99.4
Middle school	6,695	7,160	7,421	7,588	6,944	7,168	7,424	7,680	96.4	99.9	100.0	98.8
International programme	27	58	87	85	32	68	88	92	84.4	85.3	98.9	92.4
Subtotal	10,528	10,580	10,416	10,417	10,786	10,630	10,466	10,532	97.6	99.5	99.5	98.9
Dongguan Guangming Primary School	3,419	4,367	5,130	5,959	4,466	4,858	5,496	6,062	76.6	89.9	93.3	98.3
Dongguan Guangzheng Preparatory School												
High school	–	1,576	2,260	3,187	–	3,856	3,416	4,040	–	40.9	66.2	78.9
Middle school	–	1,113	1,523	1,942	–	1,296	1,592	1,952	–	85.9	95.7	99.5
Primary school	–	1,314	1,885	2,421	–	1,336	1,926	2,822	–	98.4	97.9	85.8
International programme	–	148	152	218	–	208	208	224	–	71.2	73.1	97.3
Subtotal	–	4,151	5,820	7,768	–	6,696	7,142	9,038	–	62.0	81.5	85.9
Huizhou Guangzheng Preparatory School												
High school	–	–	372	903	–	–	624	1,312	–	–	59.6	68.8
Middle school	–	166	459	914	–	576	624	1,208	–	28.8	73.6	75.7
Primary school	–	90	358	683	–	368	679	945	–	24.5	52.7	72.3
Subtotal	–	256	1,189	2,500	–	944	1,927	3,465	–	27.1	61.7	72.2
Panjin Guangzheng Preparatory School												
Middle school	–	–	81	304	–	–	448	448	–	–	18.1	67.9
Primary school	–	–	201	696	–	–	240	1,007	–	–	83.8	69.1
Subtotal	–	–	282	1,000	–	–	688	1,455	–	–	48.7	68.7
Total	13,947	19,354	22,837	27,644	15,252	23,128	25,719	30,552	91.4	83.7	89.0	90.5

Notes:

- (1) As all of our schools are boarding schools, capacity for students is calculated based on the approximate number of beds available in student dormitories according to the respective school's internal records and calculations. School utilisation rate is calculated by dividing the number of students enrolled at a school by the capacity for students of the school. Although we have calculated our schools' respective capacity based on the number of beds available, we believe the facilities at our Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School may accommodate additional beds without material capital expenditure (subject to the receipt of necessary approvals).
- (2) Represents the beginning of the 2012/2013 school year.
- (3) Represents the beginning of the 2013/2014 school year.
- (4) Represents the beginning of the 2014/2015 school year.
- (5) Represents the beginning of the 2015/2016 school year.
- (6) Capacity for students for the high school section of Dongguan Guangming School decreased as we reallocated certain student dormitories to the middle school section based on student enrolment.

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Educational Programmes and Curriculum

Each of our schools offers a PRC curriculum programme at the primary school, middle school or high school level, as applicable. We also offer international programmes at Dongguan Guangming School and Dongguan Guangzheng Preparatory School. Our programmes emphasize four key aspects: enjoyable learning, student-centred teaching, skills-based training and talent fostering.

PRC Curriculum Programmes

Our PRC curriculum programmes comprise the curriculum mandated by the PRC regulatory authorities, together with individualized school-based elective courses. We offer courses such as Chinese, Mathematics, English, Chinese and Moral Education under the curriculum mandated by the PRC regulatory authorities. As a private educational group, we have flexibility in designing additional elective courses in order to develop an individualized school-based curriculum for each of our schools based on, among other things, the learning patterns and interests of the respective student body as well as the cultural and social characteristics of the city in which the respective school operates. The elective courses we have developed generally fall within one or more of five categories: (i) extended learning in core subjects; (ii) learning habits and everyday life skills; (iii) personal development and moral character; (iv) music, sports and art; and (v) creative thinking and technological innovation. We believe our individualized school-based courses are well received by our students.

All courses under the PRC government mandated curriculum are taught by PRC-certified teachers using textbooks and materials designated by relevant PRC authorities. Students who have passed all courses under the PRC government mandated curriculum are eligible for PRC primary or secondary school diplomas, as applicable. All courses under the school-based curriculum are taught by PRC-certified or foreign teachers. Students are encouraged but not required to enroll in school-based courses.

International Programmes

We offer international programmes at two of our schools: Dongguan Guangming School and Dongguan Guangzheng Preparatory School. We offer two types of international programmes, (i) a one-year programme that admits high school graduates or third year high school students, preparing them for their studies overseas and (ii) a three-year programme that admits first year high school students and certain second year high school students, offering ACT, A Level or IGCSE courses. Please refer to “– Dongguan Guangming School” and “– Dongguan Guangzheng Preparatory School” below for further details of our international programmes.

Extra-Curricular Programmes

Our extra-curricular programmes enable us to further refine our individualized school-based educational programmes. We offer a wide range of extra-curricular programmes designed to enable the well-rounded development of our students into lifelong learners. Our extra-curricular programmes are designed to stimulate scientific interests, enhance social understanding, promote cross-cultural communication and develop self-care abilities. Extra-curriculum activities are optional, some of which are offered by our schools in cooperation with parties, which are to the best knowledge of the Directors, Independent Third Parties.

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Student Placement

For each of the 2013/2014 and 2014/2015 school years, at least 94.8% of our high school graduates were admitted to universities in China each school year, and approximately 18.4% and 21.4% of our high school graduates were admitted to First Class Universities in China. In the 2016 PRC national higher education entrance examination, one of our high school graduates was ranked in the top 10 and one was ranked in the top 20 in Guangdong province in terms of the total exam scores achieved, and 10 of our high school graduates were admitted to Peking University and Tsinghua University. We offer various resources to help our students prepare for the PRC national higher education entrance examination, including exam preparation lectures by experienced teachers, practice tests, mock exams and review courses. Graduates from our international programmes were admitted to reputable universities and colleges overseas.

For the 2012/13, 2013/14 and 2014/15 school years, approximately 47.1%, 51.9% and 54.9% of our middle school graduates enrolled in our high schools, and approximately 83.8%, 86.9% and 82.4% of our primary school graduates enrolled in our middle schools.

We provide scholarships to students who achieve academic excellence and provide cash awards of up to RMB100,000 to high school graduates who are admitted to top-tier universities in China.

Counsellors

For each of our schools, we have a team of counsellors to provide care, support and guidance to our students. Our counsellors work with our students outside of the classrooms, overseeing their safety and wellbeing while they stay on campus. Our counsellors are available to provide 24-hour services to students. For grade 1-3 primary school students, our counsellors assist students with their daily routines and teach students independent living skills. For grade 4-6 primary school students, our counsellors teach them social skills and help build their independence from a very young age. For middle and high school students, our counsellors supervise their dormitories to provide orderly, safe, clean and healthy living conditions for our students. We also provide on-campus medical staff and mental-health counsellors to create a healthy and safe campus environment for our students. Please refer to “– Health and Safety Matters” below for further details.

Management of Schools

Major decisions and policies concerning our schools such as school principal nominations, tuition levels, the construction of material new facilities and the use of significant funds are determined by Guangdong Guangzheng, our PRC subsidiary. Guangdong Guangzheng oversees day-to-day school management affairs through a review and reporting system, which requires each school to report material activities such as significant procurement and significant personnel changes to Guangdong Guangzheng for its review. Guangdong Guangzheng monitors the financial activities of each school through biannual and periodic audits from time to time. Guangdong Guangzheng also oversees school management through periodic joint principal meetings, at which school principals report to Guangdong Guangzheng on school developments and major issues. Each of our schools is managed on a day-to-day basis by its principals, who are assisted by several vice principals. Each vice principal is responsible for one or more specific aspects of each school’s operations, such as educational curriculum, student admissions, moral education, security and logistics, student affairs and human resources. All of our school principals and vice principals have extensive experience in education and school administration. We believe this management system allows us to maximize the capabilities of our educators and administrative personnel to enhance the quality of education we provide and promote students’ well-being.

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To facilitate parent-school communication and to timely obtain feedback from our students' parents, we set up parents committee at each of our schools comprising of parent-representatives from each grade. The parents committees act as a liaison between the school and parents and allows parent to voice their opinions about our schools. We also organize a variety of events and activities for our students' parents, such as teacher-parent meetings, mom chorus, dad basketball teams, parent-in-the-classroom day and parent inspection groups during exam periods. We believe these events and activities strengthened the relationship between our schools and our students' parents and contributed to creating a harmonious learning environment.

Government Support and Grants

All of our new schools or schools in planning, such as Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School and Guang'an Guangzheng Preparatory School, have received government support, which we believe gives us access to resources that may not be available to other private schools, including high quality teachers, government administered teacher and school principal training programmes, government support in student recruitment activities, government assistance with regulatory filings and applications and preferential policies on land allocation or assignment. We believe that the relevant government authorities take a prudent approach in choosing cooperation partners and have selected our schools based on our reputation, efficient management and the quality of our educational programmes. As part of our growth strategies, we will seek to obtain equivalent level of government support for our new schools.

Three of our schools, Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School have received discretionary government grants for the school activities we organized or the academic achievements of our students. For the 2012/2013, 2013/2014 and 2014/2015 school years, the total amount of government grants our schools received amounted to RMB0.4 million, RMB0.6 million and RMB1.5 million, respectively.

Tuition and Boarding Fees

We charge our students tuition and boarding fees and for the ancillary services provided at our schools. To attract students with academic excellence or specialties in sports, music or art to enroll in our schools, we offer partial tuition fee waiver to a certain percentage of our middle and high school students who have achieved relatively high test scores in the standardized middle or high school entrance exams or who have specialties in sports, music or art each school year. For the 2012/2013, 2013/2014, 2014/2015 and 2015/2016 school years, approximately 15.8%, 12.4%, 11.1% and 9.9% of our students were offered partial tuition fee waiver in recognition of their academic excellence or specialties in sports, music or art and paid tuition fees that were lower than our normal tuition fees. In addition, we charge higher tuition fees to a small number of high school students who were admitted to our high schools from the waiting list administered by the relevant education bureau. For the 2012/2013, 2013/2014, 2014/2015 and 2015/2016 school years, approximately 4.0%, 3.6%, 3.9% and 4.0% of our students in our high schools paid higher tuition fees. We also offer discounted tuition fee rates to children of our teachers and staff who enrol in our schools. The staff tuition fee rates are half of the normal tuition fee.

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The following table sets forth the tuition and boarding fee rates applicable to the majority of our students for the 2012/2013, 2013/2014, 2014/2015 and 2015/2016 school years. Tuition and boarding fee rates applicable to a small percentage of our students who receive partial tuition fee waiver, receive discounted tuition fee rates as a result of one or more of the aforementioned circumstances are not included.

	Tuition and Boarding Fees ⁽¹⁾				
	2012/2013 school year (RMB)	2013/2014 school year (RMB)	2014/2015 school year (RMB)	2015/2016 school year (RMB)	2016/2017 school year (RMB)
Dongguan Guangming School					
High school	18,700- 21,200	18,700- 21,200	23,000- 25,200	23,000- 25,200	25,600- 30,600
Middle school	17,100- 19,800	17,100- 19,800	21,000- 23,200	21,000- 23,200	23,600- 27,600
International programmes	92,600	92,600	92,600	92,600	92,600 ⁽²⁾
Dongguan Guangming Primary School					
	14,200- 18,600	14,200- 18,600	15,040- 21,000	15,040- 21,000	18,180- 24,400
Dongguan Guangzheng Preparatory School					
High school	— ⁽³⁾	20,000	20,400- 22,400	20,400- 22,400	22,800- 25,800
Middle school	— ⁽³⁾	18,000	18,000- 19,400	18,000- 19,400	19,800- 23,000
Primary school	— ⁽³⁾	16,000	16,400- 18,000	16,400- 18,000	16,600- 21,200
International programmes	— ⁽³⁾	36,200- 52,000	50,600- 88,600	50,600- 88,600	50,600- 88,600 ⁽²⁾
Huizhou Guangzheng Preparatory School					
High school	— ⁽⁴⁾	— ⁽⁵⁾	23,000 ⁽⁶⁾	23,000 ⁽⁶⁾	23,000- 25,600
Middle school	— ⁽⁴⁾	18,000	18,000	18,000	18,000- 20,600
Primary school	— ⁽⁴⁾	18,200	18,200	18,200	18,200- 20,800
Panjin Guangzheng Preparatory School⁽⁷⁾					
Middle school	— ⁽⁴⁾	— ⁽⁴⁾	18,000	18,000	18,000
Primary school	— ⁽⁵⁾	— ⁽⁴⁾	13,000- 14,200	13,000- 14,200	13,000- 14,200
Weifang Guangzheng Preparatory School⁽⁸⁾					
Middle school	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁵⁾	— ⁽⁵⁾	13,000
Primary school	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁵⁾	— ⁽⁵⁾	11,000

Notes:

- (1) We increased tuition and boarding fees prior to and during the Track Record Period for certain of our schools. Our increased tuition and boarding fees may only apply to newly admitted students for the respective school year, while our existing students may continue to pay the tuition and boarding fees prior to the increase. As a result, tuition and boarding fees for certain of our schools are presented as a range, which include the tuition and boarding fees paid by students who are admitted to our schools at different school years. Tuition fees for certain of our schools include miscellaneous fees such as medical examination fee and course material fee.
- (2) Information was indicative as of the Latest Practicable Date and is subject to change.
- (3) We acquired the school in August 2013 and the school has been operated by us since the 2013/2014 school year.

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- (4) The school did not commence operations for the school year.
- (5) High school section of the school did not admit any students for the school year.
- (6) We did not obtain the fee permit for the high school section of the school for the 2014/2015 and 2015/2016 school years, respectively. On 15 July 2016, the Development and Reform Commission of Huizhou, being the competent government authority for price regulation, issued written confirmation confirming that the school had passed all inspections conducted by the authority since its establishment and had not been subject to penalties for violating the relevant laws and regulations on price regulation.
- (7) The school has not obtained the registration certificate for private non-enterprise entities. Please refer to "Legal Proceedings and Compliance" for further details.
- (8) We expect the school to commence operations in September 2016.

There are two school terms in each school year. Tuition fees and boarding fees are generally paid in advance prior to the beginning of each school term and are recognised as revenue proportionately each month over the period of the relevant educational programmes. We typically refund 90% of the tuition fees paid if a student withdraws before the school term starts, 70% if the student withdraws after the school term starts but before the end of the first calendar month of the school term, 50% if the student withdraws after the first calendar month and prior to the end of the second calendar month of the school term, and 30% if the student withdraws after the end of the second calendar month and prior to the end of the third calendar month of the school term. We do not offer refund of tuition fees paid if the student withdraws after the end of the third calendar month of the school term. According to our PRC Legal Adviser, our school refund policies are in compliance with the applicable PRC laws and regulations.

Ancillary Services

All our schools are boarding schools and we provide dormitories for boarding students who live on-campus Monday through Friday during school terms. To promote the health and welfare of our students, we provide ancillary services at our schools, including on-campus canteens and medical rooms, for which we charge separately in addition to tuition and boarding fees.

Canteens

Each of our schools has an on-campus canteen that offers meals for our students and staff. Middle and high school students choose their meals from the canteen menus and primary school students are offered set meals at the canteens. Middle and high school students use their prepaid on-campus identity cards to make payments when the meals of their choice are delivered. Primary school students pay for their set meals in advance of each school term. The canteens at our Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School also offer pre-packaged food to students. Our PRC Legal Adviser has advised us that a school must obtain the requisite food operation licences to offer pre-packaged food on campus and failure to do so may subject the school to fines ranging from five to twenty times of the value of the food offered or other penalties. The relevant government authorities may also require a school to temporarily discontinue the relevant services of offering pre-packaged food until it obtains the requisite licences. As of the Latest Practicable Date, our Panjin Guangzheng Preparatory School had not received the requisite licence for offering pre-packaged food. We therefore do not offer pre-packaged food in the on-campus canteen of our Panjin Guangzheng Preparatory School.

Under the relevant PRC laws and regulations, on-campus canteens in principle must be operated on a "not-for-profit" basis. However, such "not-for-profit" principle is not defined in any PRC laws and regulations. We have consulted the relevant education authorities and price authorities with respect to the understanding of the "not-for-profit" principle, from which we understand that the principle of "not-for-profit" is met if our schools do not seek to distribute to our school sponsors the retained earnings, if any, from our on-campus canteens, which may be applied for the continuous operation and improvement of the relevant on-campus canteens. During the Track Record Period,

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none of our schools had distributed any retained earnings (including any retained earnings from the on-campus canteens) to our school sponsors. In addition, our Directors have decided to voluntarily establish a non-distributable reserve and transfer all the retained earnings of our on-campus canteens since the operation thereof into such reserve. As of 31 May 2016, all such retained earnings in the amount of RMB175.5 million had been transferred to the aforesaid non-distributable reserve. Accordingly, our PRC Legal Adviser is of the view that, our operation of the on-campus canteens, the establishment of the non-distributable reserve and the transfer of such retained earnings to the reserve for the continuous operation and improvement of the relevant on-campus canteens and other purposes permitted by PRC laws and regulations, are not in breach of the aforesaid “not-for-profit” principle.

The non-distributable reserve will be administered by a committee comprising two Directors and a school principal (the “**Committee**”), which will be chaired by a Director member and meet at least once per year. Funds in the non-distributable reserve will be used for purposes related to the on-campus canteens, including providing a better dining environment, improving the quality and safety of the food offered, covering the operational, routine maintenance and non-recurring costs incurred by the on-campus canteens for improving the canteen facilities or any other purposes permitted by PRC laws and regulations. Any use of the funds in the non-distributable reserve must be agreed by at least a simple majority of the Committee. The funds in the non-distributable reserve will not be distributed to the school sponsors or otherwise be paid to Dongguan Ruixing or another PRC subsidiary pursuant to the Contractual Arrangements. For further details on risks and uncertainties relating to our non-distributable reserve, please refer to “Risk Factors – The non-distributable reserve we established may not be a sufficient or appropriate measure for the operation of on-campus canteens”.

Medical Rooms

Each of our schools has a on-campus medical room that offers healthcare services to our students. The medical room at our Dongguan Guangming School and Dongguan Guangming Primary School is licenced on-site infirmaries and offer medical diagnosis and the prescription of medication and treatments, as well as basic healthcare services to our students. The medical rooms at our Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School, however, are not infirmaries and only provide basic healthcare services. In situations of emergency or when necessary and appropriate, we promptly send our students to nearby hospitals for medication and treatments.

Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, a boarding school must have a licenced on-site infirmary to provide medical services to students. Our PRC Legal Adviser has also advised that there is no penalty provision under the relevant PRC laws and regulations if a boarding school fails to have in place such licenced on-site infirmary. As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government authorities with respect to the lack of licenced on-site infirmaries at our Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School, nor had any of these schools been required to rectify this matter. Our PRC Legal Adviser has advised us that, based on the fact that no medical services that require an on-site infirmary licence are provided at these schools, the possibility of our Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School being subject to fines or other penalties due to the lack of licenced on-site infirmaries is relatively remote. However, any competent PRC government authority may require us to rectify this matter within a prescribed period. We are in the process of applying for the requisite licences for operating on-site infirmaries at our Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School. Taking into account the above and based on the advice of our PRC Legal Adviser, our Directors believe that this is not a material non-compliance matter and will not have a material adverse effect on our business operations or financial condition as a whole.

Other Services

All of our schools are boarding schools and most of our students live on-campus. We arrange third-party suppliers to provide transportation services to our students to facilitate their commute

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between home and school. In addition, as we generally require our students to wear school uniforms during school year, we arrange third-party suppliers to provide school uniform purchasing service for the convenience of parents. For our school bus and school uniform purchasing services, we charge our students the amount charged by the third-party suppliers on behalf of the suppliers plus any additional costs we incur. We have engaged our PRC Legal Adviser to conduct interviews with the competent PRC government authorities, which confirmed that our aforementioned charging practices with respect to the transportation and school uniform purchasing services are not in violation of the relevant PRC laws and regulations.

Dongguan Guangming School

Dongguan Guangming School was established in 2003 in Dongguan, Guangdong province and is one of the earliest schools operated by us. The educational philosophy of the school is to “form a foundation for lifelong learning and to educate for the advancement of society”. The school offers both PRC curriculum programmes and international programmes. As of 1 September 2015, the school had a total student enrolment of 10,417 students, comprising of 2,744 high school students, 7,588 middle school students and 85 students in the international programmes and employed 606 teachers.

For the 2012/2013, 2013/2014 and 2014/2015 school years, 193, 268 and 279 high school graduates from Dongguan Guangming School were admitted to First Class Universities in China, including Peking University and Tsinghua University.

We believe Dongguan Guangming School is well recognised for its school-based elective courses on sports, art, music and Chinese culture. For each school year during the Track Record Period, high school graduates from Dongguan Guangming School were admitted to first-tier specialized PRC universities, including Beijing Sport University and the Central Academy of Fine Art, in recognition of their sports or art specialties.

The school is located on the same campus site as Dongguan Guangming Primary School. The school occupied premises with a gross site area of 116,231.2 sq.m. and had a capacity of 10,532 students as of 1 September 2015. The school campus offers a variety of facilities, some of which are shared with Dongguan Guangming Primary School.

International Programmes

Dongguan Guangming School established its international programmes in 2012, offering international courses to students who wish to pursue higher education overseas. The international programmes are co-operated by the school with an Independent Third Party, which is a wholly owned subsidiary of an educational institution listed on the Stock Exchange. Dongguan Guangming School entered into cooperation agreements with this Independent Third Party in May 2012. The major terms of the cooperation agreements include: a term of five years commencing May 2012; the Independent Third Party is responsible providing the educational services for the international programmes and the school is responsible for administrative matters; the Independent Third Party is responsible for student and teacher recruitment; and each party receives 50% of the tuition fees collected and shares 50% of the marketing costs.

Dongguan Guangming School offers two types of international programmes: a three-year programme which admits first year high school students and certain second year high school students; and a one-year programme which admits high school graduates and third year high school students. Students enrolled in the three-year programme take international foundation courses such as English, culture studies and communication skills in the first year, and A Level or ACT courses in the second and third years. Students enrolled in the one-year international programme take a variety of preparation courses for their studies overseas, including IELTS courses, culture studies, mathematics techniques, information and technology skills, communication skills and introduction to business courses.

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As of 1 September 2015, the international programmes had 85 students at Dongguan Guangming School and 11 teachers, 3 of which are foreign teachers. Graduates from the international programmes are eligible for certificates of completion for completing A Level or ACT courses. During the Track Record Period, graduates from the international programmes were admitted to reputable overseas universities and colleges.

Dongguan Guangming Primary School

Dongguan Guangming Primary School was established in 2004 in Dongguan, Guangdong province and is one of the earliest schools operated by us. The school offers primary school education. As of 1 September 2015, the school had a total student enrolment of 5,959 students and employed 321 teachers.

We believe Dongguan Guangming Primary School is well recognised for its school-based elective courses on English, sports, music, art and Chinese culture. The school provides English courses, including spoken English courses to all students, which we believe has substantially stimulated students' interests for studying English and encouraged their confidence in communicating in English. Students from Dongguan Guangming Primary School have won various awards in martial arts, drawing, singing and dancing contests, and we have organized various events promoting students' understanding of Chinese culture, such as Traditional Culture Festival and Recital Contest of Famous Chinese Literature.

The school is located on the same campus site as Dongguan Guangming School. As of 1 September 2015, the school campus had a gross site area of approximately 68,215.2 sq.m. and had a capacity of 6,062 students. The school campus offers a variety of campus facilities, some of which are shared with Dongguan Guangming School.

Dongguan Guangzheng Preparatory School

We acquired H.S. Kama International School (東莞市華南師大嘉瑪學校) in August 2013 and changed its name to Dongguan Guangzheng Preparatory School. The school is located in Dongguan, Guangdong province and offers both PRC curriculum programmes and international programmes. As of 1 September 2015, the school had a total student enrolment of 7,768 students, comprising of 3,187 high school students, 1,942 middle school students, 2,421 primary school students and 218 students in the international programmes and employed 464 teachers.

For the 2013/2014 and 2014/2015 school years, 26 and 29 high school graduates from Dongguan Guangzheng Preparatory School were admitted to First Class Universities in China. We believe Dongguan Guangzheng Preparatory School is well recognised for its English, sports, art and music courses.

As of 1 September 2015, the school occupied premises with a gross site area of 126,285.5 sq.m. and had a capacity of 9,038 students.

International Programme

Dongguan Guangzheng Preparatory School offers a three-year international programme which admits first year high school students. The international programme of the school was authorized by the London Examination Board in 2005, offering IGCSE courses and A Level courses to high school students who wish to pursue higher education overseas. In 2006, the London Examination Board designated the school as its sole test centre in south China.

As of 1 September 2015, the international programmes had 218 students and employed 27 teachers, including 13 PRC teachers and 14 foreign teachers. Graduates from the international programmes are eligible for certificates of completion for completing A Level or ACT courses. During the Track Record Period, graduates from the international programme were admitted to reputable universities and colleges overseas.

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Huizhou Guangzheng Preparatory School

Huizhou Guangzheng Preparatory School was established in 2014 in Huizhou (Huicheng District), Guangdong province and is the first school we operated outside of Dongguan. The school offers primary and secondary school education. As of 1 September 2015, the school had total student enrolment of 2,500 students, comprising of 903 high school students, 914 middle school students and 683 primary school students and employed 190 teachers. The school produced its first batch of middle and high school graduates at the end of the 2015/2016 school year.

We believe Huizhou Guangzheng Preparatory School is well recognised for its sports, music and art courses. As of 1 September 2015, the school occupied premises with a gross site area of 108,747.9 sq.m. and had a capacity of 3,456 students.

Panjin Guangzheng Preparatory School

Panjin Guangzheng Preparatory School commenced schooling in 2014 in the city centre of Panjin, Liaoning province, representing the first school operated by us outside of Guangdong province. We selected Panjin to establish our fifth school because Panjin is a resource-rich city with growth potential, a substantial portion of whose population we believe are middle class families that value high quality private education. According to the Statistics Bureau of Panjin, the annual per capita disposable income of Panjin increased at a CAGR of approximately 12.1% from 2012 to 2014. We believe that our Panjin Guangzheng Preparatory School will be able to attract students from middle class families in the city, as well as students from nearby cities such as Shenyang and Dalian. In addition, the local government of Panjin provided substantial support to the establishment of our school by offering us free land use rights, providing government grants and assigning experienced teachers to our school, which allowed us to commence operations within a short period of time and at relatively low costs.

Panjin Guangzheng Preparatory School offers primary and middle school education. As of 1 September 2015, the school had a total student enrolment of 1,000 students, comprising of 304 middle school students and 696 primary school students and employed 85 teachers.

Since the school commenced operations in September 2014, there were no middle school graduates as at the end of the 2014/2015 school year. We expect the school to produce its first batch of middle school graduates by the end of the 2016/2017 school year.

Panjin Guangzheng Preparatory School offers a variety of school-based elective courses, including dancing, martial arts and sport. The school has a spacious football court on campus and offers football classes to students as football is a popular sport in Liaoning province.

As of 1 September 2015, the school occupied premises with a gross site area of 89,901.9 sq.m. and had a capacity of 1,455 students.

Development of New Schools

As of the Latest Practicable Date, we had established schools in three of the five major economic zones, namely, the Pearl River Delta economic zone, the Northeast Three Provinces economic zone and the Bohai Economic Rim economic zone. As one of our development strategies, we intend to continue to strengthen our leading position in the Pearl River Delta economic zone with a focus on Guangdong province and intend to expand into the West Delta economic zone. We have entered into cooperation agreements with the local government of Guang'an, Sichuan province and the local government of Yunfu, Guangdong province, respectively, to establish a new school in each of these cities. We also intend to engage in discussions with the local government authorities of various cities in Guangdong, Shandong and Sichuan provinces, to explore the possibility of establishing a new school in each city. In addition, we entered into a memorandum of understanding with Dewey College in Canada with respect to the potential cooperation on the development of a new school overseas.

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We will use our best efforts to facilitate the establishment and the commencement of operations of the new schools, as well as the discussions with the relevant government authorities, subject to receiving the requisite approvals, licences and permits. The following tables set forth our expectations, as of the Latest Practicable Date, with respect to certain of our new schools:

New Schools in the PRC

School	Status	Intended school commencement date	Estimated maximum capacity for students ⁽¹⁾	Estimated total capital expenditure (RMB'000)	Costs incurred ⁽²⁾ (RMB'000)	Intended source of funds
Weifang Guangzheng Preparatory School	Construction in progress	1 September 2016	7,550	322,670	200,000	Self-owned capital
Guang'an Guangzheng Preparatory School	Entered into a cooperation agreement with the local government in May 2016	1 September 2017	9,280	439,800	170,000	Self-owned capital and [REDACTED]
Yunfu Guangzheng Preparatory School	Entered into a cooperation agreement with the local government in July 2016	1 September 2017	10,000	522,000	–	Self-owned capital and/or [REDACTED]

Notes:

(1) Relates to the target maximum capacity for primary, middle and high school education, as well as international programmes.

(2) Represents capital expenditure incurred up to the period ended 31 May 2016.

New School in Canada

School	Status	Intended school commencement date	Estimated maximum capacity for students	Estimated total capital expenditure (CAD'000)	Costs incurred ⁽¹⁾ (CAD'000)	Intended source of funds
Dewey College (secondary school)	Business proposal submitted	1 September 2017	500-600	2,000	–	Self-owned capital and/or [REDACTED]

Note:

(1) Represents capital expenditure incurred up to the period ended 31 May 2016.

Please refer to "Risk Factors – Risks Relating to Our Business and Our Industry – We may not be able to successfully execute our growth strategies" of this document for further details about risks and uncertainties involved in developing new schools.

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In order to implement our school development strategy, we have established a development centre, which is responsible for project evaluation, liaison with local government authorities, and the construction, establishment and promotion of our new schools. The development centre reports directly to our vice president and had 17 staff as of 31 May 2016. We generally intend to model our new school campuses based on the campus site of our Dongguan Guangming School and Dongguan Guangming Primary School, and may also make adjustments based on local conditions.

Weifang Guangzheng Preparatory School

On 20 April 2015, we entered into a cooperation agreement with the local government of Weifang, Shandong province to establish a school in Weifang, offering, among other things, primary, middle and high school education, as well as international programmes. We expect our Weifang Guangzheng Preparatory School to commence operations in September 2016 and to recruit approximately 1,000 students for the 2016/2017 school year. The major terms of the cooperation agreement are set forth below:

Land use right	The local government allocates the land use right to us at a designated price. The land must be used for educational purposes and cannot be transferred without the prior consent of the local government ⁽¹⁾ .
School construction	We are responsible for the construction of and have ownership to the campus site and all the real estate properties of the school.
Preferential policies	The local government offers certain preferential policies and provides assistance to the school to facilitate its construction and operations.
Target maximum capacity⁽²⁾	7,550 students.

Notes:

- (1) No commercial value is ascribed to the property by our Property Valuer as the land use right was allocated to us by the local government of Weifang. Please refer to the property valuation report as set out in Appendix III to this document for further details.
- (2) Relates to the target maximum capacity for primary, middle and high school education, as well as international programmes.

We have strategically selected Weifang to establish a new school because Weifang has a number of factors that we believe are important to driving the demand for high quality private education. For instance, Weifang is located in Shandong province in the Bohai Economic Rim economic zone, one of the five major economic zones in China; its neighboring cities, Qingdao and Yantai, are two of the leading economies in Shandong province and have a rapidly growing middle-class; it has a long-lasting tradition of promoting education as it is close to the hometown of Confucius, a well-known teacher and philosopher in the history of China. As of 31 December 2015, Weifang had a population of 9.3 million and a GDP of RMB517.1 billion, according to the Statistics Bureau of Weifang.

Weifang Guangzheng Preparatory School will be a boarding school with on-campus dormitories and will primarily target to recruit PRC students. The school will offer the curriculum mandated by the PRC regulatory authorities and school-based elective courses for its PRC curriculum programmes.

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Guang'an Guangzheng Preparatory School

On 4 May 2016, Guang'an Guangzheng, a wholly owned subsidiary of Guangdong Guangzheng and Cinese Group, a company controlled by Mr. Liu, entered into a cooperation agreement with the local government of Guang'an, Sichuan province and the management committee of Guang'an Zaoshan Logistics and Trade Park. In July 2016, Guang'an Guangzheng and Cinese Group entered into a supplemental agreement in accordance with the principles of the cooperation agreement. Under these agreements, we are assigned to establish a new school in Guang'an, offering, among other things, primary, middle and high school education, as well as international programmes. The major terms of the cooperation agreement are set forth below:

Land use right	The local government allocates the land use right to us for free provided that the land is used for primary, middle and high school education and allocates the land use right to us at a designated price if the land is used for kindergarten and international programmes ⁽¹⁾ .
School construction	We are responsible for completing the construction of the campus site and the school buildings by the end of August 2017. The school is expected to commence operations in September 2017.
Preferential policies	The local government offers certain preferential policies and provides assistance to the school to facilitate its construction.
Target maximum capacity⁽²⁾	9,280 students.

Notes:

- (1) As of the Latest Practicable Date, the local government of Guang'an had yet to allocate the relevant land use right to us.
- (2) Relates to the target maximum capacity for primary, middle and high school education, as well as international programmes.

We have strategically selected Guang'an to establish a new school because Guang'an has a number of factors that we believe are important to driving the demand for high quality private education. For instance, Guang'an is located in Sichuan province in the West Delta economic zone, one of the five major economic zones in China and a geographic region into which we intend to expand our school network. As of 31 December 2015, Guang'an had a GDP of RMB100.6 billion, according to the Statistics Bureau of Guang'an.

We expect Guang'an Guangzheng Preparatory School to commence operations in or around September 2017. The school will be a boarding school with on-campus dormitories and will primarily target to recruit PRC students. The school will offer the curriculum mandated by the PRC regulatory authorities and school-based elective courses for its PRC curriculum programmes.

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Yunfu Guangzheng Preparatory School

On 19 July 2016, we entered into a cooperation agreement with the local government of Yunfu, Guangdong province to establish a school in Yunfu, offering, among other things, primary, middle and high school education. The major terms of the cooperation agreement are set forth below:

Land use right	The local government allocates the land use right to us at a designated price. The land must be used for educational purposes ⁽¹⁾ .
School construction	We are responsible for the construction of the campus site and all the real estate properties of the school.
Preferential policies	The local government offers certain preferential policies and provides assistance to the school to facilitate its construction and operations.
Target maximum capacity⁽²⁾	10,000 students.

Notes:

- (1) As of the Latest Practicable Date, the local government of Yunfu had yet to allocate the relevant land use right to us.
- (2) Relates to the target maximum capacity for primary, middle and high school education, as well as international programmes.

We have strategically selected Yunfu to establish a new school because Yunfu has a number of factors that we believe are important to driving the demand for high quality private education. For instance, Yunfu is located in Guangdong province in the Pearl River Delta economic zone, a geographic region in which we intend to strengthen our leading position. As of 31 December 2015, Yunfu had a population of 2.5 million and a GDP of RMB7.1 billion, according to the Statistics Bureau of Yunfu.

Yunfu Guangzheng Preparatory School will be a boarding school with on-campus dormitories and will primarily target to recruit PRC students. We expect a majority of the students to be from Yunfu, with the remainder being primarily from Yunfu's neighbouring cities and other parts of Guangdong province. The school will offer the curriculum mandated by the PRC regulatory authorities and school-based elective courses for its PRC curriculum programmes.

Dewey College (secondary school)

On 10 February 2016, we entered into a memorandum of understanding ("MOU") with Dewey College, an independent high school subject to inspection by the Ontario Ministry of Education, Canada, with respect to the parties' potential cooperation in setting up a private school in Ontario, Canada, providing secondary and pre-university education. According to the MOU, we will provide funding for the new school, the amount of which will be determined at a later date; while Dewey College will provide school management services and utilize its partnership relations with certain Canadian universities to provide assistance to our graduates who wish to pursue further studies in Canada. In addition, according to the MOU, the parties agree to jointly organize holiday study programmes such as English summer camps, explore further business opportunities in the education sector in Canada, explore and develop joint training and research projects, arrange seminars, workshops and academic exchange activities, and exchange information on education and training. As at the Latest Practicable Date, we were in the process of establishing a joint venture company in Canada, which we expect to be established prior to [REDACTED] and owned by our Group and Dewey Education Group Inc. for the potential investment and development of a new school in Canada. Further, we have made a business proposal with respect to the work schedule, financial projections and implementation of the proposed business development plans including (i) expanding

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the campus of Dewey College (including acquiring a new campus) in order to increase the student enrolment number and improving the current school facilities to accommodate the future inflow of student graduates from our schools; and (ii) developing online education programmes and teaching resources for Ontario Secondary School credits towards achievement of an Ontario Secondary School Diploma which can be introduced to the students of our schools in the PRC on a fee basis. The potential cooperation with Dewey College under the MOU and the proposed business development plans outlined above are subject to uncertainties, and therefore may or may not materialise as contemplated or at all. For details of the risks associated therewith, please refer to "Risk Factors – Risks relating to our business and our industry – We may not be able to successfully execute our growth strategies" of this document.

As of the Latest Practicable Plan, we intended to allocate up to CAD2.0 million for the purpose of establishing the new school. The execution of the MOU, the proposed establishment of a joint venture company in Canada, the budget allocation and the other steps we have taken for the potential development of new schools overseas are also part of our efforts towards meeting the Qualification Requirement, with a view to equipping ourselves with the necessary tools to unwind the Contractual Arrangements wholly or partially as and when permissible and practicable under the prevailing PRC laws and regulations in the future. Please refer to "Contractual Arrangements" of this document for further details.

OUR STUDENTS AND STUDENT RECRUITMENT

As of 1 September 2015, we had a total student enrolment of approximately 27,644 students, including 6,834 high school students, 10,748 middle school students, 9,759 primary school students and 303 students in the international programmes.

We believe our reputation for providing high quality private primary, middle and high school education and our dedication in achieving the well-rounded development in students are key attractions for our prospective students. For student recruitment in our high schools, we participate in the unified admission procedure administered by the relevant Educational Bureau and generally admit middle school graduates who have applied to our schools through the unified admission system and have reached or exceeded the standardized test scores required by us. We also recruit a limited number of specialty students who have sports, music or art talents for our high schools each school year and administer additional tests to evaluate applicants' skills in the respective specialty area. For student recruitment in our middle schools, we generally admit primary school graduates who have achieved the requisite scores in admission tests administered by us. For student recruitment in our primary schools, we require applicants to participate in on-campus interviews and generally admit kindergarten graduates who are enthusiastic about learning and have performed well in our interviews. We accept applications for our international programmes throughout the year and applicants who pass the tests administered by us will be admitted. We also accept a limited number of transfer students each school year who meet our admission requirements.

We encourage our primary and middle school graduates to apply for our middle and high schools, as applicable, either within the same school or with another school in our school network that provides the desired higher level of education. Graduates from our schools enjoy priority in the admission process and will generally be admitted to their desired higher-level schools within our school network. For the 2012/2013, 2013/2014 and 2014/2015 school years, approximately 83.8%, 86.9% and 82.4% of the primary school students from our primary schools enrolled in our middle schools. For the same school years, approximately 47.1%, 51.9% and 54.9% of our first year high school students were graduates from our middle schools.

To attract high-quality students to apply for our schools, we engage in a variety of marketing and recruitment methods, including advertising our relatively recently established schools through newspapers and other media, visiting potential feeder schools to introduce our educational programmes, inviting prospective parents and students for campus tours, distributing information booklets, providing free trial classes and providing scholarships and tuition discounts. We believe that our brand name also plays an essential role in student recruitment and engage in a variety of

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marketing methods to promote our brand name, including increasing media coverage of our Group, organizing promotion events, donating to good causes and participating in community services. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, our selling expenses in relation to marketing and student recruitment were RMB4.4 million, RMB6.3 million, RMB7.5 million and RMB10.0 million, respectively.

OUR TEACHERS AND TEACHER RECRUITMENT

We employ a team of qualified and committed teachers, which enables us to offer a variety of mandatory and elective courses and provide moral guidance to our students. As of 1 September 2015, we employed 1,666 teachers, including 415 high school teachers, 645 middle school teachers, 568 primary school teachers and 38 teachers for the international programmes. The following table sets forth the number of teachers for each of our schools as of the dates specified:

School	2012	1 September 2013	2014	2015
Dongguan Guangming School	623	622	605	606
Dongguan Guangming Primary School	185	239	268	321
Dongguan Guangzheng Preparatory School	–	280	366	464
Huizhou Guangzheng Preparatory School	–	21	84	190
Panjin Guangzheng Preparatory School	–	–	36	85
Total	808	1,162	1,359	1,666

As of 1 September 2015, three of our teachers had Exceptional Teacher qualifications, 93 had Advanced Teacher qualifications, two were provincial level academic leaders and 21 were city-level academic leaders. As of 1 September 2015, over 88% of our PRC-qualified teachers held bachelors or higher degrees.

We employ our teachers through different channels and methods, including campus recruitment, general public recruitment, candidate self-nominations and the use of online recruiting websites. We generally follow the following procedures in recruiting our new teachers: determine our recruiting demands; recruitment advertising; collect resumes; select appropriate candidates; assess candidates' professional qualifications; assess candidates' moral qualities; professional skills tests; trial lectures; interview by school principals; group discussion by teachers and administrative personnel; obtain approval for hiring; notify results to candidates; verify identities and professional certificates of new hires; verify prior work experiences of new hires and physical check-up of new hires; new teacher report to work.

To attract and retain high-quality teachers, we believe we offer a relatively competitive salary and benefits package and generally offer free or low cost accommodation on campus or close to our schools. As of 1 September 2015, approximately 13.7% of our 1,666 teachers had been with us for over five years and 10.5% had been with us for more than ten years. We believe we have experienced a relatively low turnover ratio involving our teachers during the Track Record Period. For the 2012/2013, 2013/2014 and 2014/2015 school years, approximately 22.4%, 14.5% and 9.7% of our teachers voluntarily resigned from our schools.

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Our newly hired teachers undergo training programmes in which they familiarize themselves with the requirements and expectations of their respective school and our Group, and get to know their work environment and colleagues. We also provide on-going training programmes for our teachers such as discussion groups, cross-school teacher seminars and outdoor training camps, where our teachers share experiences, enhance teaching skills and improve teamwork.

We monitor teaching quality through a teaching evaluation system based on various factors, including student questionnaires, achievement of teaching targets and student test scores. We reward teachers with high performance evaluations and require teachers who do not meet our expectations to improve within a prescribed period of time. We implement strict rules prohibiting our teachers from accepting gifts of monetary value from parents and students. As of the Latest Practicable Date, we were not aware of any negative news about our teachers receiving gifts from parents or students.

COMPETITION

The education sector in China is rapidly evolving, highly fragmented and competitive. We face competition for students in each geographic market in which we operate. In particular, we compete with public schools and private schools that offer PRC curriculum programmes at primary, middle and high school levels and, to a lesser degree, with private schools that offer international programmes and international schools. We believe that the principal competitive factors in our relevant markets include brand and reputation, operating experience, quality of educational programmes, types of educational programmes, tuition fees, academic performance of students, students and parents satisfaction rate, student placement and ability to attract and retain high quality teachers and staff.

We believe our principal competitive advantages include:

- the reputation of our educational group and our schools;
- our extensive operating experience and replicable business model;
- the scope and quality of our education programmes, services and offerings;
- the academic performance of our students;
- educational programmes that offer primary, middle and high school education;
- our emphasis on the well-rounded development of students and student achievements in sports, music and art;
- the ability to rapidly evolve and expand;
- students' and parents' satisfaction; and
- the quality of our teachers.

We expect competition to persist and intensify. Our existing and potential competitors may have access to resources that we do not have, may be able to devote greater resources to student recruitment, campus development and brand promotion than we can and may respond more quickly to changes in the market than we do. Please refer to "Industry Overview", "Risk Factors – Risks Relating to Our Business and Industry – Competition in the education industry sectors that we serve could lead to pricing pressures, reduced operating margins, loss of market share, departure of key employees and increased capital expenditures" and "Risk Factors – Improvements in the PRC public education system may lead to increased competition and fee pressure" of this document for further details about the competition we face and the impacts on our business.

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EMPLOYEES

We had 1,359, 2,046, 2,348, 2,763 and 2,793 employees as of 1 September 2012, 2013, 2014 and 2015 and 31 May 2016, respectively. The following table sets forth the approximate numbers of our employees by function as of the dates indicated:

Types of Employees	2012	As of		2015	As of 31 May 2016
		1 September 2013	2014		
Executive Directors and senior management	9	9	9	9	10
Teachers	808	1,162	1,359	1,666	1,678
Counsellors	174	291	342	418	420
Administrative and supporting staff	244	374	386	396	399
Campus security	36	66	74	73	74
Accounting and finance staff	25	28	32	29	31
Ancillary service supporting staff	63	116	146	172	181
Total	1,359	2,046	2,348	2,763	2,793

As of the Latest Practicable Date, our employees were primarily located in the PRC. As required by the regulations in the PRC, we participate in various employee social security plans for our PRC employees that are administered by municipal and provincial governments, including housing, pension, medical insurance and unemployment insurance. Please refer to “– Legal Proceedings and Compliance” below for further details about our compliance with the relevant social insurance and housing provident fund regulations. During the Track Record Period, there was no labour union within our Group and we generally did not rely on employment agents for the recruitment of our employees.

CUSTOMERS AND SUPPLIERS

Our customers primarily consist of our students and their parents. We did not have any single customer who accounted for more than 5% of our revenue for each of the years ended 31 August 2013, 2014 and 2015 and for the nine months ended 31 May 2016.

Our suppliers primarily comprise of food, educational services and educational material suppliers. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, purchases from our five largest suppliers amounted to RMB17.1 million, RMB22.3 million, RMB29.9 and RMB27.4 million, respectively, representing 10.1%, 9.3%, 10.3% and 9.6% of the cost of revenue, respectively. During the same periods, purchases from our largest supplier, 東莞市盈威食品有限公司 (Dongguan Yingwei Foods Company Limited), amounted to RMB10.3 million, RMB10.9 million, RMB12.0 million and RMB11.3 million, respectively. Three of our five largest suppliers during the Track Record Period are related parties of our Group for accounting purposes, namely 東莞市盈威食品配送中心 (Dongguan Yingwei Foods Co. Ltd) and 東莞市厚街長盈食品經營店 (Dongguan Houjie Chang Ying Food Store) which are controlled by Mr. SP Liu (being the father of Mr. Liu) and 東莞市厚街盈發副食店 (Dongguan Houjie Yingfa Grocery Store) which is controlled by the close family member of Mr. Liu. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, purchases from these three suppliers in aggregate amounted to RMB10.3 million, RMB13.9 million, RMB16.9 million and RMB16.9 million, respectively. As of the Latest Practicable Date, we intended to discontinue the aforesaid related party transactions prior to [REDACTED]. Please refer to “Financial Information – Related Party Transactions” and note 37 to the Accountants’ Report in Appendix I to this document for further details. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

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INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had five trademarks in the PRC relating to Dongguan Guangzheng. We are also the registered owner of three domain names, including “gmpe.cn”, which is registered by Dongguan Guangming Primary School and “gmhs.cn” and “gmhs.com.cn”, which are registered by Dongguan Guangming School. Please refer to “C. Further Information About Our Business – 2. Intellectual property rights of our Group” in Appendix V of this document for further details.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement claims which had any material impact on our Group. Please also refer to “Risk Factors – Risks relating to Our Business and Our Industry – Our brand and reputation may be negatively affected if we fail to adequately protect our intellectual property rights” of this document for further details.

AWARDS AND RECOGNITIONS

We pride ourselves on the achievements of our students. Our Dongguan Guangming School high school male basketball team won two consecutive Dongguan city championships in 2009 and 2010, won provincial championship of Guangdong province in 2010 and became national runner-up among all Chinese high school basketball teams in 2011. Our badminton, table tennis and athletic teams have won multiple championships in various tournaments in Dongguan. Our students have won various gold, silver and bronze prizes in singing and dancing competitions and numerous first prizes in national, provincial and municipal Chinese calligraphy contests. We believe the accomplishments of our students reflect their well-rounded development at our schools.

In addition, our schools have received various awards recognizing our achievements in various aspects of private primary, middle and high school education. The following tables set forth some of the awards and accolades we have received:

Comprehensive Awards

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2014	Outstanding Private School in Dongguan (東莞市優秀民辦學校)	Dongguan Private Education Association (東莞市民辦教育協會)	Dongguan Guangming School
2014	Leading Private School in Dongguan (東莞市先進民辦學校)	Dongguan Private Education Association (東莞市民辦教育協會)	Dongguan Guangming School
2006	First-tier School in Dongguan (東莞市一級學校)	Dongguan Education Bureau (東莞市教育局)	Dongguan Guangming Primary School

Academic Awards

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2014	Model School for Standardized Compulsory Education in Guangdong Province (廣東省義務教育標準化學校)	Department of Education of Guangdong Province (廣東省教育廳)	Dongguan Guangming Primary School; Dongguan Guangming School (middle school section)
2014	Model School for Language and Writing Standardization in Dongguan (東莞市語言文字規範化示範校)	Language Commission, Dongguan Education Bureau (東莞市語言文字工作委員會、東莞市教育局)	Dongguan Guangming School Dongguan Guangzheng Preparatory School
2013	Top 100 Education and Research Institution for Primary and Secondary Education in China (全國中小學教育科研百強單位)	National Association of Primary and Secondary Education (全國中小學教育學會)	Dongguan Guangming Primary School

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Year	Award/Accreditation	Awarding Organization	Awarded Entity
2013	Model School for Language and Writing Standardization in Guangdong Province (廣東省語言文字規範化示範校)	Language Commission, Department of Education of Guangdong Province (廣東省教育廳、廣東省語言文字工作委員會)	Dongguan Guangming Primary School
2010	Leading Research Institution for Research Projects by the Ministry of Education (教育部課題研究先進單位)	Chinese Education Expert Association, National Secondary School Education and Research Consortium (全國教育專家委員會、全國中學教育科研聯合體)	Dongguan Guangming School
2008	Top 100 School in Education and Research in China (全國教育科研百強學校)	Chinese Education Expert Association, National Primary and Secondary School Consortium of Education and Research (全國教育專家委員會、全國中小學教育科研聯合體)	Dongguan Guangming School
2006	Experimental School for China's Fundamental Education Network (中國基礎教育網絡實驗學校)	China Fundamental Education Website (中國基礎教育網)	Dongguan Guangming School
2006	Experimental School for Advanced Education Technology (現代教育技術實驗學校)	Department of Education of Guangdong Province (廣東省教育廳)	Dongguan Guangming School

Sports, Art and Chinese Culture Education Awards

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2015	Dongguan Guangming School high school male basketball team was invited to attend the prestigious Iolani Classic Basketball Tournament held in Honolulu, Hawaii as China's representative team	China School Sports Federation, Basketball Branch (中國中學生體育協會籃球分會)	Dongguan Guangming School
2013	Featured School for Traditional Sports in Guangdong (track and field) (廣東省體育傳統項目學校 (田徑))	Sports Bureau of Guangdong Province (廣東省體育局) Department of Education of Guangdong Province (廣東省教育廳)	Dongguan Guangzheng Preparatory School
2011	Youth Basketball Training Base for Guangdong (廣東省青少年籃球訓練基地)	Sports Bureau of Guangdong Province (廣東省體育局)	Dongguan Guangming School
2009	Sports-specialty Students Training Base for Tsinghua University (清華大學體育特長生培養基地)	Sports Department, Tsinghua University (清華大學體育部)	Dongguan Guangming School
2008	Training Base for Arts-Specialty Students in China (中國藝術特長生優秀培訓基地)	Ministry of Education – Committee for the Promotion of Art Education in China; Ministry of Culture – Development Foundation of Chinese Society and Culture; Election Office for Outstanding Specialty Students in China; Dongguan Office for Star Kids ((教育部)中國藝術教育促進會;(文化部)中華社會文化發展基金會;中國優秀特長生推選活動辦公室;東莞市寶貝之星活動辦公室)	Dongguan Guangzheng Preparatory School
2008	Leading School for Calligraphy Education in Guangdong (廣東書法教育先進學校)	Guangdong Teenage Calligraphy Competition Organizing Committee (廣東省青少年書法大賽組委會)	Dongguan Guangming School

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Moral Education Awards

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2013	Dongguan Model School for Moral Education (東莞市德育示範學校)	Dongguan Education Bureau (東莞市教育局)	Dongguan Guangzheng Preparatory School
2012	Dongguan Model School for Moral Education (東莞市德育示範學校)	Dongguan Education Bureau (東莞市教育局)	Dongguan Guangming School
2006	National Moral Education Base for Primary and Middle School Students (全國中小學思想道德建設活動先進單位)	The Chinese Society of Education (中國教育學會)	Dongguan Guangzheng Preparatory School

Campus Related Awards

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2016	Most Beautiful Campus in Dongguan (東莞市最美校園)	China News Service, Dongguan Branch (中國新聞社東莞支社)	Dongguan Guangming School Dongguan Guangming Primary School Dongguan Guangzheng Preparatory School

PROPERTIES

As of the Latest Practicable Date, we owned the land use rights for 17 parcels of land in the PRC with a total site area of approximately 728,124.2 sq.m. and 46 buildings and eight units with a total gross floor area of approximately 488,878.7 sq.m. All of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of the Latest Practicable Date, we also leased the land use rights for one parcel of land with a total site area of approximately 2,398 sq.m. and 16 buildings with a total gross floor area of 77,163.8 sq.m. from Independent Third Parties for the operations of our schools.

Owned Properties

Land

As of 31 May 2016, we owned the land use rights for 17 parcels of land with a total gross site area of approximately 728,124.2 sq.m.. The following table sets forth a summary of the land use rights we owned:

Land Used by	No. of Parcels of Land	Gross Site Area (sq.m.)	Location	Existing Use	Expiry Date
Dongguan Guangming School	3	135,247.2	Dongguan, Guangdong Province	Education	19 February 2053
Dongguan Guangming Primary School	7	24,192	Dongguan, Guangdong Province	Education	N/A
Dongguan Guangzheng Preparatory School	3	193,265.3	Dongguan, Guangdong Province	Education	27 March 2055 – 19 March 2056
Huizhou Guangzheng Preparatory School	1	64,321.1	Huizhou, Guangdong Province	Education	N/A
Panjin Guangzheng Preparatory School	2	206,340.7	Panjin, Liaoning Province	Education	N/A
Weifang Guangzheng Preparatory School	1	104,758	Weifang, Shandong Province	Education	N/A
Total	17	728,124.2			

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As of the Latest Practicable Date, we had not obtained the land use right certificates for the seven parcels of land used by Dongguan Guangming Primary School with a gross site area of approximately 24,192 sq.m.. For further details on the legal consequences, potential penalties and risks and uncertainties associated with the lack of land use right certificates, please refer to “– Legal Proceedings and Compliance” below, “Risk Factors – Risks Relating to Our Business and Our Industry – We are subject to extensive governmental approvals and compliance requirements for the construction and development of our schools and in relation to the land and buildings that we own” of this document.

Buildings

As of 31 May 2016, we owned 46 buildings and eight units in the PRC with an aggregate gross floor area of approximately 488,478.4 sq.m.. The following table sets forth a summary of the buildings we owned:

Building Used by	No. of Buildings/ Units	Gross Floor Area (sq.m.)	Location	Existing Use
Guangdong Guangzheng	8 units	1,475.0	Dongguan, Guangdong Province	Office
Dongguan Guangming School	14 buildings	138,429.3	Dongguan, Guangdong Province	Education
Dongguan Guangming Primary School	6 buildings	69,471.9	Dongguan, Guangdong Province	Education
Dongguan Guangzheng Preparatory School	12 buildings	138,525.3	Dongguan, Guangdong Province	Education
Huizhou Guangzheng Preparatory School	3 buildings	63,988.8	Huizhou, Guangdong Province	Education
Panjin Guangzheng Preparatory School	11 buildings	76,588.2	Panjin, Liaoning Province	Education
Total	46 buildings and 8 units	488,478.4		

As of the Latest Practicable Date, we leased, as the landlord, the eight units owned by Guangdong Guangzheng with a total gross floor area of approximately 1,475 s.q.m to a single tenant for a term due to expire on 31 December 2020. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, our property rental income was RMB0.8 million, RMB1.0 million, RMB0.9 million and RMB0.8 million, respectively.

Building ownership certificates

As of the Latest Practicable Date, we had not obtained the building ownership certificates for a total of 29 of our owned buildings: (i) eight of the 14 buildings used by Dongguan Guangming School with a gross floor area of approximately 67,070 sq.m., (ii) six buildings used by Dongguan Guangming Primary School with a gross floor area of approximately 69,471.9 sq.m., (iii) four of the 12 buildings used by Dongguan Guangzheng Preparatory School with a gross floor area of approximately 70,229.2 sq.m., and (iv) 11 buildings occupied by Panjin Guangzheng Preparatory School with a gross floor area of approximately 76,588.2 sq.m., including four buildings that had not been put to use as of the Latest Practicable Date with a gross floor area of 27,401.1 sq.m..

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Other certificates

In addition, as of the Latest Practicable Date, we had not obtained certain other requisite certificates or permits for certain buildings under construction and certain buildings in use for which we had not obtained the building ownership certificates, primarily caused by administrative oversight and the relevant school management being unfamiliar with the relevant regulatory requirements. A summary of the material outstanding certificates and permits is set forth below:

	Affected total gross floor area (sq.m.)			
	<i>Planning certificate</i>	<i>Construction permit</i>	<i>Certificate for passing fire control assessments</i>	<i>Certificate for passing environmental assessments</i>
Dongguan Guangming School	48,030.0	21,836.0	N/A	N/A
Dongguan Guangming Primary School	69,471.9	69,471.9	N/A	69,471.9
Dongguan Guangzheng Preparatory School	62,145.5	62,145.5	19,925.0	70,229.2
Panjin Guangzheng Preparatory School	N/A	N/A	49,187.12	N/A
Weifang Guangzheng Preparatory School	N/A	84,764.6	N/A	N/A

For further details on the legal consequences, potential penalties and risks and uncertainties associated with the legal defects to certain of our owned buildings, please refer to “– Legal Proceedings and Compliance” below, “Risk Factors – Risks Relating to Our Business and Our Industry – We are subject to extensive governmental approvals and compliance requirements for the construction and development of our schools and in relation to the land and buildings that we own” of this document.

As of the Latest Practicable Date, except as otherwise disclosed in this document, we were not aware of any actual or contemplated actions, claims or investigations by any government authorities or third parties against us with respect to the lack of land ownership certificates, building ownership certificates and other relevant certificates or permits for certain of our owned properties. We are in the process of applying for the requisite outstanding certificates and permits for all of our owned properties. We also intend to apply for all requisite certificate and permits for our owned properties before they will be put into use in the future.

Leased Properties

As of 31 May 2016, we leased one parcel of land with a total gross site area of approximately 2,398 sq.m. in Dongguan, Guangdong Province from an Independent Third Party. The land lease has a term of nine years and expires in 2024. The leased land is used by Dongguan Guangming School for leisure and recreational activities.

As of 31 May 2016, we leased 16 buildings and units with a total gross floor area of approximately 77,163.8 sq.m. from Independent Third Parties, including 12 buildings in Dongguan, Guangdong Province with a gross floor area of approximately 63,008.2 sq.m., which were used as student dormitories and staff apartments for Dongguan Guangming School, two buildings in Dongguan, Guangdong Province with a gross floor area of approximately 13,836 sq.m., which were used as staff apartments for Dongguan Guangzheng Preparatory School, one unit in Weifang, Shandong Province with a gross floor area of approximately 197.1 sq.m., which was used as staff apartments for Weifang Guangzheng Preparatory School, and one unit in Panjin, Liaoning Province with a gross floor area of approximately 122.5 sq.m., which was used as staff office and apartments. The 12 leased buildings in Dongguan, Guangdong Province have lease terms ranging from two to 20 years. The leased unit in Weifang, Shandong Province has a lease term of one year and the lease expires in November 2016. The lease term of the leased unit in Panjin, Liaoning Province has expired on 31 July 2016, and the unit is currently leased under an informal lease whereby the lessor is entitled to terminate the lease with reasonable notice to us. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, our property rental expenses were RMB2.2 million, RMB2.9 million, RMB3.3 million and RMB2.7 million, respectively.

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As of the Latest Practicable Date, the lessors of the one parcel of land and the 14 buildings we leased in Dongguan, Guangdong Province and the lessor of the one building we leased in Weifang, Shandong Province had not provided us with valid building ownership certificates. According to our PRC Legal Adviser, in the event that landlords do not have valid building ownership certificates, the relevant lease agreements may be deemed invalid or other third parties may claim lessors' rights against us. Please refer to "Risk Factors – Risks Relating to Our Business and Our Industry – Our right to certain leased properties could be challenged by property owners or other third parties and we may be unable to find suitable alternative premises if our leases are terminated" of this document for further details. As of the Latest Practicable Date, we were not aware of any actual or contemplated actions, claims or investigations by any government authorities or third parties against us with respect to the lack of building ownership certificates for certain of our leased buildings.

In addition, as of the Latest Practicable Date, all of our lease agreements were not registered with relevant PRC government authorities. Our PRC Legal Adviser has advised us that we may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time period. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease, although the lack of registration will not affect the validity and enforceability of the lease agreements. However, as of the Latest Practicable Date, we had not been fined by the relevant PRC authorities with respect to the unregistered leases. For further details on the risks associated with our leased properties, please refer to "Risk Factors – Risks Relating to Our Business and Our Industry – Our right to certain leased properties could be challenged by property owners or other third parties and we may be unable to find suitable alternative premises if our leases are terminated" in this document.

Our leased properties are primarily used as student dormitories and staff apartments. Our Directors believe that in the event that we need to vacate the relevant leased land or buildings, we would be able to locate comparable alternative accommodation without incurring significant expenses and within reasonable time and that our educational activities, business operations and financial condition as a whole would not be materially and adversely affected by such relocation. Based on the advice from our PRC Legal Adviser, our Directors are of the view that the defects in our leased land and buildings do not have a material adverse effect on our business operations or financial condition as a whole.

Indemnity from our Controlling Shareholders

Each of our Controlling Shareholders [has agreed] to indemnify our Group pursuant to the Deed of Indemnity, on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group arising from any title or other defects with respect to our properties including to procure suitable alternative premises for our use where appropriate.

INSURANCE

We maintain various insurance policies against certain risks and unexpected events, such as school liability insurance, student personal accident insurance and property insurance for vehicles. We also provide social security insurance including pension insurance, unemployment insurance, work related injury insurance and medical insurance for our PRC employees. We do not maintain business interruption insurance, product liability insurance or key-man life insurance. We consider our insurance coverage to be generally in line with companies of similar size in the same industry in China. Please refer to "Risk Factors – Risks Relating to Our Business and Our Industry – We have limited insurance coverage" of this document for further details of risks associated with our insurance coverage.

Licences and Permits

Our PRC Legal Adviser has advised that, as of the Latest Practicable Date, except as otherwise disclosed in this document, we had obtained the licences, permits, approvals and certificates and

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made the registrations and filings necessary to conduct our operations in all material respects from the relevant government authorities in the PRC and that such licences, permits, approvals, certificates, registrations and filings remained in full effect in all material respects.

The table below sets forth details of our material licences and permits:

Holder	Licence/Permit	Granting authority	Grant date	Expiry date
Dongguan Guangming School	Private school operating licence ⁽¹⁾	Dongguan Education Bureau	1 January 2014	31 December 2019
	Registration certificate for private non-enterprise entities	Dongguan Civil Affairs Bureau	14 November 2014	13 November 2018
Dongguan Guangming Primary School	Private school operating licence	Dongguan Education Bureau	1 January 2014	31 December 2019
	Registration certificate for private non-enterprise entities	Dongguan Civil Affairs Bureau	14 November 2014	13 November 2018
Dongguan Guangzheng Preparatory School	Private school operating licence ⁽¹⁾	Dongguan Education Bureau	15 October 2013	31 December 2016
	Registration certificate for private non-enterprise entities	Dongguan Civil Affairs Bureau	25 November 2013	24 November 2017
Huizhou Guangzheng Preparatory School	Private school operating licence	Huizhou Education Bureau	6 May 2015	5 May 2019
	Registration certificate for private non-enterprise entities	Huizhou Civil Affairs Bureau	17 December 2015	6 May 2019
Panjin Guangzheng Preparatory School ⁽²⁾	Private school operating licence	Panjin Education Bureau	27 November 2014	November 2016
Weifang Guangzheng Preparatory School ⁽³⁾	Private school operating licence	Weifang Weicheng District Education Bureau	15 June 2016	14 June 2019
	Registration certificate for private non-enterprise entities	Weifang Civil Affairs Bureau	28 July 2015	27 July 2020

Notes:

- (1) Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, private schools are required to pass annual inspections conducted by the relevant government authorities. For the 2014/2015 school year, our Dongguan Guangming School and Dongguan Guangzheng Preparatory School failed to pass their annual inspections primarily due to school management oversight. We promptly improved the management of the two schools. On 29 April 2016, Dongguan Education Bureau, being the competent government authority responsible for the annual inspection of schools in Dongguan, issued a letter confirming that our Dongguan Guangming School and Dongguan Guangzheng Preparatory School had complied with all the relevant laws, regulations and rules in relation to education and had met the standards of all on-site and other inspections conducted by the relevant governing authorities during the year of 2016 up to the date of the letter. We also

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engaged our PRC Legal Adviser to conduct an interview with Dongguan Education Bureau on 17 May 2016, which confirmed that after conducting a preliminary inspection of Dongguan Guangming School and Dongguan Guangzheng Preparatory School, they did not find any incident that would prevent the schools from passing their 2015/2016 annual inspections. Both our Dongguan Guangming School and Dongguan Guangzheng Preparatory School passed the latest annual inspection, namely, the 2015/2016 annual inspection, conducted by the relevant government authority. Based on the above, our Directors are of the view that failure to pass the 2014/2015 annual inspection does not have a material adverse impact on our Dongguan Guangming School or Dongguan Guangzheng Preparatory School.

- (2) As of the Latest Practicable Date, we had not received the registration certificate for private non-enterprise entities for our Panjin Guangzheng Preparatory School. Please refer to "– Legal Proceedings and Compliance" below for further details.
- (3) We expect the school to commence operations in September 2016.

HEALTH AND SAFETY MATTERS

We are dedicated to protecting the health and safety of our students. Our student dormitories implement comprehensive boarding rules and are under the dual supervision of teachers and counsellors. We maintain security guards and camera surveillance equipment on each of our campuses. We arrange third-party suppliers to provide school bus services to pick-up/drop-off students at our schools. We also have on-campus medical staff and mental-health counsellors to handle routine medical treatments and psychological counselling for our students, who will promptly send our students to hospitals when necessary.

In 2014, a student in Dongguan Guangming School fell from his dormitory building and his parents initiated court proceedings against us in relation to the student's death. In November 2015, the court ruled that our school was not at fault in the management, education and security protection of students and that the school should pay the plaintiffs RMB100,000 in compensation and dismissed all other claims of the plaintiffs. As of the Latest Practicable Date, the outcome of this legal proceeding was yet to be finalized. Please refer to "– Legal Proceedings and Compliance" below for further details.

LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business.

- in March 2015, an individual who is an Independent Third Party, initiated court proceedings in Dongguan against us in relation to, according to his allegations, the advances he made on behalf of our Dongguan Guangzheng Preparatory School during its establishment for a total amount of RMB5.0 million and related interests. As of the Latest Practicable Date, the outcome of this legal proceeding had yet to be finalized; and
- In April 2015, parents of a student initiated court proceedings against us seeking over RMB780,000 in damages in relation to the death of the student who fell from his dormitory building in Dongguan Guangming School in 2014. In November 2015, the court ruled that our school was not at fault in the management, education and security protection of students and that the school should pay the plaintiffs RMB100,000 in compensation and dismissed all other claims of the plaintiffs. As of the Latest Practicable Date, the appeal was on-going and the outcome of this legal proceeding had yet to be finalized.

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Except as described above, during the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings and we were not aware of any material pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which, in the opinion of our Directors, could have a material adverse effect on our business operations or financial condition as a whole.

During the Track Record Period and up to the Latest Practicable Date, other than as disclosed in this document, we did not experience any material or systemic non-compliance of the laws or regulations which taken as a whole, in the opinion of our Directors, is likely to have a material adverse effect on our business operations or financial condition as a whole. During the same periods, we also did not experience any material non-compliance of the laws or regulations which taken as a whole, in the opinion of our Directors, reflects negatively on the ability or tendency of us, our Directors or our senior management, to operate in a compliant manner in all material aspects. Our PRC Legal Adviser is of the opinion that, other than as disclosed in this document, we have complied with all relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

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(i) Material Non-compliance

Set forth below is a summary of our material non-compliance matters during the Track Record Period and up to the Latest Practicable Date, as well as rectification actions and preventive measures that we have taken in respect of such matters:

Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
<p>1. During the Track Record Period and up to the Latest Practicable Date, we breached the relevant requirements for making full contributions to the social insurance plans and the housing provident fund for our employees.</p> <p>We estimate that the amount of social insurance payments and housing provident fund contributions that we did not pay during the three years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016 were RMB9.7 million, RMB13.9 million, RMB16.5 million and RMB12.5 million, respectively, with respect to social insurance payments, and RMB4.2 million, RMB6.1 million, RMB4.7 million and RMB3.1 million, respectively, with respect to housing provident fund contributions.</p>	<p>The non-compliance was primarily caused by administrative oversight, the relevant school management being unfamiliar with the relevant regulatory requirements, different levels of acceptance of the social insurance scheme by our employees and inconsistent implementation or interpretation by local authorities in the PRC of the relevant regulations.</p>	<p>Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, late fees and fines will be imposed on an employer for not making full social insurance payments for employees in a timely manner. If any competent government authority is of the view that the social insurance payments we made for our employees breached the requirements under relevant PRC laws and regulations, it can order us to pay the outstanding balance within a prescribed time period and a late fee of 0.05% of the total outstanding balance per day. If we fail to pay the outstanding balance within the prescribed time period, we may be subject to a fine ranging between one to three times of the total outstanding balance.</p> <p>Our PRC Legal Adviser has also advised us that, if any competent government authority is of the view that the contributions for the housing provident fund do not satisfy the requirements under relevant PRC laws and regulations, it can order us to pay the outstanding balance to the relevant local authorities within a prescribed period.</p> <p>As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant government authorities with respect to this non-compliance incident, nor had any of the schools been required to settle the outstanding amount of social insurance payments and housing provident fund contributions.</p>	<p>We have engaged our PRC Legal Adviser to conduct interviews with the relevant human resources and social security bureaus and housing provident fund management centres in Dongguan, Huizhou and Panjin to determine the likelihood of penalties and the current practice of these authorities with respect to implementation and interpretation of the relevant regulations. Each of these authorities confirmed in the interview that:</p> <p>(a) it would not initiate any request for payment of the outstanding balance solely based on the fact that we made partial social insurance payments and housing provident fund contributions; and</p> <p>(b) it would not initiate any proceedings of penalties solely based on the fact that we made partial social insurance payments and housing provident fund contributions.</p> <p>We have also obtained written confirmation from the relevant local human resources and social security bureaus and housing provident fund management centres in Dongguan, Huizhou and Panjin, to the effect, confirming that we did not violate the relevant PRC laws and regulations or we have started to make the relevant contributions.</p>	<p>Mr. Jiuchang Li, Mr. Ng Cheuk Him and Mr. Guoqing Deng.</p>	<p>Given the interviews with and written confirmation from the competent authorities and the advice from our PRC Legal Adviser, our Directors believe that we do not need to make provision for the outstanding balance of the social insurance payments and housing provident fund contributions.</p> <p>Furthermore, on the same basis and on the basis that we will fully rectify this non-compliance by the end of 2017, our Directors are of the view that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole. Our Controlling Shareholders have agreed to indemnify our Group pursuant to the Deed of Indemnity for this non-compliance incident.</p>

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Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
			<p>Our PRC Legal Adviser has also confirmed that the authorities that have been interviewed by our PRC Legal Adviser or that have issued us written confirmation are the competent authorities for their respective cities. In addition, our PRC Legal Adviser has advised us that, based on the interviews and written confirmations, it is of the view that:</p> <ul style="list-style-type: none"> the possibility that any of the relevant local human resources and social security bureaus will initiate any payment request or penalty proceeding on its own and solely based on the fact that we made partial social insurance payments is relatively remote; and the possibility that any of the relevant local housing provident fund management centres will initiate any payment request or penalty proceeding on its own and solely based on the fact that we made partial housing provident fund contributions is relatively remote. <p>We have taken reasonable steps to rectify this non-compliance:</p> <ul style="list-style-type: none"> Our Directors undertake to use their best endeavours to comply with applicable laws and regulations. We have started to make full contributions to the social insurance plans and the housing provident fund for some of our employees since 1 June 2016 and intend to continue to rectify this non-compliance until it is fully rectified. As it takes time to collect information and make the relevant filings to the competent government authorities, we intend to make full contributions to the social insurance plans and the housing provident funds by the end of 2017. We have established an internal control team to monitor our on-going compliance with the social insurance and housing provident fund contribution regulations and oversee the implementation of any necessary measures to comply with the applicable laws and regulations. 		

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Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
<p>2. During the Track Record Period and up to the Latest Practicable Date, we had not obtained the land use right certificates for the seven parcels of land used by our Dongguan Guangming Primary School with a gross site area of approximately 24,192 sq.m. and the construction permits for the buildings built on such land.</p> <p>Revenue from our Dongguan Guangming Primary School accounted for 18.7%, 17.2%, 17.0% and 16.1% of our total revenue for the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, respectively. As of 30 June 2016, the properties held and occupied by Dongguan Guangming Primary School had no commercial value. Please refer to the property valuation report as set out in Appendix III to this document for further details.</p>	<p>The non-compliance related to Dongguan Guangming Primary School was primarily caused by administrative oversight, and the relevant school management being unfamiliar with the relevant regulatory requirements for the transfer of land use rights.</p>	<p>Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, our rights to the land may be challenged by third parties if we use land without a land use right certificate.</p> <p>As advised by our PRC Legal Adviser, we may be subject to administrative fines or other penalties due to the lack of the relevant certificates and permits for our buildings including those as set out in "Risk Factor – Risk Relating to Our Business and Our Industry – We are subject to extensive governmental approvals and compliance requirements for the construction and development of our schools and in relation to the land and buildings that we own".</p> <p>As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government authorities with respect to this non-compliance, nor had any of our schools been required to rectify this non-compliance or our rights to the land be challenged by third party.</p>	<p>We will disclose the process of the aforesaid rectification in our interim/annual reports as appropriate and, where applicable, explanation for any delay in such rectification.</p> <p>Our PRC Legal Adviser is of the view that there is no legal impediment for us to rectify this non-compliance.</p> <ul style="list-style-type: none"> We have taken reasonable steps to rectify this non-compliance: <ul style="list-style-type: none"> We have applied for the real estate ownership certificates for the real estate used by our Dongguan Guangming Primary School. On 24 December 2015, Office for Application of Property Permits for Completed Properties of 東莞市東城街道辦事處已建房屋補辦房地產手續辦公室, being, as confirmed by our PRC Legal Adviser, the competent authority for accepting application for real estate ownership certificate post-registration of completed properties, accepted our application. We are closely following up with the government authority with respect to the status of our application. <p>We will disclose the process of the aforesaid rectification in our interim/annual reports as appropriate and, where applicable, explanation for any delay in such rectification.</p> <p>Our PRC Legal Adviser is of the view that, after submitting the requisite documents to the relevant government authority and completing the requisite procedures, there is no legal impediment for us to rectify this non-compliance.</p>	<p>Mr. Jiuchang Li, Mr. Ng Cheuk Him and Mr. Guoqing Deng.</p>	<p>Our Directors take the view that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole, because (i) the relevant government authority has accepted our application for the relevant real estate ownership certificates; (ii) we intend to submit all the requisite documents to the government authority and complete all the requisite procedures to obtain the real estate ownership certificates; and (iii) our Controlling Shareholders have agreed to indemnify our Group pursuant to the Deed of Indemnity for this non-compliance incident including, where required, to procure appropriate alternative suitable premises for our use. On the basis of aforesaid, our Directors believe that we do not need to make provision for this non-compliance incident.</p>

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Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
3. Panjin Guangzheng Preparatory School has not obtained the registration certificate for private non-enterprise entities.	<p>This non-compliance was primarily caused by administrative oversight and the relevant school management being unfamiliar with the relevant regulatory requirements.</p> <p>As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government authorities with respect to this non-compliance, nor had our Panjin Guangzheng Preparatory School been required to rectify this non-compliance.</p>	<p>Our PRC Legal Adviser has advised us that for operating a private school without the registration certificate for non-enterprise entities, we may be subject to confiscation of property, temporary suspension of the school operations before the non-compliance is rectified, or other penalties and administrative actions.</p>	<p>We have obtained written confirmation from the Civil Affairs Bureau of Xinglongtai District, Panjin, being, as confirmed by our PRC Legal Adviser, the competent government authority governing the relevant application for the registration certificate for private non-enterprise entities, confirming that they are processing the matters.</p> <p>The Government of Xinglongtai District also confirmed that they supported and will continue to support the operations of our Panjin Guangzheng Preparatory School and that Panjin Guangzheng Preparatory School can maintain its current operations.</p> <p>We are closely following up with the government authority with respect to the status of our application. We will disclose the process of the aforesaid rectification in our interim/annual reports as appropriate and, where applicable, explanation for any delay in such rectification.</p> <p>Our PRC Legal Adviser is of the view that, after submitting the requisite documents to the relevant government authority and completing the requisite procedures, there is no legal impediment for us to rectify this non-compliance.</p>	<p>Mr. Jiuchang Li, Mr. Ng Cheuk Him and Mr. Guoqing Deng.</p>	<p>In the unlikely event that we are unable to obtain the land use right certificates and required to discontinue our use of the affected buildings, we do not believe it will have a material adverse impact on our operations as we believe that there will be alternative premises available with proximity of the relevant affected buildings (including premises to be procured by our Controlling Shareholders pursuant to the Deed of Indemnity where appropriate) and/or that our other properties could be reconfigured at minimal cost to accommodate our use, where appropriate.</p> <p>Our Directors take the view that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole, because (i) we have obtained written confirmation from the government of Xinglongtai District and the Civil Affairs Bureau of Xinglongtai District as aforesaid; (ii) we intend to submit all the requisite documents to the relevant government authority and complete all the requisite procedures to obtain the certificate for private non-enterprise entities and (iii) our Controlling Shareholders have agreed to indemnify our Group pursuant to the Deed of Indemnity. On the basis of the aforesaid, our Directors believe that we do not need to make provision for this non-compliance incident.</p>

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(ii) Systemic Non-compliance

Set forth below is a summary of our systemic non-compliance matters during the Track Record Period and up to the Latest Practicable Date:

(a) Building ownership certificates and related certificates and permits

Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure ongoing compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
As of the Latest Practicable Date, we had not obtained (i) the building ownership certificates for certain buildings, a summary of which is set out in "– Properties – Owned Properties – Buildings" above; and (ii) certain other requisite certificates or permits for the buildings for which we had not obtained the building ownership certificates, a summary of the material outstanding certificates and permits is set out in "– Properties – Owned Properties – Buildings" above.	The non-compliance was primarily caused by administrative oversight, and the relevant school management being unfamiliar with the relevant regulatory requirements.	In October 2015, the local government authority of Panjin imposed a penalty of RMB1.7 million on us for commencing the construction of certain properties without the relevant construction permit. Our PRC Legal Adviser is of the view that the lack of the relevant certificates and permits will not materially impact our safe use of the respective buildings, because (i) except for the buildings for which we had not obtained the certificates for passing fire control assessments as of the Latest Practicable Date, all of our owned buildings and units in use meet the safe-use requirements (fire and quality control) under the PRC laws and regulations, (ii) the affected buildings will not be used during the summer break, which is between 1 July to 31 August 2016, (iii) we intend to complete all the outstanding fire control assessments or obtain the relevant confirmation with respect to the fire safety of the affected buildings, where practicable, prior to the commencement of the 2016/2017 school year; and (iv) we have not encountered any fire or other property safety incidents in our owned properties.	We are in the process of applying for the requisite outstanding certificates and permits for all of our owned properties. We have established internal compliance guidelines and a compliance checklist, which set forth our policies and procedures with respect to compliance issues. In addition, we plan to provide our Directors, senior management (including the principals and vice principals of our schools) and employees involved with continuing training programmes and updates regarding the relevant PRC laws and regulations regularly.	Mr. Jiuchang Li, Mr. Ng Cheuk Him and Mr. Guoqing Deng.	Based on the advice from our PRC Legal Adviser, our Directors are of the view that, the lack of the relevant certificates and permits for our owned buildings, either individually or collectively, does not have a material adverse effect on our business operations or financial condition as a whole, because (i) we are in the process of applying for the requisite outstanding certificates and permits for all of our owned properties; (ii) except as otherwise disclosed, we had not been subject to penalties for the lack of the relevant certificates and permits; (iii) except for the buildings for which we had not obtained the certificates for passing fire control assessments as of the Latest Practicable Date, we can use all of our buildings which are already in use safely; and (iv) our Controlling Shareholders (has agreed) to indemnify our Group pursuant to the Deed of Indemnity for this incident including, where required, to procure appropriate alternative premises for our use. In the unlikely event that we are unable to obtain the building ownership certificates and are required to discontinue our use of the affected buildings, we do not believe it will have a material adverse impact on our operations as we believe that there will be alternative premises available with proximity of the relevant affected buildings (including premises to be procured by our Controlling Shareholders pursuant to the Deed of Indemnity where appropriate) and/or that our other properties could be reconfigured at minimal cost to accommodate our use, where appropriate.

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(b) Settlement through Personal Bank Accounts

(A) Background

During the Track Record Period, we used a total of 12 personal bank accounts opened with different branches of four PRC banks (the “**Personal Bank Accounts**”) under the names of Mr. Liu (our Chairman, executive Director and Controlling Shareholder), Ms. Li (our Chief Executive Officer, executive Director and Controlling Shareholder) and Mr. Shan He (our senior management and executive vice principal of Panjin Guangzheng Preparatory School), for the settlement of corporate funds (the “**Arrangements**”) for Guangdong Guangzheng and four of our schools, namely, Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School and Panjin Guangzheng Preparatory School.

The following table sets forth a summary of the Personal Bank Accounts:

	Corresponding Corporate Account	Name of Bank	Opening Date	Cessation Date	Primary Use
1.	Mr. Liu Guangdong Guangzheng	Industrial and Commercial Bank of China, Dongguan branch, Hou Street sub-branch	5 May 2008	4 March 2014	Making intercompany transfers
2.	Ms. Li Dongguan Guangming School	Bank of China, Guang Da branch	16 November 2009	23 August 2014	Deposits of cash generated from students’ pre-payments for the on-campus canteen; Making payments for operating expenses of the on-campus canteen
3.	Ms. Li Dongguan Guangming School	Bank of China, Guang Da branch	22 June 2011	31 July 2013	Making small payments for the on-campus canteen
4.	Ms. Li Dongguan Guangming School	Bank of China	1 October 2011	13 August 2013	Receiving intercompany transfers and making tuition refunds
5.	Ms. Li Dongguan Guangming School	Industrial and Commercial Bank of China, Jing Hu branch	Prior to August 2012	31 August 2015	Making payments for operating expenses of the school
6.	Ms. Li Dongguan Guangming School	Dongguan Rural Commercial Bank, Dongcheng District Guangming office	29 June 2013	1 June 2016	Deposits of cash generated from students’ pre-payments for the on-campus canteen; Making payments for operating expenses of the on-campus canteen
7.	Ms. Li Dongguan Guangming School	Dongguan Rural Commercial Bank, Dongcheng District Guangming office	29 June 2013	1 June 2016	Making small payments for the on-campus canteen

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	Corresponding Corporate Account	Name of Bank	Opening Date	Cessation Date	Primary Use
8.	<i>Ms. Li</i> Dongguan Guangming School	Industrial and Commercial Bank of China, Dongguan branch, Hou Street sub-branch	26 August 2013	26 August 2013	Receiving intercompany transfers and making tuition refunds
9.	<i>Ms. Li</i> Dongguan Guangzheng Preparatory School	Bank of China, Guang Da branch	2 August 2013	31 January 2015	Deposits of cash generated from students' pre-payments for the on-campus canteen; Making payments for operating expenses of the on-campus canteen
10.	<i>Ms. Li</i> Dongguan Guangzheng Preparatory School	Dongguan Rural Commercial Bank, ChaShan ZengBu branch	2 December 2013	1 June 2016	Deposits of cash generated from students' pre-payments for the on-campus canteen; Making payments for operating expenses of the on-campus canteen
11.	<i>Ms. Li</i> Dongguan Guangzheng Preparatory School	Dongguan Rural Commercial Bank, ChaShan ZengBu branch	19 August 2014	31 August 2015	Deposits of cash generated from students' pre-payments for the on-campus canteen; Making payments for operating expenses of the on-campus canteen
12.	<i>Mr. Shan He</i> Panjin Guangzheng Preparatory School	China Guangfa Bank, Panjin branch	11 July 2014	31 August 2015	Making payments for the operating expenses of the school and to suppliers

We opened one Personal Bank Account under the name of Mr. Liu in 2008 for making tax payments. The Personal Bank Account was used for the settlement of corporate funds mostly prior to the Track Record Period. On 4 March 2014, we completely ceased the use of this Personal Bank Account for the settlement of corporate funds. During the financial year ended 31 August 2014, we transferred the remaining balance in this Personal Bank Account to our corporate account.

We used Personal Bank Accounts registered under the name of Ms. Li to more efficiently manage the various aspects of the business operations of our Dongguan Guangming School and Dongguan Guangzheng Preparatory School. Banks in the PRC are generally open seven days a week (Monday to Sunday) for individual clients, but are only open five days a week (Monday to Friday) for corporate clients. Through the use of the Personal Bank Accounts, we were able to deposit and withdraw cash with more flexibility to meet the needs of our daily operations, including making payments for operating expenses and tuition refunds. Ms. Li is the co-founder, executive Director and Chief Executive Officer of our Group, and is familiar with the general operations of our Dongguan Guangming School and Dongguan Guangzheng Preparatory School.

We used one Personal Bank Account registered under the name of Mr. He because, as of the Latest Practicable Date, we had not received the registration certificate for private non-enterprise entities for Panjin Guangzheng Preparatory School, without which, as advised by our PRC Legal Adviser, we were unable to open a corporate bank account registered under the name of the school. Please refer to "– Legal Proceedings and Compliance" below for further details on the legal consequences and potential penalties associated with the lack of the registration certificate for private

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non-enterprise entities. In addition, as Panjin Guangzheng Preparatory School is geographically far from Guangdong province, where our corporate bank accounts were located when we first started business in Panjin, we considered it inefficient and costly to deposit and withdraw cash from our corporate bank accounts for the use of Panjin Guangzheng Preparatory School.

As a result of the foregoing, we used a Personal Bank Account registered under the name of Mr. He, who is based in Panjin. Mr. He is a senior management of our Group and executive vice principal of Panjin Guangzheng Preparatory School. Through the use of the Personal Bank Account registered under the name of Mr. He, we were able to make payments more efficiently to the relevant suppliers to enable the timely commencement of operations of our Panjin Guangzheng Preparatory School. When Panjin Guangzheng Preparatory School commenced operations in September 2014, we were also able to make payments for the operating expenses of the school more efficiently through the Personal Bank Account registered under the name of Mr. He.

(B) Internal control measures for the Personal Bank Accounts and personnel involved

We applied the same internal control measures to the Personal Bank Accounts as our corporate bank accounts to (i) ensure that all funds deposited in the Personal Bank Accounts were used solely for our operations in accordance with the relevant PRC laws and regulations and were not misappropriated by any entity or individual; (ii) to segregate the duties of authorising, executing, monitoring and book keeping of fund transfer from and to the Personal Bank Accounts; and (iii) prevent incident of fraud and misappropriation of funds. The internal control measures we applied to the Personal Bank Accounts include:

- all bank books, debit cards, security devices and passwords of the Personal Bank Accounts, as applicable, were kept and safeguarded by designated personnel of the respective school other than Mr. Liu, Ms. Li or Mr. He:
 - for Dongguan Guangming School, designated accounting and administrative personnel jointly controlled the access to the Personal Bank Accounts used for the school;
 - for Dongguan Guangzheng Preparatory School, designated accounting personnel had possession of the bank books and debit cards for the Personal Bank Accounts used for the school; and
 - for Panjin Guangzheng Preparatory School, designated accounting personnel had possession of the bank books and debit cards for the Personal Bank Accounts used for the school;
- a senior accounting staff member of the finance department of the respective school was responsible for monitoring the operation of the Personal Bank Accounts, keeping records of the Personal Bank Accounts and making corresponding accounting entries in the accounting system of the school for the movements of the Personal Bank Accounts;
- at the end of each month, another senior accounting staff member of the finance department would perform monthly bank reconciliation or checking of the bank statements of the Personal Bank Accounts against the respective school's accounting ledger; and
- the aforesaid accounting entries and month-end bank reconciliation or checking would be reviewed and approved by the accounting manager of the finance department of the respective school. Such accounting and record keeping procedures in respect of the Personal Bank Accounts were operated in the same way as that of the corporate accounts of the Group.

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As of 1 June 2016, we had ceased the use of all Personal Bank Accounts. As of the Latest Practicable Date, we had transferred all material bank balances in the Personal Bank Accounts to our corporate bank accounts.

(C) Number of transactions, amount involved and the nature of fund-flows

As of 31 August 2013, 2014 and 2015 and 31 May 2016, the total balance in the Personal Bank Accounts was RMB4.2 million, RMB4.9 million, RMB2.1 million and RMB0.03 million, respectively.

As of 31 August 2013, 2014 and 2015 and 31 May 2016, the total credit from the Personal Bank Accounts was RMB78.1 million, RMB113.9 million, RMB151.3 million and RMB87.3 million, respectively. As of the same dates, the total number of credit transactions was 8,523, 10,279, 9,166 and 914, respectively. The credit was primarily used for payments to suppliers, intercompany transfers, staff payroll and bonuses and other purposes. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, payments to suppliers represented 39.8%, 37.0%, 35.6% and 53.8% of the total credit from the Personal Bank Accounts, respectively. For the same periods, intercompany transfers represented 30.8%, 42.4%, 50.9% and 39.0% of the total credit from the Personal Bank Accounts, respectively.

As of 31 August 2013, 2014 and 2015 and 31 May 2016, the total debit in the Personal Bank Accounts was RMB76.6 million, RMB114.6 million, RMB148.6 million and RMB85.3 million, respectively. As of the same dates, the total number of debit transactions was 381, 646, 1,029 and 511, respectively. The debit primarily consist of bank deposits, which are mainly payments received in advance for ancillary services, intercompany transfers and other debit. For the years ended 31 August 2013, 2014 and 2015 and the nine months ended 31 May 2016, bank deposits represented 82.6%, 83.8%, 78.5% and 82.8% of the total debit into the Personal Bank Accounts, respectively. For the same periods, intercompany transfers represented 17.3%, 14.4%, 11.3% and 7.2% of the total debit into the Personal Bank Accounts, respectively.

(D) Ownership of the funds deposited into the Personal Bank Accounts

Our PRC Legal Adviser advised that we, as the beneficial owner of the funds, have the right to own and use the funds in the Personal Bank Accounts according to the Property Law of the PRC (中國物權法). Further, based on the facts that the funds received by us during our course of business and are owned by us, our PRC Legal Adviser is of the view that we shall include the bank balances of the Personal Bank Accounts in our bank balances and cash according to the Accounting Law of the PRC (中國會計法), which requires an enterprise to adopt accounting procedures and to record the financial aspects of its business transactions.

(E) Transactions under the Arrangements

As confirmed by the executive Directors, all receipts of payments from students under the Arrangements were fully supported by transaction documents. The executive Directors have also confirmed the accuracy and completeness of our accounting books and records in all material respects.

(F) No tax evasion or violation of PRC laws and regulations in relation to tax

We have conducted interviews with the local tax authorities in Dongguan and Panjin, being the competent government authorities for their respective cities, which confirmed, among others, that they were aware of the Arrangements, the Arrangements do not violate the relevant PRC tax laws and regulations and they will not impose penalties for on our prior use of the Arrangements. As of the Latest Practicable Date, we had transferred all material bank balances in the Personal Bank Accounts to our corporate bank accounts.

Our PRC Legal Adviser is of the view that, based on the facts and the interviews with the relevant tax authorities, it is unlikely that the Arrangements would be regarded as involving any tax evasion by our Group.

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(G) Legal consequence of the Arrangements

As advised by our PRC Legal Adviser, the use of the Personal Bank Accounts for the settlement of corporate funds was not in compliance with relevant PRC laws and regulations as described below:

- according to the Company Law of the PRC (公司法), companies cannot establish any account book in addition to those required by law and no account can be opened in the name of any individual for keeping company's assets. However, no legal consequence of such breach was provided by the Company Law of the PRC; and
- according to the Law on Commercial Banks of the PRC (商業銀行法), if a personal bank account is opened for the funds of an entity, the People's Bank of China may impose penalties on the user of the personal bank account, including confiscation of any illegal income, a fine of one to five times of the illegal income if the illegal income amounts to RMB50,000 or more, or a fine ranging between RMB50,000 to RMB500,000 if the illegal income is less than RMB50,000;

Our Directors confirmed that our prior use of the Arrangements and the parties concerned did not involve any illegal income. As of the Latest Practicable Date, no fine or other penalties had been imposed by the relevant government authorities with respect to our prior use of the Arrangements. Our PRC Legal Adviser has advised us that for the prior use of the Arrangements, we may be subject to the aforementioned penalties according to the Law on Commercial Banks of the PRC (商業銀行法), however, the relevant penalties, if any, will not have a material impact on our business and financial condition as a whole. For further details about risks associated with the Arrangements, please refer to "Risk Factors – Risks Relating to Our Business and Our Industry – We used personal bank accounts for the settlement of corporate funds, which may subject us to penalties". Based on the fact that we have ceased the use of all Personal Bank Accounts as of 1 June 2016 and taking into account of our PRC Legal Adviser's advice, our Directors are of the view that the prior use of the Arrangements did not have and will not have a material adverse effect on our business operations or financial conditions as a whole.

(H) Enhanced internal control measures to prevent future re-occurrence

To prevent future re-occurrence of the use of personal bank accounts for settlement of corporate funds, we have enhanced our internal control measures:

- we have enhanced our internal control manual to require all the receipts and payments must be made through corporate accounts and no personal bank account could be opened and used. As of the Latest Practicable Date, such manual had become effective and the relevant staff of our Group had been notified; and
- the managers of the finance department of our Group shall, under the supervision of Mr. Ng Cheuk Him, our Chief Financial Officer and executive Director, closely monitor all members of our Group to ensure that no personal bank account is opened and used by any member of our Group by (i) checking all accounting records to detect whether any personal bank account is involved in the receipt or payment of funds and (ii) reviewing all bank statements of the corporate accounts of our Group to detect any abnormal or unauthorised transfer of funds. In case of any indication of use of personal bank accounts for the receipt or payment of funds by any member of our Group, they should report to Mr. Ng Cheuk Him immediately.

The independent internal control consultant of the Group (the "**Internal Control Consultant**") performed (i) initial internal control reviews during the period from December 2015 to February 2016 and (ii) performed follow-up reviews in during the period from April to June 2016. The Internal Control Consultant confirmed that as of June 2016, we had fully rectified the incident with respect to the use of personal bank accounts.

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Each of our Controlling Shareholders [has agreed] to indemnify our Group pursuant to the Deed of Indemnity on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group arising from the non-compliance incidents disclosed above.

INTERNAL CONTROL AND RISK MANAGEMENT

We have engaged an independent business consulting and internal audit firm (the “**Internal Control Consultant**”) to conduct an evaluation of our internal control system in connection with the [REDACTED]. As part of the engagement, we have consulted with our Internal Control Consultant to identify the factors relevant to enhancing our internal control system and the steps to be taken and the Internal Control Consultant made a number of recommendations. The Internal Control Consultant conducted its work during the period from December 2015 to February 2016 and provided a number of findings and recommendations in its report. We have subsequently taken remedial actions in response to such findings and recommendations. The Internal Control Consultant performed follow-up procedures on our system of internal control with regard to those actions taken by us and reported further commentary during the period from April to June 2016. In its follow-up reviews, the Internal Control Consultant noted that, except for the findings and recommendations in relation to certain corporate governance matters, which we expect to complete the relevant remedial actions in all material respects prior to [REDACTED], we had followed all of the Internal Control Consultant’s recommendations and accordingly have taken corrective actions to address our internal control deficiencies and weaknesses.

Set out below is a summary of the key recommendations from the Internal Control Consultant and the corrective actions adopted by us to prevent future occurrence of the non-compliance incidents:

Compliance with social insurance and housing provident fund contributions requirements in the PRC

The manager of the human resources departments of our Group would review the reporting and contributions of social insurance and housing provident fund for the employees of our Group regularly. Our human resources department will also consult our PRC legal adviser on the requirements under the relevant PRC laws and regulations in relation to social insurance and housing provident fund. We would provide training to the relevant personnel from time to time to keep them abreast of these areas.

The manager of the human resources department would report to Chief Financial Officer and deputy finance officer of our Group on the legal and regulatory compliance and provide improvement recommendations when required.

Compliance with the licencing, permits and other regulatory requirements in the PRC

We have established compliance guidelines and a compliance checklist, which set forth our policies and procedures with respect to compliance issues. The compliance guidelines and checklist will be implemented by the relevant functional departments in each of our schools. The relevant functional departments will monitor our on-going compliance with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management (including the principals and vice principals of our schools) and employees involved with continuing training programmes and updates regarding the relevant PRC laws and regulations regularly with a view to proactively identify any concerns and issues relating to potential non-compliance. Our executive Directors, Mr. NG Cheuk Him and Mr. Jiuchang Li, are responsible for ensuring our overall on-going compliance.

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We have ceased the use of all Personal Bank Accounts since 1 June 2016. Please refer to “– Settlement through Personal Bank Accounts” above for further details. In addition to the above measures, to enhance the effectiveness of our corporate governance measures and to strengthen the monitoring of our internal control system, we have put in place, among others, the following measures to ensure on-going compliance with all applicable laws and regulations:

- we have established internal audit policies and an independent internal audit department. Our internal audit policies cover, among other things, the supervision of financial operations, business operations, compliance matters and risk management matters. The internal audit department will perform internal audits on, among other things, the financial, operational, compliance and risk management aspects of our Group and reports to the audit committee of our Board from time to time. Members of the internal audit department will not participate in the ordinary business operations of our Group;
- we have established a risk assessment system, which covers, among other things, the management of strategic risks, market risks, legal risks, operational risks, financial risks and information and technology risks of our Group. Senior management of the Company has also assessed our risks and established corresponding measures to control identified risks;
- we have adopted policies, systems and procedures relating to human resources management, information system management, financial reporting and disclosure, cash flow and investment management; and
- we have adopted policies, systems and procedures relating to sales, procurement, suppliers, fixed assets management and the management of construction in progress.

Taking into account the internal control measures implemented by us in connection with the non-compliance incidents disclosed under “– Legal Proceedings and Compliance” above, the on-going monitoring and supervision by our Board and the principals of our schools with the assistance from professional external advisers where required and the fact that, as confirmed by the Directors, the non-compliance incidents did not involve fraud or dishonesty, the Directors are of the view that our enhanced internal control measures are adequate and effective; the suitability of our Directors is compliant with Rules 3.08 and 3.09 of the Listing Rules; and our Company is suitable for [REDACTED] under Rule 8.04 of the Listing Rules. Based on their review of the internal control report and other due diligence documents, discussions with the Directors, the Internal Control Consultant and our PRC Legal Adviser and the Directors’ confirmation, nothing has come to the attention of the Sole Sponsor that would cast doubts on the views of the Directors.

Risk Management

We are exposed to various risks in the operations of our business and we believe that risk management is important to our success. Key operational risks faced by us include, among others, changes in general market conditions and perceptions of private education, changes in the regulatory environment in the PRC education industry, our ability to offer quality education to our students, our ability to increase student enrolment and/or raising tuitions, our potential expansion into other regions in China, availability of financing to fund our expansion and business operations and competition from other school operators that offer similar quality of education and have similar scale. Please refer to “Risk Factors” of this document for further details of disclosures on various risks we face. In addition, we also face various market risks, such as foreign exchange, interest rate, credit and liquidity risks that arise in the normal course of our business. Please refer to “Financial Information – Quantitative and Qualitative Disclosures about Market Risk” of this document for further details of a discussion on these market risks.

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To properly manage these risks, we have established the following risk management structures and measures:

- our Board of Directors is responsible and has the general power to manage the operations of our schools, and is in charge of the overall risk control of our Group. Any significant business decision involving material risks, such as decisions to expand into new geographic regions, raise tuitions or construct material new school facilities are reviewed, analysed and approved by our Board of Directors to ensure a thorough examination of the associated risks at our highest corporate governance body;
- we maintain insurance coverage which we believe is in line with the customary practice in the PRC education industry. We also adopt health and safety measures on our campuses to safeguard our students' well-being; and
- we have made arrangements with banks to ensure that we are able to obtain credits to support our business operation and expansion.