

## SUMMARY

*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in [REDACTED] are set out in “Risk Factors” of this document. You should read that section carefully before you decide to invest in [REDACTED].*

## OVERVIEW

We were 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 2016, we operated six premium private schools with a total student enrolment of 31,788 students.

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. During the Track Record Period, we focused on providing high quality PRC curriculum programmes for primary and secondary school students. For each of the 2013/2014, 2014/2015 and 2015/2016 school years, at least 94.8% of our high school graduates were admitted to universities in China, and for the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 18.4%, 21.4% and 23.2% of our high school graduates were admitted to First Class Universities in China, respectively. In addition to PRC curriculum programmes, we provide international programmes for our high school students. Graduates from our international programmes were generally 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 and revenue. For the years ended 31 August 2014, 2015 and 2016, our total revenue amounted to RMB450.9 million, RMB568.7 million and RMB700.7 million, respectively, representing a CAGR of approximately 15.8% from 2014 to 2016. The table below sets forth certain information with respect to our growth.

		As of 1 September		
	2013	2014	2015	2016
Student enrolment	19,354	22,837	27,644	31,788
Number of teachers	1,162	1,359	1,666	1,960

## SUMMARY

### OUR SCHOOLS

As of the Latest Practicable Date, we operated six premium private schools on five campuses. Four of our schools are located in Guangdong province in the Pearl River Delta economic zone, one is located in Liaoning province in the Northeast Three Provinces economic zone and one is located in Shandong province in the Bohai Economic Rim. The following table sets forth certain operational details of our schools as of the dates indicated:

School	Student enrolment as of 1 September				School utilisation rate (%) <sup>(1)</sup> as of 1 September				Teacher-student ratio <sup>(2)</sup> as of 1 September			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Dongguan Guangming School	10,580	10,416	10,417	10,510	99.5	99.5	98.9	97.8	1:17	1:17.2	1:17.2	1:17.5
Dongguan Guangming Primary School	4,367	5,130	5,959	5,973	89.9	93.3	98.3	98.6	1:18.3	1:19.1	1:18.6	1:19.2
Dongguan Guangzheng Preparatory School	4,151	5,820	7,768	9,094	62.0	81.5	85.9	93.7	1:14.8	1:15.9	1:16.7	1:16.5
Huizhou Guangzheng Preparatory School	256	1,189	2,500	3,903	27.1	61.7	72.2	97.0	1:12.2	1:14.2	1:13.2	1:13.1
Panjin Guangzheng Preparatory School	–	282	1,000	1,590	–	41.0	68.7	85.2	–	1:7.8	1:11.8	1:11.7
Weifang Guangzheng Preparatory School	–	–	–	718	–	–	–	95.5	–	–	–	1:11.6
<b>Total</b>	<b>19,354</b>	<b>22,837</b>	<b>27,644</b>	<b>31,788</b>	<b>83.7</b>	<b>89.0</b>	<b>90.5</b>	<b>95.9</b>	<b>1:16.7</b>	<b>1:16.8</b>	<b>1:16.6</b>	<b>1:16.2</b>

#### 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) Teacher-student ratio is calculated by dividing the number of students enrolled at a school by the number of teachers employed by the school.

## SUMMARY

As of the Latest Practicable Date, the expansion of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School was in progress, and Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School were under construction. For illustrative purpose, the following table sets forth the student enrolment, the existing or target capacity and the utilisation rates of these schools as of 1 September 2016 based on the schools' internal records and calculations, the relevant school campus construction plans or the cooperation agreement with the relevant local government, as the case may be:

School	Student enrolment	Existing or target capacity for students	Utilisation rate <sup>(4)</sup>
Dongguan Guangming School	10,510	10,744 <sup>(1)</sup>	97.8%
Dongguan Guangming Primary School	5,973	6,060 <sup>(1)</sup>	98.6%
Dongguan Guangzheng Preparatory School	9,094	15,226 <sup>(2)</sup>	59.7%
Huizhou Guangzheng Preparatory School	3,903	9,464 <sup>(2)</sup>	41.2%
Panjin Guangzheng Preparatory School	1,590	5,100 <sup>(3)</sup>	31.2%
Weifang Guangzheng Preparatory School	718	7,200 <sup>(3)</sup>	10.0%
	31,788	53,794	59.1%
Guang'an Guangzheng Preparatory School	–	7,860 <sup>(3)</sup>	–
Yunfu Guangzheng Preparatory School	–	7,000 <sup>(3)</sup>	–
	31,788	68,654	46.3%

*Notes:*

- (1) The capacity for Dongguan Guangming School and Dongguan Guangming Primary School is calculated based on the approximate number of beds available in student dormitories according to the respective school's internal records and calculations.
- (2) The capacity for Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School is calculated based on the estimated number of students that the student dormitories of the respective schools were designed to accommodate according to the relevant school campus construction plans, assuming that the expansion had been completed accordingly as of 1 September 2016.
- (3) The capacity for Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School is based on the target maximum capacity for primary and middle school and international programme students as set forth in the cooperation agreements with the relevant local government authorities.
- (4) The utilisation rate of each of our schools is calculated by dividing the number of students enrolled at a school by the existing or target capacity for students of the school.
- (5) In addition to the cooperation agreements with the relevant local governmental authorities for the proposed establishment of Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School, we have also entered into a framework agreement with the local government for the potential establishment of a new school in Zhaoqing. The above table does not include information of this proposed new school as the details thereof will be subject to the parties' further discussion if we proceed with the establishment of this school.

The tuition and boarding fees we charge are typically based on the demand for our educational programmes, the cost of our operations, the geographic markets where we operate our schools, the tuition fees charged by our competitors, our pricing strategy to gain market share and general economic conditions in China and the areas in which our schools are located. Please refer to the section headed “Business – Our schools” in this document for the tuition and boarding fees rates charged by our schools.

## SUMMARY

### Development of New Schools

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 governments of Guang'an, Sichuan province and Yunfu, Guangdong province, respectively, to establish a new school in each of these cities, and have entered into a framework agreement with the local government of Dinghu District, Zhaoqing, Guangdong province for the potential cooperation between the parties for the establishment of a new school in Zhaoqing. 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. The table below sets forth the estimated capital expenditure to be incurred and the intended allocation of [REDACTED] for the establishment of our new schools in Guang'an and Yunfu, PRC and in Canada:

School	Estimated total capital expenditure (‘000)	Intended source of funds	Intended allocation of [REDACTED] (‘000)
Guang'an Guangzheng Preparatory School	RMB439,800 (equivalent to HK\$496,666)	Self-owned capital and/or [REDACTED]	[REDACTED]
Yunfu Guangzheng Preparatory School	RMB522,000 (equivalent to HK\$589,495)	Self-owned capital and/or [REDACTED]	[REDACTED]
Dewey College (secondary school)	CAD2,000 (equivalent to HK\$11,736)	[REDACTED]	[REDACTED]
Total	<u>HK\$1,097,897</u>		<u>[REDACTED]</u>

### OUR 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 2014, 2015 and 2016. Our suppliers primarily comprise food, educational services and educational material suppliers. For the years ended 31 August 2014, 2015 and 2016, purchases from our five largest suppliers amounted to RMB22.3 million, RMB29.9 million and RMB30.5 million, respectively, representing approximately 9.3%, 10.3% and 8.2% of the cost of revenue, respectively. Please refer to “Business – Customers and Suppliers” of this document for further details.

### OUR COMPETITIVE STRENGTHS

We believe that the following are our key competitive strengths that have contributed significantly to our success and differentiate us from our competitors: (i) largest private educational group in South China operating premium primary and secondary curriculum programmes; (ii) strong reputation for student performance and high quality PRC curriculum programmes; (iii) high business visibility through offering a full range of primary and secondary curriculum programmes; (iv) successful track record in replicating our profitable business model; and (v) committed and stable management team.

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### OUR STRATEGIES

We intend to maintain and strengthen our position as a leading provider of premium private primary and secondary education in China. To achieve this goal, we intend to pursue the following business strategies: (i) continue to enhance our reputation as a leading provider of premium private primary and secondary school education; (ii) increase the utilization rate of our existing schools; (iii) continue to focus on the Pearl River Delta economic zone and strategically expand in or into other economic zones to enlarge our school network; (iv) enhance profitability by optimizing pricing strategies and increasing revenue sources; and (v) continually adapt to changing educational preferences in target markets.

### SELECTED HISTORICAL FINANCIAL INFORMATION

#### Selected Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth selected financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this document. The selected financial data set forth below should be read together with our consolidated financial statements and the related notes, as well as “Financial Information” of this document.

	For the year ended 31 August		
	2014	2015	2016
	(RMB’000)	(RMB’000)	(RMB’000)
<b>Revenue</b>	450,913	568,715	700,741
Cost of revenue	(239,717)	(289,194)	(370,352)
Gross profit	211,196	279,521	330,389
Profit before taxation	112,269	212,342	194,535
Taxation	(21,360)	(30,045)	(40,172)
<b>Profit and total comprehensive income for the year</b>	<u>90,909</u>	<u>182,297</u>	<u>154,363</u>
<b>Adjusted net profit<sup>(1)</sup></b>	<u>118,580</u>	<u>172,687</u>	<u>185,775</u>

Note:

- (1) For illustration purpose, the following table reconciles our adjusted net profit for the periods presented to net profit, the most directly comparable financial measure calculated and presented in accordance with IFRS, without taking into account the potential impact of PRC taxes, which may or may not be applicable:

	For the year ended 31 August		
	2014	2015	2016
	(RMB’000)	(RMB’000)	(RMB’000)
Profit and total comprehensive income for the year	90,909	182,297	154,363
Less:			
Imputed interest income on advances to Chinese Group	34,923	101,074	63,950
Imputed interest income on advances to related parties	7,298	11,328	–
Add:			
Finance costs in relation to advances to Chinese Group and related parties	69,892	102,792	68,608
Loss on disposal of subsidiaries	–	–	2,353
[REDACTED] expenses	–	–	24,401
Adjusted net profit	<u>118,580</u>	<u>172,687</u>	<u>185,775</u>

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Our net profit increased by 100.5% from RMB90.9 million for the year ended 31 August 2014 to RMB182.3 million for the year ended 31 August 2015, primarily attributable to (i) increased student enrolment in our schools, which was mainly because our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School entered into the second school year operated by us; (ii) increased tuition and boarding fee rates at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year; and (iii) increased imputed interest income on advances to Cinese Group and other related parties, which was mainly due to increased level of outstanding advances to Cinese Group and other related parties.

### **Imputed Interest Income and Related Interest Expenses**

During the Track Record Period, we made advances to Cinese Group and other related parties. These advances were non-trade in nature and non-interest bearing. The amount of the advances to Cinese Group and other related parties was measured at its fair value at initial recognition based on the best estimate of the expected repayments by Cinese Group and other related parties at the time of recognising the amount due from Cinese Group and other related parties. The differences between the amount due from Cinese Group and other related parties and the fair value at initial recognition were recognised in equity as deemed distribution to equity holders, and the amount due from Cinese Group and other related parties was then carried at amortised cost using the effective interest method. Subsequently, if we revise our estimate of the expected repayments by Cinese Group and other related parties, the carrying amount of such amount due from Cinese Group and other related parties will be adjusted to reflect the actual and revised estimated cash flow. The adjustments were also recognised in equity as deemed distribution to equity holders. The effective interest rates for imputed interest income were determined based on the interest rates for comparable bank borrowings for Cinese Group. For each reporting period during the Track Record Period, we recognised imputed interest income on certain portion of such advances under IFRS. During the Track Record Period, imputed interest income on advances to Cinese Group and other related parties had contributed to the changes to our net profit, which increased from RMB90.9 million, for the year ended 31 August 2014 to RMB182.3 million for the year ended 31 August 2015 and decreased to RMB154.4 million for the year ended 31 August 2016. However, such imputed interest income is only a hypothetical income under IFRS and had no cash inflow during the Track Record Period. During the Track Record Period, we primarily funded these advances to Cinese Group and other related parties through interest-bearing bank borrowings and a substantial portion of our bank borrowings during the Track Record Period related to such advances. As a result, a substantial portion of our interest expenses on bank and other borrowings during the Track Record Period related to advances on which we recognised imputed interest income. As at the Latest Practicable Date, all the amounts due to and from related parties (including our advances to Cinese Group and other related parties) which were non-trade in nature had been fully settled. As a result, we do not expect to continue to recognise imputed interest income on advances to related parties following [REDACTED]. Because we will no longer be funding such advances through bank borrowings, we also expect a corresponding reduction in interest expenses on bank borrowings following [REDACTED].

The aggregate carrying amounts of our advances to Cinese Group and other related parties on which we recognised imputed interest income were RMB1,165.4 million, RMB1,163.0 million and RMB212.2 million as of 31 August 2014, 2015 and 2016, respectively. Our imputed interest income was RMB42.2 million, RMB112.4 million and RMB64.0 million for the years ended 31 August 2014, 2015 and 2016, respectively.

Our bank and other borrowings were RMB1,270.0 million, RMB1,275.5 million and RMB607.7 million as of 31 August 2014, 2015 and 2016, respectively. Our interest expenses on bank and other borrowings were RMB79.0 million, RMB109.9 million and RMB80.0 million for the years ended 31 August 2014, 2015 and 2016, respectively.

In addition, we had amounts due to related parties that are non-trade in nature, unsecured, non-interest bearing and repayable on demand, which amounted to RMB333.3 million, RMB426.9 million and RMB327.2 million, respectively, as of 31 August 2014, 2015 and 2016. We did not recognise imputed interest expense on the amounts due to related parties during the Track Record Period because of the repayable on demand clause applicable to such amounts.



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For further details about the imputed interest income on advances to Cinese Group and other related parties, please refer to “Financial Information – Finance Income” and “Financial Information – Imputed Interest Income and Related Interest Expenses” of this document. Save as disclosed above, our Directors confirm that there are no other material non-trade factors that would affect our financial statements during the Track Record Period.

### Selected Financial Information from Our Consolidated Statements of Financial Position

The following table sets forth selected financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this document. The selected financial data set forth below should be read together with our consolidated financial statements and the related notes, as well as “Financial Information” of this document.

	As of 31 August		
	2014	2015	2016
	(RMB’000)	(RMB’000)	(RMB’000)
Non-current assets	2,326,869	1,433,344	1,763,204
Current assets	359,404	1,531,639	695,171
Non-current liabilities	1,133,274	743,533	474,825
Current liabilities	1,042,584	1,546,199	1,152,775
Net current liabilities	(683,180)	(14,560)	(457,604)

We recorded net current liabilities as of 31 August 2014, 2015 and 2016, primarily as a result of (i) amounts due to related parties that are non-trade in nature, non-interest bearing and repayable on demand, which consist of advances from Cinese Group and other related parties and payables to related parties for the purchase of property, plant and equipment for the expansion or improvement of our schools; (ii) other payables and accrued expenses, which primarily consist of accruals for construction in connection with the maintenance and improvement of our school facilities, and accrued staff benefits and payroll; and (iii) borrowings, which primarily consist of our short-term bank borrowings. Please refer to “Financial Information – Current Assets and Current Liabilities” of this document for further details.

### Key Financial Ratios

The following table sets forth certain financial ratios as of the respective dates:

	As of/for the year ended 31 August		
	2014	2015	2016
Gross profit margin <sup>(1)</sup>	46.8%	49.1%	47.1%
Net profit margin <sup>(2)</sup>	20.2%	32.1%	22.0%
Adjusted net profit margin <sup>(3)</sup>	26.3%	30.4%	26.5%
Return on assets <sup>(4)</sup>	3.4%	6.1%	6.3%
Return on equity <sup>(5)</sup>	17.8%	27.0%	18.6%
Current ratio <sup>(6)</sup>	0.34	0.99	0.60
Debt to equity ratio <sup>(7)</sup>	2.46	1.87	0.61
Gearing ratio <sup>(8)</sup>	2.49	1.89	0.73
Interest coverage ratio <sup>(9)</sup>	1.89	1.89	2.87

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*Notes:*

- (1) Gross profit margin equals our gross profit divided by revenue for the year. Our gross profit margin increased from 46.8% for the year ended 31 August 2014 to 49.1% for the year ended 31 August 2015, primarily driven by (i) increased student enrolment in our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School as they entered into the second school year operated by us; and (ii) increased tuition and boarding fee rates at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year. Our gross profit margin decreased to 47.1% for the year ended 31 August 2016, primarily due to increased staff costs mainly as a result of increased number of teachers and increased teachers’ salaries. The tuition and boarding fee rates for all of our schools remained unchanged for the 2015/2016 school year. Please refer to “Financial Information” of this document for further details.
- (2) Net profit margin equals our net profit after tax divided by revenue for the year. Our net profit margin increased from 20.2% for the year ended 31 August 2014 to 32.1% for the year ended 31 August 2015, primarily attributable to (i) increased student enrolment in our schools, which was mainly because our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School entered into the second school year operated by us; (ii) increased tuition and boarding fee rates at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year; and (iii) increased imputed interest income on advances to Cinese Group and other related parties, which was mainly due to increased level of outstanding advances to Cinese Group and other related parties. Our net profit margin decreased to 22.0% for the year ended 31 August 2016, primarily due to the [REDACTED] expenses incurred of RMB24.4 million, increased administrative expenses, as well as increased selling expenses in relation to the marketing and promotion of our schools. The tuition and boarding fee rates for all of our schools remained unchanged for the 2015/2016 school year. Please refer to “Financial Information” of this document for further details.
- (3) Adjusted net profit margin equals our adjusted net profit after tax divided by revenue for the year. Our adjusted net profit margin increased from 26.3% for the year ended 31 August 2014 to 30.4% for the year ended 31 August 2015, primarily attributable to (i) increased student enrolment in our schools, which was mainly because our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School entered into the second school year operated by us; and (ii) increased tuition and boarding fee rates at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year. Our adjusted net profit margin decreased to 26.5% for the year ended 31 August 2016, primarily due to the [REDACTED] expenses incurred of RMB24.4 million, increased administrative expenses, as well as increased selling expenses in relation to the marketing and promotion of our schools. The tuition and boarding fee rates for all of our schools remained unchanged for the 2015/2016 school year. Please refer to “Financial Information” of this document for further details. Please refer to “– Selected Consolidated Statements of Profit or Loss and Other Comprehensive Income” above for further details about the reconciliation of our adjusted net profit.
- (4) Return on assets equals net profit for the year divided by total assets as of the end of the year.
- (5) Return on equity equals net profit for the year divided by total equity amounts as of the end of the year.
- (6) Current ratio equals our current assets divided by current liabilities as of the end of the year.
- (7) Debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year.
- (8) Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt includes all interest-bearing bank loans and other borrowings.
- (9) Interest coverage ratio equals profit before interest and tax (less finance income) of the year divided by finance costs of the same year.



## SUMMARY

The table below sets forth the revenue and gross profit generated from each of our schools for the periods indicated, by amount and as a percentage of our total revenue:

	Year ended 31 August					
	2014		2015		2016	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Revenue						
Dongguan Guangming School	279,507	62.0	299,526	52.7	312,384	44.5
Dongguan Guangming Primary School	77,771	17.2	96,736	17.0	115,616	16.5
Dongguan Guangzheng Preparatory School	90,401	20.1	139,866	24.6	194,691	27.8
Huizhou Guangzheng Preparatory School	3,234	0.7	27,297	4.8	59,742	8.6
Panjin Guangzheng Preparatory School	–	–	5,290	0.9	18,308	2.6
Total revenue	<u>450,913</u>	<u>100</u>	<u>568,715</u>	<u>100</u>	<u>700,741</u>	<u>100</u>
Gross profit and gross profit margin						
Dongguan Guangming School	137,278	49.1	154,265	51.5	160,186	51.3
Dongguan Guangming Primary School	40,302	51.8	54,493	56.3	63,515	54.9
Dongguan Guangzheng Preparatory School	35,987	39.8	63,625	45.5	85,705	44.0
Huizhou Guangzheng Preparatory School	35	1.1	27,297	46.9	26,451	44.3
Panjin Guangzheng Preparatory School	–	–	(4,385)	N/A	(1,398)	N/A
Total gross profit and gross profit margin of our schools	<u>213,602</u>	<u>47.4</u>	<u>280,798</u>	<u>49.4</u>	<u>334,459</u>	<u>47.7</u>
Total gross profit and gross profit margin of our Group <sup>(1)</sup>	<u>211,196</u>	<u>46.8</u>	<u>279,512</u>	<u>49.1</u>	<u>330,389</u>	<u>47.1</u>

*Note:*

- (1) Total gross profit of our Group equals total gross profit from our schools less the cost of revenue incurred by Huizhou Guangzheng for the respective year.

[REDACTED]

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## SUMMARY

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[REDACTED]

### [REDACTED] EXPENSES

We expect to incur a total of approximately RMB[49.3] million of [REDACTED] expenses (assuming an [REDACTED] of [REDACTED], being the mid-point of the indicative [REDACTED] range between [REDACTED] and [REDACTED], and assuming that the [REDACTED] is not exercised at all) in relation to [REDACTED], of which approximately RMB24.4 million were charged to profit and loss and approximately RMB6.6 million was capitalised during the Track Record Period. For the remaining expenses, we expect to charge approximately RMB[6.2] million to our profit or loss and to capitalise approximately RMB[12.1] million. [REDACTED] expenses represent professional fees and other fees incurred in connection with the [REDACTED], excluding [REDACTED]. The [REDACTED] expenses above were the best estimate as at the Latest Practicable Date and were for reference only and the actual amount may differ from this estimate.

### USE OF [REDACTED]

We estimate that we will receive [REDACTED] of approximately [REDACTED] (after deducting the [REDACTED], assuming the [REDACTED] is not exercised at all and an [REDACTED] of [REDACTED] per Share, being the mid-point of the indicative [REDACTED] range stated in this document. We intend to use the [REDACTED] as follows:

	% of the	
[REDACTED]	[REDACTED]	HK\$ million

[REDACTED]

## SUMMARY

[REDACTED]

To the extent that our actual [REDACTED] is higher than our estimate above, we intend to apply the additional amount to item 1 above. To the extent that our actual [REDACTED] is lower than our estimate above, we intend to reduce the amount of [REDACTED] to be applied to item 4 above.

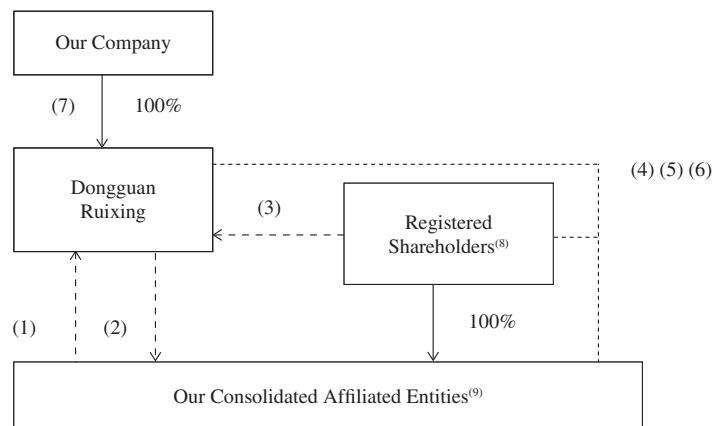
## CONTRACTUAL ARRANGEMENTS

### Overview of the Contractual Arrangements

PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of high schools to Sino-foreign cooperation. We do not hold any equity interest in our Consolidated Affiliated Entities and we conduct our private education business in the PRC through the Contractual Arrangements, through which we obtain control over and derive the economic benefits from our Consolidated Affiliated Entities. Please refer to “Contractual Arrangements” in this document for further details.

On 19 January 2015, MOFCOM published the Draft Foreign Investment Law and its accompanying explanatory notes proposing major changes to the PRC foreign investment regulatory regime, which was expected to have a significant impact on businesses operated in the PRC by foreign invested enterprises primarily through contractual arrangements, including our business conducted through the Contractual Arrangements. Our Company has adopted measures to ensure our compliance with the Draft Foreign Investment Law and undertakes to provide periodic updates in its annual and interim reports to inform investors of the status of its compliance with the Draft Foreign Investment Law and its accompanying explanatory notes.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



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## SUMMARY

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*Notes:*

- (1) Payment of service fees. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Exclusive Management Consultancy and Business Cooperation Agreement” of this document for further details.
- (2) Provision of services. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Exclusive Management Consultancy and Business Cooperation Agreement” of this document for further details.
- (3) Powers of attorney to exercise all shareholders’ rights in our Consolidated Affiliated Entities. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Powers of attorney” of this document for further details.
- (4) Exclusive call option to acquire all or part of the equity interest in our Consolidated Affiliated Entities. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Exclusive Call Option Agreement” of this document for further details.
- (5) Pledge of all the equity interest in Guangdong Guangzheng. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Equity Pledge Agreement” of this document for further details.
- (6) Provision of loans. Please refer to “Contractual Arrangements – Summary of material terms of the Contractual Arrangements – Loan Agreement” of this document for further details.
- (7) Dongguan Ruixing is an indirect wholly-owned subsidiary of our Company.
- (8) Registered Shareholders refer to the registered shareholders of Guangdong Guangzheng, i.e. Ms. Li and Mr. SP Liu. Guangdong Guangzheng is legally held as to 98.8% by Ms. Li and 1.2% by Mr. SP Liu. Out of the 98.8% equity interest in Guangdong Guangzheng held by Ms. Li, 60.8% equity interest is held on trust by Ms. Li for Mr. Liu. The 1.2% equity interest in Guangdong Guangzheng is held on trust by Mr. SP Liu for Mr. Liu.
- (9) Our Consolidated Affiliated Entities comprised Guangdong Guangzheng, Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Dongguan Wenhui, Guang’an Guangzheng, Huizhou Guangzheng, Huizhou Guangzheng Preparatory School, Panjin Guangzheng, Panjin Guangzheng Preparatory School, Weifang Guangzheng and Yunfu Guangzheng as at the Latest Practicable Date.
- (10) “\_\_\_\_” denotes direct legal and beneficial ownership in the equity interest.
- (11) “-----” denotes Contractual Arrangements.

### Risks Relating to the Contractual Arrangements

The PRC government may find that the Contractual Arrangements do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected. We strongly urge you to read the section headed “Risk Factors” in this document in its entirety, including “Risk Factors – Risks Relating to Our Contractual Arrangements” for further details of the risks relating to the Contractual Arrangements.

### SHAREHOLDER INFORMATION

Immediately after the completion of the Capitalisation Issue and [REDACTED], and assuming that the [REDACTED] is not exercised at all and without taking into account any Shares which may be issued upon the exercise of any options granted under the [REDACTED] Share Option Scheme and which may be granted under the Share Option Scheme, Mr. Liu and Ms. Li, who are co-founders of our Group and are parties acting in concert, will be interested in and control indirectly, through Bright Education Holdings and Bright Education Investment respectively, in aggregate [REDACTED]% of our issued share capital and will remain as our controlling shareholder under the Listing Rules.

## SUMMARY

### RECENT DEVELOPMENTS

Subsequent to 31 August 2016, being the latest date of our consolidated financial statements as set out in the Accountants’ Report included in Appendix I to this document and up to the date of this document, our business has undergone developments including in the following aspects:

- Our Weifang Guangzheng Preparatory School commenced operations in September 2016 and recruited 718 students as of 1 September 2016. The school offers primary and middle school education for the 2016/2017 school year.
- As at the Latest Practicable Date, the tuition fees and boarding fee rates for the 2016/2017 school year (there are two school terms per school year) of our schools are as follows:

	<b>Tuition and Boarding Fees<sup>(1)</sup> 2016/2017 school year (RMB)</b>
<b>Dongguan Guangming School</b>	
High school	25,600-38,600
Middle school	23,600-27,600
International programmes	92,600
<b>Dongguan Guangming Primary School</b>	18,180-24,400
<b>Dongguan Guangzheng Preparatory School</b>	
High school	22,800-33,800
Middle school	19,800-23,000
Primary school	16,600-21,200
International programmes	50,600-88,600
<b>Huizhou Guangzheng Preparatory School</b>	
High school	23,000-25,600
Middle school	18,000-20,600
Primary school	18,200-20,800
<b>Panjin Guangzheng Preparatory School</b>	
Middle school	18,000
Primary school	13,000-14,200
<b>Weifang Guangzheng Preparatory School</b>	
Middle school	13,000
Primary school	11,000

*Note:*

- (1) We increased tuition and boarding fees prior to and during the Track Record Period and up to the Latest Practicable Date for certain of our schools. Our increased tuition and boarding fees are only applicable to newly admitted students for the respective school year, while our existing students 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, comprising the tuition and boarding fees paid by students who are admitted to our schools at different school years.

## SUMMARY

- On 7 November 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改〈中華人民共和國民辦教育促進法〉的決定》) was approved by the Standing Committee of the National People’s Congress (the “**Decision**”), which will become effective on 1 September 2017. The Decision has made certain amendments to the Law for Promoting Private Education of the PRC. Please see “Decision on Amending the Law for Promoting Private Education of the PRC” below for a summary of the Decision.

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial, operational or trading positions or prospects subsequent to 31 August 2016, being the latest date of our consolidated financial statements as set out in the Accountants’ Report included in Appendix I to this document.

### DECISION ON AMENDING THE LAW FOR PROMOTING PRIVATE EDUCATION OF THE PRC

According to the Decision, which has made certain amendments to the Law for Promoting Private Education of the PRC and will become effective on 1 September 2017, school sponsors of private schools can choose to establish schools as not-for-profit or for-profit entities, with the exception of schools providing compulsory education, which can only be established as not-for-profit entities.

#### Comparison between for-profit schools and non-for-profit schools pursuant to the Decision

Set out below is a summary of certain comparison between for-profit schools and non-for-profit schools pursuant to the Decision:

	For-profit schools	Not-for-profit schools
Applicability	All private schools (except for schools providing compulsory education) may choose to become for-profit schools	All private schools may choose to become not-for-profit schools
Profits	School sponsors can obtain operating profits	School sponsors cannot obtain operating profits
Fee	Determined based on costs and market demand, and subject to the school’s discretion	Determined based on costs and market demand, and regulated by relevant local governmental authorities
Taxation, supply of land and other supportive measures	Preferential tax and supply of land treatments according to applicable laws	Preferential tax and supply of land treatments according to applicable laws (in addition, not-for-profit schools enjoy the same preferential tax and supply of land treatments as public schools, which are currently eligible to enjoy EIT exemption)  Enjoy more supportive measures, such as government subsidies, fund awards and incentive donations, than for-profit schools



## SUMMARY

	For-profit schools	Not-for-profit schools
Liquidation	School sponsors can obtain the school’s remaining assets after the settlement of the schools’ indebtedness	The schools’ remaining assets shall be used for the operation of other not-for-profit schools. For schools established before the promulgation of the Decision, prior to the remaining assets being used as such, school sponsors may apply for compensation or awards from the school’s remaining assets after the settlement of the school’s indebtedness

For further details of the amendments pursuant to the Decision, please refer to “Regulations – Regulations on Private Education in the PRC – The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education” and “Business – The Decision on Amending the Law for Promoting Private Education in the PRC” of this document.

### *Reasons for not changing our schools into for-profit schools*

All of our existing schools which provide compulsory education, namely our primary and middle schools, as well as our high schools are currently not-for-profit schools under the classification of the Decision. We have not yet had any definitive plan to change the status of any of our high schools to for-profit schools as at the Latest Practicable Date, based on the reasons that (i) the Decision does not specify that our schools have to notify any authority of their status as not-for-profit entities or for-profit entities within a time limit upon the Decision becomes effective; (ii) the Decision is silent on the specific measures with respect to how existing schools can choose to become for-profit schools, which, according to the Decision, shall be regulated by the corresponding laws and regulations promulgated by local government authorities; and (iii) the implementation regulations have not been promulgated. We also have no plans to change the status of any of our primary and middle schools to for-profit schools as, according to the Decision, our primary and middle schools can only be established as not-for-profit schools.

### *Potential impact on our high schools if changed into for-profit schools*

In the event that the status of any of our high schools is changed into a for-profit school, according to the Decision, the school sponsor of such school will be able to obtain operating profit. According to the Decision, as a for-profit school, there will be more flexibility in determining the types and amounts of fees charged by such school as this will be determined by the school at its discretion. Moreover, upon liquidation of a for-profit school, the school sponsor(s) of which can obtain the school’s remaining assets after the settlement of such school’s indebtedness (unlike the requirements and restrictions under the Decision which apply to the liquidation of a not-for-profit school). However, if any of our high schools is changed into a for-profit school, a potential impact on us will be that the supporting measures that a for-profit school may enjoy will be less than a not-for-profit school. For instance, a for-profit school will not be expected to enjoy the same preferential tax treatment as public schools or not-for-profit schools. It is also unclear whether, when and how existing schools that choose to become for-profit schools will be required to pay additional taxes or undergo re-registration or financial settlement during the transition process.

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## SUMMARY

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With respect to our new schools in operation or proposed new schools, namely Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School, Yunfu Guangzheng Preparatory School and Zhaoqing Guangming Preparatory School, we have not made any definitive decision whether to commence offering high school education in such schools as at the Latest Practicable Date. In the event that we decide in doing so, we will adopt the same approach in deciding whether any such new high schools will be operated as for-profit schools or not. As advised by our PRC Legal Adviser, the above mentioned arrangement relating to our high schools does not violate the applicable PRC laws, since the Decision does not require existing private high schools to decide whether to become for-profit or not-for-profit schools within a time limit.

### **Contractual Arrangements**

Our PRC Legal Adviser has advised us that, the Decision has no material impact on the Contractual Arrangements and that the Contractual Arrangements will remain legal and effective (including the payment of fees pursuant thereunder) after the Decision becomes effective, if the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》) (the “**Sino foreign Schools Regulation**”), the Foreign Investment Industries Guidance Catalog (Amended in 2015) (《外商投資產業指導目錄》(2015年修訂)) (the “**Guidance Catalog**”) and other relevant PRC laws remain unchanged by then, because (i) the Sino-foreign Schools Regulation and the Guidance Catalog still prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of high schools to Sino-foreign cooperation; and (ii) the Decision does not prohibit the Contractual Arrangements in relation to schools operating in the PRC, and does not prohibit the payment of service fees by private schools operating in the PRC to their service providers, including the payment of fees pursuant to the Contractual Arrangements.

### **Potential risks and impact of the Decision on us**

We have been advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of the Decision which affect or may affect our industry as a whole or any of our schools, especially given that the implementation regulations in connection with the Decision have not been promulgated as at the Latest Practicable Date. Please refer to the risk factors associated with the Decision including, among other things, “Risks related to the Decision on Amending the Law for Promoting Private Education in the PRC – There are substantial uncertainties regarding the interpretation and application of the Decision” as set in the “Risk Factors” section of this document.

Since the implementation regulations have not been promulgated as at the Latest Practicable Date, we will closely monitor any such promulgation or amendment and the development thereof. In particular, we will obtain advice from our PRC legal advisers from time to time prior to making any decisions in response to the amendments in connection with the Decision (including any proposed change of status of any of our high schools to for-profit schools) and will provide the relevant updates to our Shareholders and investors by way of disclosure in announcement and/or annual/interim reports, as and when appropriate.

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## SUMMARY

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### DIVIDENDS

As of the Latest Practicable Date, we had not declared or paid any dividends on our ordinary shares. We intend to adopt, after our [REDACTED], a general dividend policy of declaring and paying dividends on an annual basis of no less than 30% of our distributable net profit attributable to our Shareholders in the future but subject to, among other things, our future operation and earnings, capital requirements and surplus, financial condition, working capital requirements and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the relevant laws. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all.

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We are subject to various risks related to our business and our industry. Major risks we face include, among others, (i) our business depends on our ability to maintain or raise the tuition and boarding fee levels we charge at our schools; (ii) we generate all of our revenue from a limited number of cities in China and from a limited number of schools; (iii) our business depends on the market recognition of our brand and reputation that we may not be able to maintain; (iv) we may fail to continue to attract and retain students in our schools; (v) our students’ academic performance may fall and satisfaction with our educational services may otherwise decline; (vi) we may be subject to pricing pressures, reduced operating margins, loss of market share, departure of key employees and increased capital expenditures due to competition in the education sector; (vii) our business depends on our ability to recruit and retain qualified and committed teachers and other school personnel; and (viii) we may not be able to obtain all necessary approvals, licenses and permits and to make all necessary registrations and filings for our educational and other services in China. A detailed discussion of these and other risks relating to our business, our industry, the PRC and [REDACTED] are set out in “Risk Factors” of this document.

### PROPERTY VALUATION

According to the property valuation report prepared by DTZ Cushman & Wakefield Limited, an independent valuer, as contained in Appendix III to this document, the value of the properties held by us for investment in the PRC as of 31 December 2016 was approximately RMB18.3 million and the value of the properties held and occupied by us in the PRC as of the same date was approximately RMB490.0 million. Please refer to Appendix III to this document for detailed information on the valuation of our properties, including major assumptions for the valuation. Please refer to “Risk Factors – Risks Relating to Our Business and Industry – The appraisal value of our properties may be different from their actual realizable values and are subject to uncertainty or change” for details of the risks associated with the assumptions made in the valuation of our properties.

### LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period, we were not in compliance with certain PRC laws and regulations, including, (i) we breached the relevant requirements for making full contributions to the social insurance plans and the housing provident fund for our employees; (ii) we had not obtained the land use right certificates for certain parcels of land used by one of our schools; (iii) we used certain personal accounts opened under the names of some of our Directors and senior management for the settlement of corporate funds for Guangdong Guangzheng and four of our schools; and (iv) we had not obtained real estate ownership certificates and certain requisite certificates or permits for certain of our owned buildings. Please refer to “Business – Legal Proceedings and Compliance” in this document for further details.