
CONNECTED TRANSACTIONS

OVERVIEW

Our Group has entered into certain agreements with persons and entities that will, upon [REDACTED], become our Company's connected persons (as defined under Chapter 14A of the Listing Rules). Following the [REDACTED], the transactions contemplated under such agreements will continue and constitute continuing connected transactions of our Group under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Master Construction Agreement

Principal terms

On [●] 2016, Guangdong Guangzheng entered into a master construction services agreement (the "**Master Construction Agreement**") with Dongguan Cinese Real Estate, pursuant to which Guangdong Guangzheng agreed to engage Dongguan Cinese Real Estate (by itself or through any of its subsidiaries) as the contractor for the construction of new schools to be established by our Group in accordance with the terms of the Master Construction Agreement. The principal terms of the Master Construction Agreement include:

- with respect to each new school, Guangdong Guangzheng will enter into an individual construction agreement with Dongguan Cinese Real Estate or its relevant subsidiary as contractor, which will prescribe specific terms and conditions of the engagement, including the scope of work, estimated construction and management fee, specifications of the school and other relevant matters;
- the terms of the individual construction agreements shall be on normal commercial terms;
- the service fee payable under each individual construction agreement shall reflect the then prevailing market rates and no less favourable than the terms and conditions offered by independent contractors for comparable construction projects; and
- the term of the Master Construction Agreement shall commence from the [REDACTED] Date until 31 August 2019 and, subject to compliance with the requirement under the Listing Rules, may be renewed by mutual consent of the parties.

Reasons for the transactions

In view of our plan for development of new schools as detailed in the section headed "Business – Development of New Schools" in this document, our Group needs to engage contractors for the construction of new schools from time to time. In the past, Dongguan Cinese Real Estate has provided to us with certain construction project management advice, such as in relation to the selection of contractors, for the constructions of Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School on a gratuitous basis. Taking into account (i) our strategy to focus our resources on education business; (ii) we may not have extra resources to manage the construction projects of our new schools, including Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School; (iii) Dongguan Cinese Real Estate's experience and reputation in property development and construction and its track record in providing certain construction project management advice to our schools in the past, our Directors (including the independent non-executive Directors) consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to engage Dongguan Cinese Real Estate for the construction of our new schools after [REDACTED] in accordance with the terms of the Master Construction Agreement.

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Pricing policy

The parties will agree on an estimated construction fee for the construction project for each new school under the relevant individual construction agreement, which will form the basis of the payment schedule for our Group in relation to the construction project. After completion of the construction, Dongguan Cinese Real Estate shall calculate and submit the construction fee incurred for the construction project for review and audit by our Group. In the event that the construction fee proposed by Dongguan Cinese Real Estate is not agreed by our Group, an auditor to be appointed by our Group shall audit the proposed construction fee. Apart from the construction fee, a management fee calculated based on a certain percentage of the total construction fee will also be payable by our Group to Dongguan Cinese Real Estate. In connection with the percentage of the management fee, we have engaged an independent business consulting firm to provide high-level analysis on the percentage of management fee based on, among other things, applicable regulations and guidances on transfer pricing, as well as selected market comparables. The independent business consulting firm has advised that the interquartile range of the weighted average gross margin percentages of the selected market comparable listed companies ranges from 8.5% to 17.3%, with a median of 14.1%. The management fee under each individual construction agreement entered or to be entered into is or is expected to be (as the case may be) lower than 14% of the total construction fee.

The payment terms in relation to the construction and management fees under each individual construction agreement will be determined by the parties through arm's length negotiation and on normal commercial terms and based on the proposal submitted by Dongguan Cinese Real Estate, the definitive specification of the new schools and with reference to the construction and management fees generally charged by independent contractors of similar experience and reputation for the construction of schools of similar size to ensure that the terms are no less favourable to the Group than terms available by independent contractors.

Proposed annual caps

We have entered into individual construction agreements with Dongguan Cinese Real Estate for the construction projects for the Weifang Guangzheng Preparatory School and Guang'an Guangzheng Preparatory School (both of which constructions were on-going as at the Latest Practicable Date), the respective salient terms of which are set out as follows:

Individual construction agreement for Weifang Guangzheng Preparatory School

Date	30 March 2016
Parties	Guangdong Guangzheng and Dongguan Cinese Real Estate
Construction scope	The scope of construction includes an eastern school gate, an arts building, primary school classroom buildings, primary school dormitories, secondary school dormitories, a stadium, and secondary school classroom buildings, etc. The final scope shall be subject to the Planning Permit for Construction Work.
Construction area	The total construction area of the project is approximately 108,298 sq.m. (including both above-ground and underground works), subject to the Planning Permit for Construction Work.
Construction fees	<p>Based on preliminary estimate, the amount of the construction fee would be approximately RMB250 million.</p> <p>The parties agree that Guangdong Guangzheng shall pay the construction fee by instalments as follows:</p> <ol style="list-style-type: none"> 1. RMB200 million within 5 working days from the date on which all conditions for commencement of work have been satisfied;

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2. RMB30 million shall be paid within 5 working days from the date on which the construction of the external structure of the buildings has been completed;
3. RMB20 million shall be paid within 5 working days from the date of final acceptance and fire inspections of the entire project; and
4. any outstanding amount shall be paid or any extra amount paid shall be refunded, within 15 working days from the date of the completion of the construction.

Within 15 working days from the date of the completion of the construction, Dongguan Chinese Real Estate shall provide Guangdong Guangzheng with the total construction fee of the project for its audit within the next 20 working days. If the parties cannot agree on the total construction fee, an auditor appointed by Guangdong Guangzheng shall be engaged to perform an audit.

Management fee	12% (inclusive of tax) of the total construction fee of the project shall be payable to Dongguan Chinese Real Estate as management fee.
Construction permits	Dongguan Chinese Real Estate shall be responsible for the application of construction work planning permits, construction work commencement permits and other permits required for the project.
Work commencement date	Dongguan Chinese Real Estate shall commence construction work within 10 working days from the notice to be issued by Guangdong Guangzheng.
Delivery	Dongguan Chinese Real Estate shall be responsible for the passing of the final inspections and fire inspections of the completed construction work within one year from the signing of the agreement, and shall deliver the completed project to Guangdong Guangzheng no later than 30 June 2017.

Individual construction agreement for Guang'an Guangzheng Preparatory School

Date	30 May 2016
Parties	Guangdong Guangzheng and Dongguan Chinese Real Estate
Construction scope	The scope of construction includes classroom buildings, students' living quarters, teachers' apartments, cafeterias, an arts building, and a stadium, etc. The final scope shall be subject to the Planning Permit for Construction Work.
Construction area	The total construction area of the project is approximately 170,000 sq.m. (including both above-ground and underground works), subject to the Planning Permit for Construction Work.

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Construction fees	<p>Based on preliminary estimate, the amount of the construction fee would be approximately RMB340 million.</p> <p>The parties agree that Guangdong Guangzheng shall pay the construction fee by instalments as follows:</p> <ol style="list-style-type: none">1. RMB170 million within 5 working days from the date on which all conditions for commencement of work have been satisfied;2. not more than RMB50 million shall be paid within 180 days from the date of commencement of construction work;3. RMB40 million shall be paid within 5 working days from the date on which the construction of the external structure of the buildings has been completed;4. RMB40 million shall be paid within 5 working days from the date of final acceptance and fire inspections of the entire project; and5. any outstanding amount shall be paid or any extra amount paid shall be refunded, within 15 working days from the date of the completion of the construction. <p>Within 15 working days from the date of the completion of the construction, Dongguan Chinese Real Estate shall provide Guangdong Guangzheng with the total construction fee of the project for its audit within the next 20 working days. If the parties cannot agree on the total construction fee, an auditor appointed by Guangdong Guangzheng shall be engaged to perform an audit.</p>
Management fee	<p>12% (inclusive of tax) of the total construction fee of the project shall be payable to Dongguan Chinese Real Estate as management fee.</p>
Construction permits	<p>Dongguan Chinese Real Estate shall be responsible for the application of construction work planning permits, construction work commencement permits and other permits required for the project.</p>
Work commencement date	<p>Dongguan Chinese Real Estate shall commence construction work within 10 working days from the notice to be issued by Guangdong Guangzheng.</p>
Delivery	<p>Dongguan Chinese Real Estate shall be responsible for the passing of the final inspections and fire inspections of the completed construction work within one year from the signing of the agreement, and shall deliver the completed project to Guangdong Guangzheng no later than 31 August 2018.</p>

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According to the individual construction agreements, the estimated construction and management fees for Weifang Guangzheng Preparatory School and Guang'an Guangzheng Preparatory School are expected to be approximately RMB280 million and RMB380.8 million respectively. Although the individual construction agreements for Weifang Guangzheng Preparatory School and Guang'an Guangzheng Preparatory School were entered into prior to the Master Construction Agreement, given that as at the Latest Practicable Date the constructions of these two schools had not been completed and there had been outstanding payments payable to Dongguan Chinese Real Estate under the respective individual construction agreements, we have included the estimated fees payable for the construction of these schools under the proposed annual caps as more particularly set out below. We also expect to engage Dongguan Chinese Real Estate for the construction project for Yunfu Guangzheng Preparatory School, the estimated construction and management fees payable for which are expected to be approximately RMB448 million. As at the Latest Practicable Date, the individual construction agreement for Yunfu Guangzheng Preparatory School has not yet been entered into.

We expect that the annual aggregate construction and management fee to be paid to Dongguan Chinese Real Estate and/or its subsidiaries for the construction of Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School, Yunfu Guangzheng Preparatory School, and any other new schools to be constructed under the Master Construction Agreement will not exceed the following proposed annual caps:

	For the year ending 31 August		
	2017	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Proposed annual caps	470.0 million	220.0 million	150.0 million

The above proposed annual caps are arrived at based on (i) the historical costs for the construction of our schools including Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School; (ii) the expected construction and management fees payable for the construction of Weifang Guangzheng Preparatory School and Guang'an Guangzheng Preparatory School pursuant to the respective individual construction agreements; (iii) the expected construction and management fees payable for the construction of Yunfu Guangzheng Preparatory School; (iv) possible inflation and delay in construction schedule which may render the actual construction and management fees higher than as expected; and (v) the cooperation agreements we entered into with the local government authorities in the PRC in relation to the establishment of new schools and our plan for development of new schools as detailed in the section headed "Business – Development of New Schools" in this document.

Listing Rules implications

Dongguan Chinese Real Estate is indirectly wholly-owned by Mr. Liu, an executive Director, our Chairman and one of our Controlling Shareholders, and is therefore an associate of Mr. Liu. Thus, Dongguan Chinese Real Estate is our connected person pursuant to Rules 14A.12(2)(b) and 14A.07(1) of the Listing Rules and the transactions contemplated under the Master Construction Agreement constitute continuing connected transactions of our Company upon [REDACTED]. Our Directors anticipate that the applicable percentage ratios on the amount of fees payable for the construction of Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School, Yunfu Guangzheng Preparatory School, and any other new schools to be constructed under the Master Construction Agreement will be more than 5% on an annual basis. Accordingly, such continuing connected transactions are, upon [REDACTED], subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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Application for waiver

We have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Master Construction Agreement, provided that the annual aggregate construction and management fee to be paid to Dongguan Cinese Real Estate and/or its subsidiaries for the construction of Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School, Yunfu Guangzheng Preparatory School and any other new schools to be constructed under the Master Construction Agreement for each of the three years ending 31 August 2017, 2018 and 2019 will not exceed the relevant proposed annual caps set forth above.

Confirmation from our Directors and Sole Sponsor

Our Directors (including the independent non-executive Directors) are of the view that (i) the transactions contemplated under the Master Construction Agreement have been and will be entered into in the ordinary and usual course of business, are on normal terms or better that are fair and reasonable and in the interest of our Company and the Shareholders as a whole; and (ii) the above proposed annual caps are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

The Sole Sponsor has reviewed the relevant documents and information in relation to the transactions contemplated under the Master Construction Agreement and have also conducted due diligence by discussing these transactions with our management. Based on the Sole Sponsor' due diligence, the Sole Sponsor is of the view that (i) the transactions contemplated under the Master Construction Agreement will be entered into in the ordinary and usual course of business, are on normal terms or better that are fair and reasonable and in the interest of our Company and the Shareholders as a whole; and (ii) the above proposed annual caps are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

Contractual Arrangements

Background

As disclosed in the section headed "Contractual Arrangements" in this document, due to regulatory restrictions on foreign ownership in our schools in the PRC, we conduct our business in China through our Consolidated Affiliated Entities. We do not hold any equity interests in our Consolidated Affiliated Entities, which are beneficially owned by Ms. Li as to 38% and Mr. Liu as to 62%. Through a series of contractual arrangements (the "**Contractual Arrangements**"), we effectively control these Consolidated Affiliated Entities and are able to derive substantially all of their economic benefits, and expect to continue to do so. The Contractual Arrangements among us, Dongguan Ruixing, our Consolidated Affiliated Entities and shareholders of our Consolidated Affiliated Entities enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by Dongguan Ruixing; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in our Consolidated Affiliated Entities when and to the extent permitted by PRC laws.

The Contractual Arrangements include: (a) the Exclusive Management Consultancy and Business Cooperation Agreement, (b) the Call Option Agreement, (c) the Equity Pledge Agreement, (d) the Powers of Attorney, (e) the Loan Agreement and (f) the SP Liu Spouse's Undertaking (terms are defined in the section headed "Contractual Arrangements" in this document). Please refer to the section headed "Contractual Arrangements" in this document for detailed terms of these documents.

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Listing Rules implications

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their connection with our Group. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon [REDACTED].

Name	Connected relationships
Mr. Liu	Mr. Liu is an executive Director, our Chairman and one of our Controlling Shareholders and is therefore our connected person pursuant to Rule 14A.07(1) of the Listing Rules.
Ms. Li	Ms. Li is our Chief Executive Officer, an executive Director and one of our Controlling Shareholders and is therefore our connected person pursuant to Rule 14A.07(1) of the Listing Rules.
Mr. SP Liu	Mr. SP Liu is the father of Mr. Liu and is therefore an associate of Mr. Liu and our connected person pursuant to Rules 14A.12(2)(a) and 14A.07(4) of the Listing Rules.
Guangdong Guangzheng	Guangdong Guangzheng is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Dongguan Wenhui	Dongguan Wenhui is a wholly-owned subsidiary of Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Guang'an Guangzheng	Guang'an Guangzheng is a wholly-owned subsidiary of Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Huizhou Guangzheng	Huizhou Guangzheng is a wholly-owned subsidiary of Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Panjin Guangzheng	Panjin Guangzheng is a wholly-owned subsidiary of Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.

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Name	Connected relationships
Weifang Guangzheng	Weifang Guangzheng is a wholly-owned subsidiary of Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Dongguan Guangming School	Dongguan Guangming School is wholly-owned by Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Dongguan Guangming Primary School	Dongguan Guangming Primary School is wholly-owned by Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Dongguan Guangzheng Preparatory School	Dongguan Guangzheng Preparatory School is wholly-owned by Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and is therefore an associate of Ms. Li and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Huizhou Guangzheng Preparatory School	Huizhou Guangzheng Preparatory School is, via Huizhou Guangzheng, indirectly wholly-owned by Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Panjin Guangzheng Preparatory School	Panjin Guangzheng Preparatory School is, via Panjin Guangzheng, indirectly wholly-owned by Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and is therefore an associate of Ms. Li and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.
Weifang Guangzheng Preparatory School	Weifang Guangzheng Preparatory School is indirectly wholly-owned by Guangdong Guangzheng, which is beneficially owned as to 38% by Ms. Li and 62% by Mr. Liu, and is therefore an associate of Ms. Li and Mr. Liu and our connected person pursuant to Rules 14A.12(1)(c) and 14A.07(4) of the Listing Rules.

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Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of our Group technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent shareholders' approval requirements.

Application for waiver

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as [REDACTED] subject however to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements will be made without the approval of the independent non-executive Directors;

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of the independent Shareholders.

Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entities through (i) our Group's option, to the extent permitted under PRC laws and regulations to acquire, all or part of the entire equity interests in our Consolidated Affiliated Entities for nil consideration or at the lowest possible amount permissible under the applicable PRC laws and regulations, (ii) the business structure under which the net profit generated by our Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Dongguan Ruixing by our Consolidated Affiliated Entities under the Exclusive Management Consultancy and Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entities.

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(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has equity shareholding, on one hand, and our Consolidated Affiliated Entities, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the independent Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and, or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report in accordance with relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the profit generated by our Consolidated Affiliated Entities has been substantially retained by our Group, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) the Contractual Arrangements and if any, any new transactions, contracts and agreements entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.
- Our Company's auditors will carry out procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of our Consolidated Affiliated Entities will be treated as our Company's wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of our Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

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- Each of our Consolidated Affiliated Entities will undertake that, for so long as our Shares are listed on the Stock Exchange, each of our Consolidated Affiliated Entities will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the continuing connected transactions.

Transactions among our Consolidated Affiliated Entities and our Company

Given that the financial results of our Consolidated Affiliated Entities will be consolidated into our financial results and the relationship between our Consolidated Affiliated Entities on the one hand, and our Company and our subsidiaries in which our Company has equity shareholding on the other hand, under the Contractual Arrangements, all agreements other than the Contractual Arrangements that have been or may in the future be entered into between any of our Consolidated Affiliated Entities on the one hand, and our Company or any of our subsidiaries in which our Company has direct or indirect equity shareholding on the other hand, will also be exempted from the "continuing connected transactions" provisions of the Listing Rules.

Confirmation from our Directors and Sole Sponsor

Our Directors (including the independent non-executive Directors) and the Sole Sponsor are of the view that the transactions contemplated under the Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of our Group, are fundamental to our Group's legal structure and business operations and on normal commercial terms or better that are fair and reasonable and in the interests of our Company and the Shareholders as a whole. With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of our consolidate affiliated entities can be effectively controlled by Dongguan Ruixing or its designated third party, (ii) Dongguan Ruixing or its designated third party can obtain the economic benefits derived from the Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of the Consolidated Affiliated Entities can be prevented, on an uninterrupted basis.