

RISK FACTORS

You should carefully read and consider all of the information in this document including the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result you may lose part or all of your investment.

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our Contractual Arrangements; (ii) risks relating to the Decision on Amending the Law For Promoting Private Education in the PRC; (iii) risks relating to our business and our industry; (iv) risks relating to doing business in China; and (v) risks relating to [REDACTED].

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

We may be subject to severe penalties if the PRC government finds that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations.

Foreign investment in the education industry in China is extensively regulated and subject to various restrictions. Under the Foreign Investment Catalog, foreign investors are prohibited from investing in primary and middle schools in the PRC for students in grades one through nine. In addition, under the Sino-Foreign Regulation, foreign investment in high schools in the PRC must be in the form of cooperation between Chinese educational institutions and foreign educational institutions. Furthermore, under the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education, which was issued by the MOE on 18 June 2012, the foreign portion of the total investment in a Sino-foreign joint venture school must be below 50%. Please refer to “Regulations” of this document for further details.

Accordingly, our subsidiaries in China are currently ineligible to apply for the required education licenses and permits in China for the operation of primary and middle schools. In addition, although foreign investment in high schools is not prohibited, our subsidiaries in China are still ineligible to independently or jointly invest and operate high schools. We have entered into a series of arrangements pursuant to which our wholly-owned subsidiary Dongguan Ruixing receives the economic benefits from our Consolidated Affiliated Entities. Please refer to “Contractual Arrangements” of this document for further details. We have been and are expected to continue to be dependent on our Contractual Arrangements to operate our education business in China.

If the Contractual Arrangements that establish the structure for operating our business in China are found to violate any PRC laws or regulations in the future or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the MOE, which regulates the education industry, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries or Consolidated Affiliated Entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries or Consolidated Affiliated Entities;
- imposing fines or other requirements with which we or our PRC subsidiaries or Consolidated Affiliated Entities may not be able to comply;
- requiring us to restructure our operations in such a way as to compel us to establish new entities, re-apply for the necessary licenses or relocate our businesses, staff and assets;

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- imposing additional conditions or requirements with which we may not be able to comply; or
- restricting the use of proceeds from our [REDACTED] or financing to finance our business and operations in China.

If any of the above penalties are imposed on us, our business, financial condition and results of operations may be materially and adversely affected.

Our business may be significantly affected by the Draft Foreign Investment Law, if implemented as proposed.

On 19 January 2015, MOFCOM published the Draft Foreign Investment Law. The Draft Foreign Investment Law proposes significant changes to the PRC foreign investment legal regime and, when implemented, may have a significant impact on businesses in China controlled by foreign invested enterprises primarily through contractual arrangements, such as our business. Please refer to “Regulations – Foreign Investment in Education in the PRC” for further details. The MOFCOM solicited comments on the Draft Foreign Investment Law in 2015, but no new draft has been published since then. There is substantial uncertainty with respect to its final content, interpretation, adoption timeline or effective date.

In the event that our Contractual Arrangements under which we operate our education business are not treated as a domestic investment and/or our education business is classified as “prohibited business” in the Prohibited List under the Draft Foreign Investment Law as finally enacted, such Contractual Arrangements may be deemed as invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of such education business. As we primarily conduct our education business and operate in the PRC, the occurrence of such an event could have a material and adverse effect on our business, financial condition and results of operations such that the financial results of our Consolidated Affiliated Entities would no longer be consolidated into our financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition.

As a measure to ensure the Contractual Arrangements remain a domestic investment and are compliant with the Draft Foreign Investment Law, Mr. Liu and Ms. Li, as our Controlling Shareholders, have each given an undertaking in favour of our Company that, among other things, they will continue to maintain their Chinese nationality and citizenship. Please refer to “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment – Measures to Maintain Control Over and Receive Economic Benefits from our Consolidated Affiliated Entities” in this document for further details. Our compliance with the Draft Foreign Investment Law depends on their adherence to the terms of such undertaking. In the event that any of them breaches the undertaking or any of their successors/beneficiaries do not comply with or otherwise adhere to such undertaking, the Stock Exchange has limited enforcement power against any of them and we may not be able to seek effective recourse against any of them. In such event, the Contractual Arrangements may be deemed invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of our Consolidated Affiliated Entities, which could have a material and adverse effect on our business, financial condition and result of operations.

In addition, it is uncertain whether the measures to be adopted by us to maintain control over and receive economic benefits from our Consolidated Affiliated Entities alone will be effective in ensuring compliance with the Draft Foreign Investment Law (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us, such as suspending trade in our Shares, which may have a material adverse effect on the trading and liquidity of our Shares. For details of the Draft Foreign Investment Law and the negative list, its potential impact on our Company, and our measures to maintain control over and receive economic benefits from our Consolidated Affiliated Entities, please refer to “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment” and “Regulations” of this document for further details.

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Furthermore, the undertakings given by our Controlling Shareholders may require them to exercise their influence over our Company to prevent us from issuing additional Shares (or securities convertible into Shares) if the effect of any such issuance was to dilute their interest below a level sufficient to represent “control” under the Draft Foreign Investment Law. This may, in turn, impact our ability to finance our future expansion plans or use Shares as consideration for acquisitions or as a form of equity incentive for our management and employees. We also cannot assure you that the undertakings will not serve as a disincentive to parties proposing to acquire a material interest in our Shares or control of our Company, which may have a negative impact on the price and liquidity of our Shares.

Our Contractual Arrangements may not be as effective in providing control over our Consolidated Affiliated Entities as equity ownership.

We have relied and expect to continue to rely on our Contractual Arrangements to operate the majority of our education business in China. Please refer to “Contractual Arrangements” of this document for further details of a description of these Contractual Arrangements. These Contractual Arrangements may not be as effective in providing us with control over our Consolidated Affiliated Entities as equity ownership. If we had equity ownership of our Consolidated Affiliated Entities, we would be able to exercise our rights as a direct or indirect shareholder to effect changes in the board of directors of our Consolidated Affiliated Entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, as these Contractual Arrangements stand now, if our Consolidated Affiliated Entities or their shareholders fail to perform their respective obligations under these Contractual Arrangements, we cannot exercise shareholders’ rights to direct corporate actions as direct ownership would otherwise entail. If the parties under such Contractual Arrangements refuse to carry out our directions in relation to everyday business operations, we will be unable to maintain effective control over the operations of our schools in China. If we were to lose effective control over our Consolidated Affiliated Entities, certain negative consequences would result, including our being unable to consolidate the financial results of our Consolidated Affiliated Entities with our financial results. Given that we derived all of our revenue from our Consolidated Affiliated Entities for the years ended 31 August 2014, 2015 and 2016 and substantially all of the assets of our Group are held by our Consolidated Affiliated Entities (including our permits and licences, real estate leases, buildings and other educational facilities related to our schools), our financial position would be materially and adversely affected if we were to lose effective control over our Consolidated Affiliated Entities or if our Contractual Arrangements are invalidated or nullified. In addition, losing effective control over our Consolidated Affiliated Entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our Consolidated Affiliated Entities may impair our access to their cash flow from operations, which may reduce our liquidity.

The owners of our Consolidated Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business, financial condition and results of operations.

Our control over our Consolidated Affiliated Entities is based upon the Contractual Arrangements with our Consolidated Affiliated Entities. The beneficial owners of our Consolidated Affiliated Entities, Mr. Liu and Ms. Li, are also our Controlling Shareholders. Either of them may potentially have conflicts of interest with us and breach any of their contracts or undertakings with us if it would further any of their own interests or if any of them otherwise acts in bad faith. We cannot assure you that when conflicts of interest arise between our Company and the beneficial owners of our Consolidated Affiliated Entities, any of them will act completely in our interest or that the conflicts of interest will be resolved in our favour. In the event that such conflict of interest cannot be resolved in our favour, we may have to rely on legal proceedings which may disrupt our business operations and subject us to uncertainties as to the outcome of such legal proceedings. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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We may have to incur additional costs and expend substantial resources to enforce our Contractual Arrangements, temporarily or permanently lose control over our primary operations or lose access to our primary sources of revenue, if our Consolidated Affiliated Entities or their respective ultimate shareholders fail to perform their obligations under our Contractual Arrangements.

Under the current Contractual Arrangements, if any of our Consolidated Affiliated Entities or their ultimate shareholders fails to perform its or his/her respective obligations under these Contractual Arrangements, we may incur substantial costs and resources to enforce such arrangements and relying on legal remedies under PRC laws, including seeking specific performance or injunctive relief and claiming damages.

Our Contractual Arrangements described above are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. Under PRC laws, rulings by arbitrators are final and the parties to a dispute cannot appeal the arbitration results in any court based on the substance of the case. The prevailing party may enforce the arbitration award by instituting arbitration award recognition proceedings with the competent PRC court. The legal environment in the PRC is not as developed as in other jurisdictions, such as Hong Kong and the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Contractual Arrangements. In the event that we are unable to enforce these Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities for an extended period of time or we may be permanently unable to exert control over our Consolidated Affiliated Entities. If this were to occur, we would be unable to consolidate the financial results of our Consolidated Affiliated Entities with our financial results, which may materially and adversely affect our business, financial condition and results of operations and may therefore decrease the value of our Shareholders’ investments in our Company.

In addition to the enforcement costs outlined above, during the course of disputes regarding such enforcement action, we may temporarily lose effective control over our schools in China, which may lead to loss of revenue or potentially lead to our having to incur additional costs and expend substantial resources to operate our business in the absence of effective enforcement of these Contractual Arrangements. If this were to occur, our business, financial condition and results of operations may be materially and adversely affected and the value of our Shareholders’ investments in our Company may therefore decrease.

Certain terms of our Contractual Arrangements may not be enforceable under PRC laws.

Our Contractual Arrangements provide for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission in Beijing. Our Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of our Consolidated Affiliated Entities, injunctive relief and/or winding up of our Consolidated Affiliated Entities. In addition, our Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, we have been advised by our PRC Legal Adviser that the abovementioned provisions may not be enforceable. Under PRC laws, an arbitral body granting any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in Chinese legal entities in case of disputes must submit the application to the court in China. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in our Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in China in favour of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against an entity as interim remedies to preserve the assets or shares in favour of any aggrieved party.

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Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, which may impose late payment fees and other penalties on us.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the exclusive management consultancy and business cooperation agreements entered into, among others, our Consolidated Affiliated Entities and Dongguan Ruixing does not represent an arm’s-length price and adjust any of those entities’ income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, PRC tax authorities may form the view that our subsidiaries or Consolidated Affiliated Entities have improperly minimised their tax obligations and we may not be able to rectify any such incident within the limited timeline required by PRC tax authorities. As a result, PRC tax authorities may impose late payment fees and other penalties on us for under-paid taxes, which may materially and adversely affect our business, financial condition and results of operations.

We rely on dividends and other payments from Dongguan Ruixing or another PRC subsidiary to pay dividends and other cash distributions to our Shareholders.

Our Company is a holding company and our ability to pay dividends and other cash distributions to our Shareholders, service any debt we may incur and meet our other cash requirements depends significantly on our ability to receive dividends and other distributions from Dongguan Ruixing, one of our PRC subsidiaries, or another PRC subsidiary. The amount of dividends paid to us by Dongguan Ruixing or another PRC subsidiary depends solely on the service fees paid to Dongguan Ruixing or another PRC subsidiary from our Consolidated Affiliated Entities. However, there are restrictions under PRC laws for the payment of dividends to us by Dongguan Ruixing or another PRC subsidiary. For example, relevant PRC laws and regulations permit payments of dividends by Dongguan Ruixing or another PRC subsidiary only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, Dongguan Ruixing or another PRC subsidiary is required to set aside at least 10% of its after-tax profits based on the PRC accounting standards each year to fund a statutory reserve, until the accumulated amount of such reserve has exceeded 50% of its registered capital. Consequently, Dongguan Ruixing or another PRC subsidiary is restricted in its ability to transfer a portion of its net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. The foregoing restrictions on the ability of Dongguan Ruixing or another PRC subsidiary to pay dividends to us and the limitations on the ability of Consolidated Affiliated Entities to pay service fees to Dongguan Ruixing or another PRC subsidiary could materially and adversely limit our ability to borrow money outside of China or pay dividends to holders of our Shares.

Our Consolidated Affiliated Entities may be subject to limitations on their ability to operate private education or make payments to related parties.

The principal regulations governing private education in China are the Law for Promoting Private Education and the Implementation Rules. Under these regulations, a private school may elect to be a school that does not require reasonable returns or a school that requires reasonable returns. A private school that does not require reasonable returns cannot distribute dividends to its school sponsors. Each of our schools has elected to be a school the school sponsor of which requires reasonable returns. A private school the school sponsor of which requires reasonable returns must publicly disclose such election and any additional information required under the PRC regulations. A private school must consider factors such as the level of the school’s tuition, the ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school’s net income that would be distributed to the school sponsors as reasonable returns. However, the current PRC laws and regulations do not provide a formula or guidelines for determining what constitutes a “reasonable return”. PRC laws and regulations require a private school the school sponsor of which requires reasonable returns to make an annual appropriation of 25% of its after-tax income to its development fund prior to payments of reasonable returns. Such appropriations are required to be used for the construction or maintenance

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of the school or for the procurement or upgrading of educational equipment. The total amount of development fund reserves our schools made during the three years ended 31 August 2014, 2015 and 2016 was RMB28.7 million, RMB39.3 million and RMB35.4 million, respectively. Furthermore, the current PRC laws and regulations do not set forth different requirements or restrictions on a private school’s ability to operate its education business based on such school’s status as a school the school sponsor of which requires reasonable returns or a school the school sponsor of which does not require reasonable returns.

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, which will become effective on 1 September 2017. According to the Decision, private schools can be established 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. According to the Decision, it will no longer make a distinction between schools the school sponsors of which require reasonable returns and schools the school sponsors of which do not require reasonable returns. School sponsors of for-profit schools may obtain operating profits, while schools sponsors of not-for-profit schools cannot obtain operating profits. Please refer to “Risk Factor – Risks Relating to the Decision on Amending the Law for Promoting Private Education in the PRC”, “Regulations – Regulations on Private Education in the PRC – The Decision on Amending the Law for Promoting Private Education of the PRC” and “Business – The Decision on Amending the Law for Promoting Private Education of the PRC” for further details.

In addition, we established a non-distributable reserve to manage the retained earnings from our on-campus canteens. Funds in the non-distributable reserve will not be distributed to the school sponsors. As of 31 August 2016, the total amount of funds transferred to the non-distributable reserve was RMB182.5 million. Please refer to “Business – Ancillary Services” for further details.

As a holding company, our Company’s ability to pay dividends and other cash distributions to our Shareholders depends solely on our ability to receive dividends and other distributions from Dongguan Ruixing or another PRC subsidiary. The amount of dividends and other distributions Dongguan Ruixing or another PRC subsidiary is able to pay to us depends on the amount of service fees paid to Dongguan Ruixing or another PRC subsidiary from our Consolidated Affiliated Entities pursuant to the Contractual Arrangements. Our PRC Legal Adviser advises us that Dongguan Ruixing’s or another PRC subsidiary’s right to receive the service fees from our Consolidated Affiliated Entities does not contravene any PRC laws and regulations. Our PRC Legal Adviser also advises 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. However, if the relevant PRC government authorities take a different view to our PRC Legal Adviser, such authorities may seek to confiscate any or all of the service fees that have been paid by our Consolidated Affiliated Entities to Dongguan Ruixing or another PRC subsidiary, including retrospectively, if, among other things, such service fees are viewed as being “reasonable returns” or “profits” taken by the school sponsors of these schools in violation of PRC laws and regulations. The relevant PRC authorities may also seek to stop student enrolments at our schools or, in a worse situation, revoke the operation permits of these schools. As a result, our business, our financial position and the market price of our Shares may be materially and adversely affected.

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We may lose the ability to use and enjoy certain important assets, which could reduce the size of our operations, impair our ability to generate revenue and materially affect the market price of our Shares, if any of our Consolidated Affiliated Entities becomes the subject of a bankruptcy or liquidation proceeding.

We currently conduct the majority of our operations in China through the Contractual Arrangements. As part of these arrangements, our Consolidated Affiliated Entities hold a majority of the assets that are important to the operation of our business, including operating permits and licenses, real estate leases, buildings and other educational facilities related to the schools. Under the Contractual Arrangements, Ms. Li and Mr. SP Liu may not unilaterally, without our consent, decide to voluntarily liquidate our Consolidated Affiliated Entities.

If any of these entities goes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition, results of operations and price of our Shares. If any of our Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business.

Moreover, the Decision (which was approved by the Standing Committee of the National People’s Congress on 7 November 2016 and will become effective on 1 September 2017) sets out certain specific requirements and restrictions with respect to the disposition of assets by private not-for-profit schools upon liquidation. All our schools are currently not-for-profit schools. Please see “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” below for further details.

Our exercise of the option to acquire the equity interests of our Consolidated Affiliated Entities may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

Under the Sino-Foreign Regulation, foreign investors of Sino-foreign joint venture schools must be foreign educational institutions. According to the Sino-Foreign Regulation, such foreign investors must be foreign institutions with relevant qualifications and experience in a foreign country (the “**Qualification Requirement**”). As part of our efforts to meet the Qualification Requirement, we entered into a memorandum of understanding with Dewey College on 10 February 2016 with respect to the parties’ proposed cooperation in setting up a private school in Ontario, Canada, as well as other proposed cooperation in international education. As at the Latest Practicable Date, we had established a subsidiary in Canada, which is a joint venture company with Dewey International Holdings Limited for the potential development of the new school in Canada. If the restrictions on the percentage of foreign ownership in high schools and the prohibition on foreign ownership in primary and middle schools are lifted, we may be unable to unwind the Contractual Arrangements before we are in a position to comply with the Qualification Requirement, or if we attempt to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirement we may be ineligible to operate the schools and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition and results of operations.

Furthermore, our exercise of the option to acquire the equity ownership of our Consolidated Affiliated Entities may incur substantial costs on our part. Pursuant to our Contractual Arrangements, Dongguan Ruixing has the exclusive right to require the shareholders of our Consolidated Affiliated Entities to transfer any or all of the equity interests in our Consolidated Affiliated Entities to Dongguan Ruixing and/or its designated third party, at any time and at the lowest price permitted under PRC laws and regulations at the time of transfer. If the relevant PRC authorities determine that the purchase price for acquiring our Consolidated Affiliated Entities is below the market value, they may require Dongguan Ruixing to pay EIT for ownership transfer income with reference to the market value. The amount of the tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

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RISKS RELATING 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

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, which will become effective on 1 September 2017. According to the Decision, private schools can be established 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 and the Decision no longer makes the distinction between schools the school sponsor of which requires reasonable returns and those which do not require reasonable returns. Under the Decision, school sponsors of for-profit schools may obtain operating profits while school sponsors of not-for-profit schools cannot obtain operating profits. For details of the amendments pursuant to the Decision, including the major differences between not-for-profit schools and for-profit schools, please refer to “Regulations – Regulations on Private Education in the PRC – The Decision on Amending the Law for Promoting Private Education of the PRC” and “Business – The Decision on Amending the Law for Promoting Private Education of the PRC” of this document.

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. Such uncertainties include:

- ***Uncertainties with respect to the change of status of the schools into for-profit schools***

According to the Decision, where schools established before the promulgation of the Decision choose to be for-profit schools, they shall carry out property liquidation, identify property ownership in accordance with the applicable PRC laws, pay the relevant taxes and duties and re-apply for registration, before such schools continue with their operations. The Decision does not specify that our schools (which are all currently not-for-profit schools) have to notify any authority of their status as not-for-profit entities or for-profit entities within a prescribed time period upon the Decision becomes effective. The Decision is silent on the specific measures with respect to how existing schools can change their status to for-profit schools, which, according to the Decision, shall be regulated by the corresponding laws and regulations promulgated by local government authorities. It is also unclear how existing schools that choose to become for-profit schools will be required to pay additional taxes during the transition process.

Based on the reasons set out above and given that the implementation regulations have not been promulgated, 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. As advised by our PRC Legal Adviser, the above 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. 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. There is no assurance that the relevant PRC government authorities will not take a view different from our view or the view of our PRC Legal Adviser. Further, there is no assurance as to whether, when and how we will be required to notify the relevant authorities to confirm our status as not-for-profit schools or, in respect of our high schools, change such status by a stipulated deadline or if so, whether we will be able to change so as required or at all without adversely affecting operations. If any of our high schools is changed or otherwise required to be changed into a for-profit school, we may have to pay additional tax and undergo re-registration or financial settlement. We cannot assure you that we will be obtain and complete, as the case may be, all necessary approvals, filings,

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re-registration and other procedures in connection therewith as contemplated or at all, which may materially and adversely affect our schools’ operation and may materially and adversely affect our business, financial condition, results of operations and market price of our Shares.

- ***Uncertainties with respect to liquidation***

The prevailing PRC laws do not specify the distribution of the remaining assets of private schools upon their liquidation. However, according to the Decision, upon liquidation of private for-profit schools, school sponsors can obtain the schools’ remaining assets after the settlement of the schools’ indebtedness. The Decision also states that upon liquidation of private not-for-profit schools which are established before the promulgation of the Decision, the school sponsors of which can apply for compensation or awards from the school’s remaining assets after the settlement of the school’s indebtedness and the rest of the school’s remaining assets shall be used for the operation of other not-for-profit schools. The Decision is silent on how or by whom the aforesaid rest of the remaining assets of a liquidated not-for-profit school shall be dominated or disposed of. Accordingly, once the Decision becomes effective, we may not be able to transfer all or part of the remaining assets and residual interests of our schools (which are all currently not-for-profit schools) to Dongguan Ruixing or another PRC subsidiary upon their liquidation. As a result, our business, our financial position and the market price of our Shares may be materially and adversely affected.

- ***Uncertainties with respect to school fees***

According to the Decision, the fees charged by private schools shall be determined in accordance with costs and market demand. The level of fees charged by for-profit schools are determined by the schools at their discretion, while the level of fees charged by not-for-profit schools shall be regulated by the regulations or rules to be promulgated by the relevant local government authorities. The regulations or rules to be promulgated by the relevant local government authorities implementing the Decision may impose limits on the fees we charge at our schools (which are all currently not-for-profit schools) or prevent us from raising the tuition and boarding fees to our desired levels or at all. As the implementation regulations have not been promulgated, there is no certainty as to whether there will be any material adverse impact on the fees charged by not-for-profit schools generally or our schools. We may not be able to maintain our current tuition and board fees, and may not be able to raise any of such fees at our desired rates, times and places or at all in the future. As a result, our business, our financial position and the market price of our Shares may be materially and adversely affected.

- ***Uncertainties with respect to supporting measures***

According to the Decision, additional supportive measures will be provided for private schools. Not-for-profit schools will enjoy more supportive measures than for-profit schools, such as government subsidies, fund awards and incentive donations. Not-for-profit private schools will enjoy the same preferential tax treatments as public schools, while for-profit schools will not be expected to enjoy the same preferential tax treatments as public schools and not-for-profit private schools. The Decision does not specify whether and how existing schools that choose to become for-profit schools will be required to pay additional taxes during the transition process. As the relevant PRC tax laws have not been amended to distinguish between not-for-profit and for-profit schools, there is currently no certainty as to whether the tax treatments will change after the Decision becomes effective. According to the Decision, while land will be supplied to all private schools in accordance with applicable laws, not-for-profit private schools will enjoy the same treatment as public schools with respect to the supply of land, which will be supplied by the government through allocation or other means, and for-profit schools are not expected to enjoy the same treatment as public schools and not-for-profit schools. As the implementation regulations have not been promulgated, there is no certainty as to whether and how our schools will be able to be benefited from any of such additional supporting measures as contemplated or at all. We cannot assure you that the tax and other treatments contemplated under the Decision will not change or that they apply or continue to apply to our schools after the Decision becomes effective.

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Please also refer to “Risks Relating to our Contractual Arrangements – Our Consolidated Affiliated Entities may be subject to limitations on their ability to operate private education or make payments to related parties” above for our PRC Legal Adviser’s view on the implication of the Decision on the Contractual Arrangements and the associated risks. As a result of the uncertainties in connection with the Decision, there can be no assurance that our schools will remain as not-for-profit schools under subsequent interpretation and application of the Decision and implementation regulations in connection therewith, that we will not be materially and adversely affected by any conversion of certain of our schools into for-profit schools, or that the Decision and subsequent interpretation and application and implementation regulations in connection therewith will not materially and adversely affect our business, financial condition, results of operations and the market price of our Shares. Moreover, any speculation in the market with respect to such interpretation, application and implementation, whether or not they will be materialised as speculated or at all, may negatively affect the market price of our Shares.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our business depends on our ability to maintain or raise the tuition and boarding fee levels we charge at our schools.

We derive the majority of our revenue from tuition fees and boarding fees. For the years ended 31 August 2014, 2015 and 2016, revenue from tuition fees and boarding fees represented 78.0%, 77.8% and 78.5% of our total revenue, respectively. We determine the tuition and boarding fee rate for each of our schools primarily based on the demand for our educational programmes, the cost of operations of the school, the tuition fees charged by our competitors, our pricing strategy, the economic conditions of the city or area in which the school is located and the general economic conditions in China. Moreover, the Decision (which was approved by the Standing Committee of the National People’s Congress on 7 November 2016 and will become effective on 1 September 2017) sets out certain specific requirements with respect to the level of fees charged by not-for-profit schools. All our schools are currently not-for-profit schools. Please see “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” above for further details. Therefore, we may not be able to maintain our current tuition and boarding fees, and may not be able to raise any of such fees for our schools at our desired rates, times and places or at all in the future.

Even if we are able to maintain or raise our tuition and boarding fee levels, we may fail to attract sufficient prospective students to apply for our schools at those levels. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We generate all of our revenue from a limited number of cities in China and from a limited number of schools.

During the Track Record Period, we operated in three cities in China, namely, Dongguan, Huizhou and Panjin. Dongguan and Huizhou are located in Guangdong province and Panjin is located in Liaoning province. Dongguan is particularly important to our overall business as it is the home of three of our schools, two of which were the largest schools in our school network in terms of number of students enrolled as of 1 September 2015 and 1 September 2016. For the years ended 31 August 2014, 2015 and 2016, we generated 99.4%, 94.4% and 88.9%, respectively, of our revenue from our three schools in Dongguan. We expect that we will continue to generate the majority of our revenue from the three schools in Dongguan for the foreseeable future and our schools in Huizhou and Panjin will generate an increasing portion of our revenue. In addition, four of our schools are located in Guangdong province. For the years ended 31 August 2014, 2015 and 2016, we generated substantially all of our revenue from our schools in Guangdong province.

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Consequently, we are highly susceptible to factors adversely affecting the PRC private education industry, or us, in any of the limited geographic areas in which our schools are located. If Guangdong province or any of the cities in which we operate, especially Dongguan, experiences an event that materially and adversely affects its education industry or us, such as an economic downturn, a natural disaster or an outbreak of a contagious disease, or if any governmental authorities governing Guangdong province or any of the cities in which we operate, especially Dongguan, adopt regulations that place additional restrictions or burdens on us or on the education industry in general, our business, financial condition and results of operations may be materially and adversely affected. In addition, if any of our schools, especially our Dongguan Guangming School, Dongguan Guangzheng Preparatory School and Dongguan Guangming Primary School, experiences an event that materially and adversely affects its student enrolment, tuition, school operations or reputation in general, our business, financial condition and results of operations may be materially and adversely affected.

Our business depends on the market recognition of our brand and reputation that we may not be able to maintain.

The success of our business has depended and will continue to depend on our brand and reputation. Our brand and reputation may be affected by a number of factors, including student and parent satisfaction rates, teaching quality, academic performance of students, university admission rates, campus accidents, scandals involving our schools, negative publicity and failure to pass governmental inspections. Some of these factors are beyond our control. In addition, as we continue to grow in size, expand our programmes and extend our geographic reach, it may become difficult to maintain quality and consistency in the services we offer, which may lead to diminishing confidence in our brand name and negatively affect our reputation. If our brand or reputation is damaged or negatively affected, students’ and parents’ interest in our schools may decrease and our business, financial condition and results of operations could be materially and adversely affected.

We have developed our student base primarily through word-of-mouth referrals, advertisements, public promotion events, trial classes and feeder school visits. However, we cannot assure you that our marketing efforts will be successful or sufficient in further promoting our brand and reputation to help us maintain or increase student enrolment. Moreover, there can be no assurance that our brand and reputation will hold sufficient market recognition in the geographic areas where we plan to establish new schools. If we are unable to further enhance the market recognition of our brand and reputation, or if we are required to incur excessive marketing expenses to promote our brand and reputation, our business, financial condition and results of operations may be materially and adversely affected.

We may fail to continue to attract and retain students in our schools.

The success of our business depends on the number of students enrolled in our current schools and in any new schools we may establish or acquire in the future, as well as on the amount of tuition our students and parents are willing to pay. Our ability to attract and retain students depend on several factors, including our ability to:

- enhance existing programmes to respond to market changes and the demands of students and parents;
- develop new programmes or schools that appeal to students;
- maintain and improve our reputation for providing high quality primary, middle and high school education;
- maintain and improve the academic and non-academic performance of our students;
- recruit and retain qualified teachers;

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- manage our growth while maintaining the consistency of our teaching quality;
- expand our geographic reach;
- effectively market our schools and programmes to prospective students; and
- respond to the increasing competition in the market.

In addition, local and provincial government authorities may impose restrictions on the number of students we can recruit or the areas in which we can recruit students. As of 1 September 2015, the number of students enrolled at each of our Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School exceeded the student admission limit set by Dongguan Education Bureau for each school when the school first commenced operations (the “**initial limit**”). We have applied for written approval by Dongguan Education Bureau to increase the initial limit for our Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School. However, we cannot assure you that we will obtain such written approval or that we will not be subject to penalties for exceeding the initial limit. As of the Latest Practicable Date, no fines or other penalties had been imposed on us for exceeding the initial limit. We have engaged our PRC Legal Adviser to conduct an interview with Dongguan Education Bureau, being the competent government authority supervising student enrolment matters in Dongguan, which confirmed that although the initial limit is exceeded, the number of students admitted by our Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School each year are in compliance with the annual student recruitment quota granted by Dongguan Education Bureau (the “**annual quota**”). During the Track Record Period, we did not encounter any issues with registering students enrolled at our Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School with Dongguan Education Bureau. Based on the interview and taking into account the advice from our PRC Legal Adviser, our Directors believe that exceeding the initial limit does not have a material impact on our Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School or our Group as a whole. However, according to our interview with, and the Working Plan for Regulating Significant Over-enrolment in Private Schools (關於整治民辦學校嚴重超規模辦學的工作方案) issued by, Dongguan Education Bureau, the bureau will gradually limit the annual quota granted to each school to maintain appropriate student body size and class size of the schools in Dongguan. As a result, we may not be able to obtain the annual quota necessary to maintain or increase student enrolment at our Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School in the future. If we fail to obtain the approval to increase the initial limit and if the relevant government authority reduces or does not increase our annual quota for student recruitment, our ability to maintain or increase student enrolment at our Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School may be substantially limited, and our business, financial condition and results of operations may be materially and adversely affected.

Our students’ academic performance may fall and satisfaction with our educational services may otherwise decline.

Our students’ academic performance may be affected by various factors, including teaching method and materials, personal efforts, learning environment, pressure and family influence, some of which may be beyond our control. If their academic performance fall or do not improve as expected, our students may be unable to achieve the test scores necessary for their desired university, high school or middle school admissions and satisfaction with our educational services may decline. Satisfaction with our educational services may also decline due to negative publicity on our schools, Directors or management, lack of qualified teachers, unsatisfactory learning environment or other factors, which may result in, among others, a decrease in word-of-mouth referrals and reputation, students’ withdrawal from our schools and decreased application for our schools. If our student retention rate decreases substantially or if we otherwise fail to continue to attract and admit students due to decreased students’ or parents’ satisfaction with our educational services, our business, financial condition and results of operations may be materially and adversely affected.

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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.

The education sector in China is rapidly evolving, highly fragmented and competitive and we expect competition in this sector to persist and intensify. In each geographic market in which we operate our schools, we compete with public schools and other private schools that offer primary, middle and high school education. We compete with these schools across a range of factors, including programme and curriculum offerings, tuition level, school location and premises, qualified teachers and other key personnel.

Our competitors that are private schools may offer similar or superior educational programmes, with different pricing and service packages that are more appealing than those offered at our schools. Some of our competitors that are private schools may have more resources than us and may be able to devote greater resources than we can to the development and promotion of their schools and respond more quickly than we can to changes in student demands, testing materials, admissions standards, market needs or new technology. In November 2016, the Standing Committee of the National People’s Congress approved the Decision on Amending the Law for Promoting Private Education, which will become effective in September 2017 and allows private schools that provide non-compulsory education to register as for-profit entities and, if registered as such, to make their own decisions on tuition levels. Such regulatory change may attract more private school players in non-compulsory education and further increase competition in the education industry once adopted.

Our competitors that are public schools may have access to resources that may not be available to private schools and may be able to offer quality educational programmes at lower prices than our schools. According to the Frost & Sullivan Report, tuition fees charged by public schools are generally lower than tuition fees charged by private schools, especially premium private schools. In addition, the PRC public education system continues to improve in terms of resources, admission policies and teaching quality and approaches. If public schools relax their admission limitations, offer more diversified curriculum, upgrade their campus facilities or reforms the exam-oriented education approach, they may become more attractive to students, which may lead to increased competition in the education industry.

As a result, we may be required to reduce tuition or increase spending in order to retain or attract students or pursue new market opportunities. If we are unable to successfully retain and attract students, maintain or increase our tuition level, recruit and retain qualified teachers or other key personnel, enhance the quality of our educational services or control competition costs, our business, financial condition and results of operations may be materially and adversely affected.

Our business depends on our ability to recruit and retain qualified and committed teachers and other school personnel.

We rely substantially on our teachers for the provision of educational services to our students. Our teachers are critical to maintaining the quality of our programmes and upholding our brand and reputation. As of 1 September 2015, we had a team of 1,666 teachers, including 415 high school teachers, 645 middle school teachers, 568 primary school teachers and 38 teachers for the international programmes. We must continue to attract qualified teachers who are committed to teaching and loyal to our schools. We face competition from public schools, other private education providers and other institutions for high quality candidates and may have to incur additional costs for our recruitment efforts. We may not be able to recruit enough teachers to keep pace with the growth of our student enrolment while maintaining consistent teaching quality and the overall quality of our education programmes across different schools. In addition, criteria such as dedication, capability and loyalty are difficult to ascertain during the recruitment process and we may fail to identify and select the desired candidates.

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Furthermore, we may be unable to retain high quality teachers or have to incur significant expenditures for our retention efforts. For the 2013/2014, 2014/2015 and 2015/2016 school years, 14.5%, 9.7% and 12.5% of our teachers voluntarily resigned from our schools. Teachers may be dissatisfied with their workload, compensation, benefits, career path or working environment, which may disrupt our school operations and teaching activities, adversely affect our reputation and damage our ability to attract and retain teachers and students. In March 2015, some high school teachers of Dongguan Guangming School gathered to express dissatisfaction with respect to their compensation package and certain classes at the school were affected. Management of our Dongguan Guangming School met with the teacher representatives on the same day and the school resumed normal operations on the next day. We increased the compensation package of teachers in Dongguan Guangming School and Dongguan Guangming Primary School starting from March 2015 and made an aggregate payment of RMB10.5 million to 660 teachers in Dongguan Guangming School and Dongguan Guangming Primary School in June 2015. The incident was widely reported (whether accurately or not) by the media and we cannot assure you that similar incidents will not happen in the future.

Similarly, other school personnel such as administrators, counsellors and financial staff also play an important role in the efficient and smooth running of our schools. There is no guarantee that we can recruit and retain quality personnel to perform these functions in the future without incurring significant costs or at all. If we are unable to recruit and retain qualified and committed teachers and other school personnel at reasonable costs or at all, or if there is a significant decrease in teaching quality or educational experiences in our schools due to lack of qualified teachers or other school personnel, or if our teachers or other school personnel take disruptive actions to express their dissatisfaction with our schools or our Group, our business, financial condition and results of operations may be materially and adversely affected.

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.

We are required to obtain and maintain various approvals, licenses and permits and fulfil registration and filing requirements in order to operate our schools and provide educational and other services to our students. For instance, we are required to obtain and/or renew a private school operation permit, obtain and/or renew a registration certificate for private non-enterprise entities, pass annual inspections conducted by the relevant government authorities, obtain a tax registration certificate, obtain approval from the relevant government authorities as to the scale and scope of our student recruitment activities and obtain approval for cooperating with the other parties in the operation of international programmes at our schools.

While we intend to obtain all requisite approvals, licenses and permits, and complete the necessary filings, renewals and registrations on a timely basis for our schools, there is no assurance that our efforts will result in full compliance as there may be factors beyond our control, intention and anticipation, and the local PRC authorities may have significant discretion in interpreting, implementing and enforcing the relevant rules and regulations. We have failed to maintain the requisite approvals, licenses or permits in the past. For instance, our Dongguan Guangming School and Dongguan Guangzheng Preparatory School did not pass the 2014/2015 school year inspection conducted by Dongguan Education Bureau. We cannot assure you that such incidents will not happen in the future or that our remedial measures are or would be appropriate, timely and effective. If we fail to obtain or renew the required approvals, licenses or permits in a timely manner or at all, we may be subject to fines, confiscation of the gains derived from our schools, suspension of some or all of our school operations, be required to compensate the economic losses suffered by our students or other relevant parties, or be subject to other penalties or administrative actions, which may materially and adversely affect our business, financial condition and results of operations.

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In addition, our Dongguan Guangzheng Preparatory School has not yet obtained the written approval from the relevant education authority for operating its international programmes. Although Dongguan Education Bureau, being the competent government authority regulating the international programmes, acknowledged the international programmes operated by our Dongguan Guangzheng Preparatory School during its interview with our PRC Legal Adviser on 17 May 2016, we cannot assure you that the education authority will not change its position or policies with regard to the international programmes at Dongguan Guangzheng Preparatory School. Furthermore, we have not obtained written approval from the relevant government authorities for the fees charged at the international programmes of Dongguan Guangming School and Dongguan Guangzheng Preparatory School. Although the price administration office of Dongguan Development and Reform Bureau, being the competent government authority regulating the pricing practices of private schools, acknowledged such pricing practice and confirmed that our schools are allowed to determine the fee standards of the international programmes by themselves during an interview with our PRC Legal Adviser on 17 May 2016, we cannot assure you that the competent government authority will not change its position or policies regarding the fees charged by our international programmes. 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 aforesaid issues, nor had our Dongguan Guangming School or Dongguan Guangzheng Preparatory School been required to rectify the aforesaid issues. If the relevant government authorities change their position or policies with respect to the aforesaid issues, we may be subject to fines, confiscation of the gains derived from our international programmes, suspension of our international programmes and/or be required to compensate economic losses suffered by our students or other relevant parties, or be subject to other penalties or administrative actions, which may materially and adversely affect our business, financial condition and results of operations.

We may lose government support or fail to partner with the relevant local government authorities for the establishment and operations of our schools.

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 also intend to apply for support from the relevant government authorities in the markets into which we seek to penetrate. However, we cannot assure you that the government authorities will continue to support our existing schools or that we will be able to obtain the support from the government authorities with which we intend to cooperate for the establishment of our new schools. The government authorities may decide not to support our schools or cooperate with us in the future due to various reasons, many of which may be beyond our control. If we lose government support for our existing schools or are unable to find government authorities that are willing to cooperate with us for the establishment of our new schools, we may lose access to certain resources, incur significant costs or have to change the target location for our new schools, and our business, financial condition and results of operations may be materially and adversely affected.

We may be adversely affected by negative publicity concerning our schools, our Group, our Controlling Shareholders, our Directors or our employees.

Any negative publicity concerning our schools, our Group, our Controlling Shareholders, our Directors, our employees or any of them, even if untrue, could adversely affect our reputation, business, growth prospect and our ability to recruit qualified teachers and staff. There has been negative publicity about our schools or our Group in the past, such as our schools’ failure to pass annual inspections, labour disputes with our teachers and staff, complaints about our student recruitment and fee collection activities, alleged theft in our dormitories, lawsuits with respect to the construction of our schools and our schools’ alleged involvement in activities unrelated to educational services. Our schools and our Group may be subject to additional negative publicity in the future, which, even if untrue, may damage our brand image and reputation, deter prospective

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students and teachers and take up excessive time of our management and other resources. In addition, there has been and may be, from time to time, negative publicity concerning our Directors or Controlling Shareholders, which, whilst not necessarily related to our Group or our business, may negatively affect our reputation. As a result, our business, financial condition and results of operations may be materially and adversely affected.

The non-distributable reserve we established may not be a sufficient or appropriate measure for the operation of on-campus canteens.

Under the relevant PRC laws and regulations, on-campus canteens in principle must be operated on a not-for-profit basis. However, the principle of “not-for-profit” is not defined in any PRC laws and regulations. We conducted consultation with the relevant educational 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 from our on-campus canteens, which may be applied to the continuous operation and improvement of the relevant on-campus canteens. Our PRC Legal Adviser is of the view that, the principle of “not-for-profit” is met if the school sponsors and operators of a school do not derive a profit from the operations of the on-campus canteens. During the Track Record Period, none of our schools had distributed any retained earnings (including any retained earnings from the on-campus canteens) to our school sponsors, none of the retained earnings from our on-campus canteens had been provided to our school sponsors as returns and the school sponsors and operators of our schools did not derive or intend to receive a profit from the operations of our on-campus canteens. Accordingly, our PRC Legal Adviser is of the view that, our operation of the on-campus canteens does not violate the aforesaid “not-for-profit” principle and is consistent with the legal principle stated in the General Principles of the Civil Law of the People’s Republic of China (Draft), promulgated by the Standing Committee of the National People’s Congress of the People’s Republic of China on 5 July 2016, which provides that “not-for-profit legal entities shall not distribute profits to its members or sponsors” and the principle stated in the third Draft of the General Principles of the Civil Law published on 27 December 2016, which provides that “an entity established for the purpose of public interest or for other not-for-profit purposes and not distributing profits to its investor or establisher shall be a not-for-profit entity”. To better manage the retained earnings from our on-campus canteens going forward, we have voluntarily established a non-distributable reserve and have transferred all the retained earnings of our on-campus canteens since the operation thereof into such reserve. As of 31 August 2016, all such retained earnings in the amount of RMB182.5 million had been transferred to the aforesaid non-distributable reserve. Funds in the non-distributable reserve may be used for continuous operation and improvement of the relevant on-campus canteens and other purposes permitted by PRC laws, and are not distributable to the school sponsors. Our PRC Legal Adviser is of the view that, the establishment of the non-distributable reserve and the transfer of such balance to the reserve to be applied to 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 “not-for-profit” principle. During the Track Record Period, capital expenditure on certain improvement work of our on-campus canteens was funded by such retained earnings. Please refer to “Business – Ancillary Services” for further details. However, the relevant PRC laws may change and the relevant government authorities may have different interpretations and the establishment of a non-distributable reserve or any of our additional measures may not be sufficient or appropriate for the operation of our on-campus canteens. We therefore may be subject to penalties or other administrative action and may not be able to identify an effective alternative measure in time or at all. In addition, if the relevant PRC laws and regulations change or the relevant government authorities’ interpretation of the “not-for-profit” principle changes, we may not be allowed to operate the on-campus canteens in a manner that the canteens are currently being operated or at all. Furthermore, we have placed a considerable amount of retained earnings into the non-distributable reserve (namely RMB182.5 million as of 31 August 2016) and our ability to distribute or deploy the funds in the reserve for purposes other than the aforementioned will be limited. Please refer to the Accountants’ Report set out in Appendix I to this document for further details in relation to the balance of the non-distributable reserve. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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We used personal bank accounts for the settlement of corporate funds, which may subject us to penalties.

During the Track Record Period, we used nine personal bank accounts to facilitate certain operations of Guangdong Guangzheng, Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School and Panjin Guangzheng Preparatory School. Seven of the personal bank accounts we used were registered under the name of Ms. Li, our chief executive officer, executive Director and Controlling Shareholder, one was registered under the name of Mr. Liu, chairman of the Board, executive Director and Controlling Shareholder and one was registered under the name of Mr. He Shan, our senior management and executive vice principal of Panjin Guangzheng Preparatory School. Our PRC Legal Adviser has advised us that the use of the personal bank accounts for the settlement of corporate funds was not in compliance with the relevant PRC laws and regulations and that we may be subject to penalties, 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 1 June 2016, we had ceased the use of all personal bank accounts for the settlement of corporate funds. Please refer to “Business – Settlement through Personal Bank Accounts” for further details. 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 personal bank accounts to settle corporate funds. However, we cannot assure you that we will not be subject to fines or other penalties due to our prior use of the personal bank accounts for the settlement of corporate funds, which may materially and adversely affect our business, financial condition and results of operations.

Our business depends on our ability to promptly and adequately respond to changes in admission requirements for higher-level education, testing materials and technologies.

In order to further their education, our high school graduates need to sit for the college level admissions and assessment tests administered by educational authorities in China or relevant educational institutions overseas, depending on where our students choose to apply for university education. Our middle and primary school students are subject to PRC high school and middle school entrance exams, as applicable. The admission scores for the various universities, high schools or middle schools in China usually change from year to year and so do the admission requirements for overseas universities. Testing materials may also change in terms of focus areas, format and the manner in which such tests are administered. In addition, some admission tests may be conducted in a computer-based format, which requires certain level of computer proficiency by test takers. These changes require us to continually update and enhance the courses we offer and to continually train our students to take standardized tests so as to maximize their performance on these tests. If we fail to adequately prepare our students for admission tests in our everyday classroom teaching and any test preparation courses we offer, our students’ admissions rates to PRC and overseas universities, PRC high schools and PRC middle schools, as applicable, may decrease and our programmes and services may become less attractive to students. Furthermore, if we fail to timely develop and introduce new education services and programmes in our schools based on the changing education standards in China and abroad, our ability to attract and retain students may decrease. As a result, our reputation, business, financial condition and results of operations may be materially and adversely affected.

We may fail to manage our growth effectively.

We have experienced steady growth in the number of students, which has placed significant pressure on our management and resources. As of 1 September 2013, 2014, 2015 and 2016, the total number of students enrolled in our schools was approximately 19,354, 22,837, 27,644 and 31,788, respectively. We expect the student enrolment in all of our schools to continue to increase. We also plan to expand our operations by establishing new schools in China and overseas. The increase in student enrolment and our expansion plan may result in substantially higher demands for resources

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such as teachers, staff and facilities, make it more difficult for us to maintain the teaching quality and learning environments of our schools and require our management to devote significantly more time and resources to manage our operations. To support our growth, we may also need to incur significant expenditures for, among other things, management and staff recruitment, facilities maintenance and expansion and the construction and operation of new schools. If we fail to manage our growth and expansion effectively, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to successfully execute our growth strategies.

Our growth strategies include increasing student enrolment in our existing schools, establishing more schools in the Pearl River Delta economic zone in Guangdong province, expanding our school network to the other major economic zones and other regions in China, and the development of new schools overseas. We intend to expand our school network through constructing new schools by ourselves, partnering with local schools or other third parties, or acquiring existing schools. Please refer to “Business – Development of New Schools” of this document for further details about our new school development plans. We may not succeed in executing our growth strategies due to a number of factors, including the following:

- we may not be able to admit all qualified students who would like to enrol in our schools due to the capacity constraints of our school facilities;
- we may fail to identify cities with sufficient growth potential in which to establish new schools;
- we may fail to effectively execute our expansion plans as contemplated;
- we may fail to acquire or lease suitable land sites in the cities to which we plan to expand our operations;
- we may lose government support or fail to partner with local governments in cities where we already have schools or in cities to which we plan to expand our operation;
- we may fail to effectively market our schools or brand in new markets or promote ourselves in existing markets;
- we may not be able to replicate our successful growth model in new markets;
- we may not be able to effectively integrate any future acquisitions into our education system;
- we may fail to obtain the requisite licences and permits from the authorities necessary to open new schools at our desired locations;
- we may not be able to continue to enhance our course materials or adapt our course materials to changing student needs and teaching methods;
- we may fail to follow the expected timetable with respect to the development of new schools; and
- we may fail to achieve the benefits we expect from our expansion.

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In particular, as part of our growth strategies and our efforts to meet the Qualification Requirement, we entered into a memorandum of understanding with Dewey College in February 2016 with respect to the parties’ potential cooperation in setting up a private school in Ontario, Canada. As at the Latest Practicable Date, we had established a subsidiary in Canada, which is a joint venture company with Dewey International Holdings Limited for the potential investment and development of a new school in Canada. Please refer to “Business – Development of New Schools” for further details. However, in addition to the various factors mentioned above, we have not established or operated any schools outside of China before and may lack the relevant experience or expertise for implementing our business plan for the development of a new school in Canada and for providing the other proposed educational services. If we fail to successfully execute our growth strategies, we may not be able to maintain our growth rate and our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to successfully establish new schools pursuant to our proposed timeline or at all.

We intend to continue to expand our school network by establishing new schools in China and overseas. Our new school in Weifang, Shandong province commenced operations in September 2016. We have also 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, 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. In addition, we 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, but had not entered into any agreement with the local government authorities. Furthermore, we plan to cooperate with Dewey College in establishing a new school in Canada. Please refer to “Business – Development of New Schools” for further details about the development of our new schools. Successful establishment of a new school depends on various factors, including obtaining financing, completing the construction of school campus and buildings, receiving government approvals, licences and permits, recruitment of qualified teachers and staff and recruitment of students, many of which are out of our control. We may be unable to establish new schools according to our proposed timeline or at all if we encounter difficulties with any of the factors affecting the establishment of a new school and our business, financial condition and results of operations may be materially and adversely affected.

We may expand our school network through acquisition and may not be able to successfully integrate businesses that we acquire.

We may expand our school network through acquisition of additional schools. We have limited experience in acquiring schools and believe we face challenges in integrating business operations and management philosophies of acquired schools. The benefits of our future acquisitions depend in significant part on our ability to effectively and timely integrate management, operations, technology and personnel. The integration of acquired schools is a complex, time-consuming and expensive process that, without proper planning and implementation, could significantly disrupt our business and operations and reputation. The main challenges involved in integrating acquired entities include the following:

- ability to find suitable targets;
- retaining qualified teaching staff of any acquired school;
- consolidating educational services and implementing our educational philosophy and curriculum;
- integrating information technology platforms and administrative infrastructure;

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- ensuring and demonstrating to our students and their parents that the new acquisitions will not result in any adverse changes to our established brand image, reputation, service quality or standards; and
- minimizing the diversion of our management’s attention from on-going business concerns.

We may not successfully integrate our operations and the operations of the schools we acquire in a timely manner, or at all, and we may not realize the anticipated benefits or synergies of the acquisitions to the extent, or in the timeframe, we anticipated. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may be affected by changes in our target customer group’s preferences towards primary, middle and high school education.

We have designed our educational programmes, engaged teachers and staff and constructed our school facilities primarily to serve the demands for high-quality primary, middle and high school education by our target customer group, which is primarily the rapidly growing middle class in densely populated and economically developed cities in the PRC. As of 1 September 2016, 31,441 students enrolled in our PRC curriculum programmes. For the years ended 31 August 2014, 2015 and 2016, we derived almost all of our revenue from our PRC curriculum programmes. We believe the demands for private primary, middle and high school education by our target customer group will continue to grow and expect the revenue from our PRC curriculum programmes to continue to be the primary source of our revenue. However, our target customer group’s preferences for educational services may change. They may become less interested in PRC curriculum programmes and be more attracted to international programmes, international schools or other educational programmes such as vocational secondary education. As of the Latest Practicable Date, we did not operate international schools or offer vocational secondary education. We offer international programmes at two of our schools, which are limited in size. As of 1 September 2016, 347 students enrolled in our international programmes. If our target customer group’s interest in PRC curriculum programmes decreases, student enrolment in our schools’ PRC curriculum programmes may substantially decrease and we may need to lower our tuition fees to attract more students. In addition, our effort to enlarge our international programmes or to establish new international schools to adapt to the changes in the educational preferences of our target customer group may not succeed and we may have to incur significant expenses. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our cooperation with an Independent Third Party for the international programmes at our Dongguan Guangming School and our proposed cooperation with other Independent Third Parties may fail.

The international programmes at our Dongguan Guangming School were established through cooperation agreements between Dongguan Guangming School and an Independent Third Party. As of 1 September 2015, 85 students enrolled in the international programmes at Dongguan Guangming School. We may cooperate with other Independent Third Parties for the provision of international programmes or other educational services at our schools, or for the expansion of our school network in the PRC and overseas. For example, we entered into a memorandum of understanding on 10 February 2016 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 setting up a private school in Ontario, Canada, providing secondary and pre-university education, as well as other proposed cooperation in international education. As at the Latest Practicable Date, we had established a subsidiary in Canada, which is a joint venture company with Dewey International Holdings Limited for the potential development of the new school in Canada.

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If our cooperation agreements with the Independent Third Parties are terminated prior to their expiration date or are not renewed upon expiration, or we determine that the Independent Third Parties have become unsuitable to continue to be our cooperation partners, we may not be able to find appropriate alternatives in time or at all to continue our cooperation programmes or projects. In addition, in the event that we are unable to find appropriate cooperation partners or if our cooperation partners are unable to deliver the services we expect, we may be unable to successfully implement our business strategies. We have limited experience in cooperating with Independent Third Parties in offering international programmes or other educational services, or in establishing schools in overseas, and may fail to select the most appropriate cooperation partners or may be unsuccessful in cooperating with our partners.

Furthermore, we may not be able to fully control the quality of the educational services, such as the quality of teachers, course contents and teaching approaches, delivered by the Independent Third Parties. If students and parents complain about the educational quality of such cooperation programmes or schools, it may negatively affect our reputation and our ability to attract and retain students in our schools. Negative publicity involving the Independent Third Parties we cooperate with, whether relevant or irrelevant to our cooperation with such Independent Third Parties, may also negatively affect our reputation and deter prospective students from enrolling in our schools. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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.

For campuses and school facilities constructed and developed for our schools, we must obtain various permits, certificates and other approvals from the relevant authorities at various stages of property development, including the land use right certificates, planning permits, construction permits, certificates for passing environmental assessments, certificates for passing fire control assessments, certificates for passing construction completion inspections and building ownership certificates.

As of the Latest Practicable Date, we had not fully obtained all the requisite permits, certificates and approvals for the construction and development of our schools. As of 31 December 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. and owned 49 buildings and eight units with an aggregate gross floor area of approximately 535,914.7 sq.m. in the PRC. As of the Latest Practicable Date, we had not obtained the land use right certificates for seven parcels of land with a gross site area of approximately 24,192.0 sq.m., the building ownership certificates for 32 buildings with a gross floor area of 330,794.5 sq.m. and certain other requisite certificates or permits for the buildings for which we had not obtained the ownership certificates, including planning permits, construction permits, certificates for passing construction completion inspections, certificates for passing environmental assessments and certificates for passing fire control assessments. Please refer to “Business – Properties” and “Business – Legal Proceedings and Compliance” for further details. As a result, our rights to these parcels of land and buildings may be limited or challenged by the relevant government authorities or other third parties. We may also be subject to administrative fines or other penalties due to the lack of the requisite permits, certificates and approvals, which may materially and adversely affect our business operations, divert management attention and other resources and incur significant costs. In particular,

- for the properties that we have put into use without obtaining the land use right certificates, our rights to the land may be challenged by third parties;
- for the properties that we have put into use without obtaining the certificates for passing environmental assessments, we may be subject to a fine no more than RMB50,000 and/or temporary suspension of the usage of the relevant properties before the incident is rectified;

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- for the properties that we have put into use without obtaining the certificates for passing fire control assessments, we may be subject to a fine ranging between RMB30,000 to RMB300,000 and/or temporary suspension of the usage of the relevant properties before the incident is rectified;
- for the properties that we have put into use without obtaining the certificates for passing construction completion inspections, we may be subject to a fine ranging between 2% to 4% of the total price of the construction contract of the affected premises and/or temporary suspension of the usage of the affected premises before the incident is rectified; and
- for the properties that we have put into use or construction activities without obtaining the planning and construction certificates, we may be required to demolish the relevant buildings, be subject to fines of up to 10% and 2% of the construction costs of the buildings, respectively, or be subject temporary suspension of the usage of the buildings before we obtain the relevant certificates.

In the event that if we lose the rights to any of our land or buildings, our uses of such land or buildings may be limited, or we may be forced to relocate and incur additional costs, which may result in disruptions to our school operations and materially and adversely affect our business, financial condition and results of operations. In addition, we may in the future encounter problems in obtaining the relevant permits, certificates and approvals for the construction and development of our new schools, which may negatively affect our growth strategies. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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.

As of 31 December 2016, we leased one parcel of land and 17 buildings and units from Independent Third Parties for the operations of our schools. As of the Latest Practicable Date, the lessors of one parcel of land used by our Dongguan Guangming School with a total gross site area of approximately 2,398 sq.m., the lessors of 12 buildings used by our Dongguan Guangming School as student dormitories and staff apartments with a gross floor area of 63,008.2 sq.m., the lessors of two buildings used by our Dongguan Guangzheng Preparatory School as staff apartments with a gross floor area of approximately 10,902 sq.m., and the lessor of one unit used by our Yunfu Guangzheng Preparatory School as its registered address with a gross floor area of 104.5 sq.m. had been unable to provide us with valid title documents to the respective properties. Please refer to “Business – Properties” of this document for further details. As a result, the lessors may not have the right to lease the relevant properties to us and our leases may be challenged by actual property owners who may file claims against us, require us to relocate, or demand substantially higher rental for the properties. As of the Latest Practicable Date, we were not aware of any actual or contemplated actions, claims or investigations by any third party with respect to possible defects in our leased properties. If any of our leases were terminated as a result of challenges by third parties to the lessors’ rights, we may be forced to relocate and incur additional costs, which may result in disruptions to our school operations and materially and adversely affect our business, financial condition and results of operations.

In addition, we have not registered any of our lease agreements with relevant government authorities. Under relevant PRC laws and regulations, an executed lease must be registered and filed with the relevant government authority. According to our PRC Legal Adviser, although the lack of registration will not affect the validity and enforceability of the lease agreements, a fine ranging from RMB1,000 to RMB10,000 may be imposed on the parties to an unregistered lease.

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Furthermore, if any of our landlords terminates the existing lease agreements, refuses to continue to lease the premises to our schools when such lease agreements expire, or increase rent to the level not acceptable to us, we may be forced to relocate our student dormitories or apartments for our teachers and staff. We may not be able to find suitable premises for such relocation without incurring significant time and costs, or at all. If this occurs, our business, results of operations and financial condition could be materially and adversely affected.

The appraisal value of our properties may be different from their actual realizable values and are subject to uncertainty or change.

The property valuation report set out in Appendix III to this document with respect to the appraised value of our properties are based on various assumptions, which are subjective and uncertain in nature. The assumptions that DTZ Cushman & Wakefield Limited used in the property valuation report include: (i) the transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid and (ii) the Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted.

Certain of the assumptions used by DTZ Cushman & Wakefield Limited in reaching the appraised value of our properties may be inaccurate. Hence, the appraised value of our properties should not be taken as their actual realizable value or a forecast of their realizable value. Unexpected changes to our properties and to the national and local economic conditions may affect the value of these properties. You should not place undue reliance on such appraised value attributable to these properties by DTZ Cushman & Wakefield Limited.

Capacity constraints of our school facilities could cause us to lose students to our competitors.

The educational facilities of our schools are limited in space and size. We may not be able to admit all qualified students who would like to enrol in our schools due to the capacity constraints of our current school facilities. For example, the utilization rate, being the number of students enrolled at a school divided by the school's existing capacity for students, of our Dongguan Guangming School was 99.5%, 99.5%, 98.9% and 97.8% as of 1 September 2013, 2014, 2015 and 2016. In addition, we may not be able to expand our capacity at our current campuses unless we relocate to other facilities in the local area with more space. If we fail to expand our capacity as quickly as the demand for our services grows, or if we otherwise fail to grow by establishing or acquiring additional schools and campuses, we could lose potential students to our competitors, and our business, financial condition and results of operations may be materially and adversely affected.

Our historical financial and operating results may not be indicative of our future performance and our financial and operating results may be difficult to forecast.

Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the price of our Shares to decline. Our revenue, expenses and operating results may vary from year to year in response to a variety of factors beyond our control, including:

- our ability to increase student enrolment in our schools and raise tuitions fees;
- general economic conditions and regulations or government actions pertaining to the provision of private educational services in China;
- shifts in consumer attitude toward private primary, middle and high school education in China;
- our ability to control cost of revenue, in particular staff costs relating to teacher salaries and allowances and other costs; and

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- non-recurring charges incurred in connection with acquisitions or other extraordinary transactions or unexpected circumstances.

Further, we conditionally adopted the [REDACTED] Share Option Scheme on 3 January 2017, and we expect to recognise a material amount of expense in connection with the grant of share options under the [REDACTED] Share Option Scheme, which we anticipate will have a negative impact on the Group’s results of operations and financial condition for the financial year ending 31 August 2017. Due to these factors, we believe that year-to-year comparisons of our operating results may not be indicative of our future performance and you should not rely on them to predict the future performance of our Shares. Please refer to “Financial Information” of this document for further details.

Our financial statements during the Track Record Period may have been affected.

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. For each reporting period during the Track Record Period, we recognised imputed interest income on certain portion of such advances under IFRS. However, such imputed interest income is only a hypothetical income under IFRS and had no cash inflow during the Track Record Period. 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. 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. 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. 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]. Please refer to “Financial Information – Imputed Interest Income and Related Interest Expenses” for further details. As a result, our financial statements during the Track Record Period may have been affected.

We recorded net current liabilities as of 31 August 2014, 2015 and 2016 and 30 November 2016 and may record net current liabilities in the future.

As of 31 August 2014, 2015 and 2016 and 30 November 2016, we recorded net current liabilities of RMB683.2 million, RMB14.6 million, RMB457.6 million and RMB467.1 million, respectively. We recorded net current liabilities as of 31 August 2014, 2015 and 2016 and 30 November 2016 primarily because 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. For additional information on our net current liabilities position, please refer to “Financial Information – Current Assets and Current Liabilities” of this document. While all the amounts due to and from related parties which were non-trade in nature had been fully

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settled as at the Latest Practicable Date, we may continue to have net current liabilities in the future as our business expands. We cannot assure you that we will be able to obtain adequate financing to meet our future working capital requirements. In addition, we cannot assure you that we will be able to obtain additional working capital to execute our growth strategies, or that future expansion of our school network will not materially and adversely impact the current or future level of working capital.

Accidents or injuries suffered by our students, employees or other people at our schools may adversely affect our reputation and subject us to liability.

There are inherent risks of accidents or injuries in schools. We could be held liable in the event of personal injuries, disease, fires or other accidents suffered by students, employees or other people that occur at our schools. Although we designate certain staff members in each of our campuses to be in charge of student health and security, in the event of personal injuries, disease, food poisoning, fires or other accidents suffered by our students, employees or other people on our campuses, we may face claims for damages and our schools may be perceived unsafe by prospective parents and students. In 2014, a student fell from his dormitory building in Dongguan Guangming School. The school immediately called an ambulance to send him to the hospital, but the student died despite emergency treatment at the hospital. 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. The court dismissed all other claims of the plaintiffs and the plaintiffs appealed. In the appeal, the court upheld the ruling in November 2015, which constitutes the final and binding decision on the legal proceedings, and ruled that our school was not at fault in the incident and was under no liability to compensate the plaintiffs save for the aforesaid compensation. Please refer to “Business – Legal Proceedings and Compliance” for further details. In 2013, a student collapsed during a physical education course in Dongguan Guangming School. The school immediately called an ambulance to send him to the hospital, but the student died despite emergency treatments at the hospital. The court ruled that the school had no fault as to the incident but ordered us to pay damages in the amount of RMB150,000 to the student’s family since (i) the incident took place during an activity organized by the school and therefore there was a connection between the incident and the school and (ii) the death of the student caused significant harm to his family and considering the fairness principle, the school shall share the civil responsibilities with the student’s family. We cannot assure you that similar incidents will not happen in the future. Claims against us arising from injuries incurred or claimed to have incurred on our campuses may adversely affect our reputation, subject us to significant amounts of damages, divert management attention and other resources or increase our insurance costs. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may be involved in legal and other disputes and claims from time to time arising out of our operations.

We may, from time to time, be involved in disputes with and subject to claims by parents and students, teachers and other school personnel, our suppliers, construction companies, third-party sub-contractors and other parties involved in our business. For instance, in March 2015, an individual, who is an Independent Third Party, initiated court proceedings against us in relation to 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 interest. As of the Latest Practicable Date, the outcome of this legal proceeding had yet to be finalized. 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 the student should take full responsibility for the consequences of the incident, 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 as (i) the student was enrolled at our school and the incident took place at an on-campus student dormitory and (ii) the school is an educational institution and benefited from its educational activities. The court dismissed all other claims of the plaintiffs and the plaintiffs appealed. In the appeal, the court upheld the ruling in November 2015, which constitutes the final and binding decision on the legal

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proceedings, and ruled that our school was not at fault in the incident and was under no liability to compensate the plaintiffs save for the aforesaid compensation. Please refer to “Business – Legal Proceedings and Compliance” of this document for further details about the legal or other proceedings we are involved in. Legal or other proceedings involving us may, among others, incur significant costs, divert management’s attention and other resources, negatively affect our business operations, cause negative publicity against us or damage our reputation. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may lose the services of our executive Directors, senior management and other key personnel.

Our future success depends heavily upon the continuing services of our executive Directors and senior management team and in particular, our co-founders, Mr. Liu and Ms. Li, who have been our leaders since our inception. If one or more of our executive Directors, senior management or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for experienced executive Directors or management personnel in the private education sector is intense, the pool of qualified candidates is very limited and we may not be able to retain the services of our executive Directors or senior management or key personnel, or attract and retain high-quality executive Directors or senior executives or key personnel in the future. In addition, if any member of our executive Directors or senior management team or any other key personnel joins a competitor or forms a competing company, we may lose teachers, students and staff members. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Each of our executive officers and key employees has entered into an employment contract and certain executive officers and/or key employees have entered into confidentiality agreements with us. The employment contracts and confidentiality agreements are governed by PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions such as Hong Kong and uncertainties in the PRC legal system could limit our ability to enforce these agreements. For example, prior court decisions may be cited for reference but have limited precedential value in the PRC and the PRC arbitration tribunals and courts have significant discretion in interpreting, implementing or enforcing relevant PRC laws. It is thus difficult to predict the outcome of any arbitration awards or court proceedings or gauge the level of legal protection that such awards or proceedings may provide. Accordingly, if any disputes arise between any of our senior executives or key personnel and us, it may be difficult to enforce these agreements against these individuals. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. During the Track Record Period, we did not make full contributions to the social insurance plans and the housing provident fund for our employees as required according to the relevant PRC laws and regulations. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim from our current and former employees regarding our non-compliance in this regard. We estimate that the aggregate amount of social insurance payments and housing provident fund contributions that we did not make during the Track Record Period was RMB13.9 million, RMB16.5 million and RMB16.3 million, respectively, with respect to social insurance payments, and RMB6.1 million, RMB4.7 million and RMB3.2 million, respectively, with respect to housing provident fund contributions. Please refer to “Business – Legal Proceedings and

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Compliance” of this document for further details. Based on the interviews we conducted with and the written confirmations issued by the competent local human resources and social security bureaus and housing provident fund management centres in the cities where our schools are located, our PRC Legal Adviser has advised that, the possibility that any of the competent government authorities will initiate a request for payment or a penalty proceeding on its own solely based on the fact that we made partial social insurance payments and housing provident fund contributions is relatively remote. However, we cannot assure you that the relevant local government authorities will not require us to pay the outstanding amount within a prescribed time and impose late fees or fines on us, which may materially and adversely affect our business, financial condition and results of operations.

The tax provision we made may not be sufficient to cover the PRC taxes and/or penalties that the PRC tax authorities may require us to pay.

In preparation of [REDACTED], we identified that the tax filings of certain members of our Group were not complete and that certain past filings of those entities were not accurate, due to (i) ambiguities in the relevant PRC tax laws and regulations with respect to (a) private schools, school sponsors of which require reasonable returns; (b) the treatment of earnings generated from on-campus canteens; and (ii) our observation that, based on publicly available information, none of the schools operated by other PRC-based education companies listed on the Stock Exchange paid any EIT in the PRC. For details of the historical reasons and developments with respect to such incompleteness and inaccuracies in the historical tax filings of certain members of our Group, please see “Financial Information – Key Components of Our Results of Operations – Taxation” of this document.

We first became aware of the possible historical shortfall relating to the PRC EIT, business tax and VAT in the beginning of 2016 during the communications with our Reporting Accountants, which were engaged to conduct audit field work for us in connection with the preparation for the [REDACTED]. We then sought to gain a better understanding of the relevant tax regulations and practices, as well as such ambiguities, and engaged a tax consultant in April 2015 and in February 2016 to review our tax filings, with an aim to rectify and discharge any outstanding tax obligations. According to the tax consultant, we underpaid certain PRC taxes during the Track Record Period, including EIT, business tax and VAT. Based on the tax consultant’s advice, we have made tax provisions, including provisions for the historical shortfall of EIT, for the three financial years ended 31 August 2015 and the nine months ended 31 May 2016, in the amount of RMB88.2 million. In July and August 2016, our relevant PRC entities made re-filings with the relevant tax authorities and obtained tax clearance letters with respect to EIT, business tax and VAT payable for the calendar years 2013, 2014 and 2015. As of the Latest Practicable Date, such PRC entities had already paid the tax for the initial EIT filings of RMB12.5 million and tax shortfall for EIT of RMB29.8 million and VAT of RMB2.5 million for the aforesaid re-filings for the calendar years 2013, 2014 and 2015, and had also paid the late surcharge in the total amount of RMB4.8 million to the relevant tax authorities. Among the payment of tax shortfall for EIT of RMB29.8 million set out above, RMB6.5 million, RMB4.9 million and RMB18.4 million was paid in respect of calendar years 2013, 2014 and 2015, respectively. All of the payment of tax shortfall for VAT of RMB2.5 million set out above was paid in respect of the calendar year 2015. For the years ended 31 December 2014, 2015 and 2016, (i) our net profit before taxation amounted to RMB112.2 million, RMB212.3 million and RMB194.5 million, respectively; and (ii) our net profit after taxation amounted to RMB90.9 million, RMB182.3 million and RMB154.4 million, respectively.

We cannot assure you that the relevant tax authorities would not require us to pay any historical outstanding tax or otherwise any additional amount within a prescribed period and/or impose late payment surcharge, fines and/or other penalties on us in respect of any calendar years, the total amount of which may exceed our provision. Our PRC Legal Adviser has advised that, for failure to fully pay PRC taxes, the relevant tax authorities may impose late payment surcharge and fines ranging between 50% to five times of the tax in arrears, and may also require the payment of the outstanding amount within a prescribed period. While our Controlling Shareholders have agreed to indemnify our Group pursuant to the Deed of Indemnity for, among other things, any historical outstanding tax, additional amount, late payment surcharge, fines and other penalties in relation to

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tax that may be imposed on us, there is no assurance that this would be able to indemnify us against all losses and liabilities in connection therewith effectively. If we were required to pay any historical outstanding tax, additional amounts, late payment surcharge, fines and/or were subject to any other penalties, it could affect our cash flow and operation and our business, financial condition and results of operations may be materially and adversely affected.

We have limited insurance coverage.

We maintain various insurance policies to safeguard against certain risks and unexpected events, such as school liability insurance, student personal accident insurance and property insurance for vehicles. However, our insurance may not be sufficient in terms of amounts and scope. If we were held liable for amounts and claims exceeding the scope or amounts covered by our insurance policies, or suffered losses from incidents for which we do not currently maintain any insurance, we may be required to pay significant damages or suffer significant loss without being able to recover all or part of the amounts from insurance companies, and our business, results of operations and financial condition may be materially and adversely affected. In addition, we do not have any business disruption insurances to cover losses caused by natural disasters or catastrophic events, which may significantly disrupt our business operations and incur substantial costs on us, and may materially and adversely affect our business, financial condition and results of operations.

We face risks related to health epidemics, natural disasters or terrorist attacks in China.

All our schools are private Monday-to-Friday boarding schools. As of 1 September 2016, 31,788 students lived in the student dormitories at our schools. We also provide on-campus or nearby off-site accommodation to our teachers and staff. The boarding and accommodation arrangements make our students, teachers and staff vulnerable to outbreaks of health epidemics such as the H1N1 flu virus, avian influenza and severe acute respiratory syndrome, or SARS, and Influenza A virus, such as H5N1 subtype and H5N2 subtype flu viruses, natural disasters, such as earthquakes, floods, landslides, as well as terrorist attacks, other acts of violence or war or social instability, especially when such health epidemics, natural disasters or terrorist attacks take place in our schools or in or near the regions where our schools are located. In 2009, a student enrolled in our Dongguan Guangming Primary School fell sick while staying at home during a weekend and died despite hospital treatments. The student was later tested positive for H1N1 flu virus. The school took immediate preventative measures such as school closure and thorough cleaning and there was no outbreak of the H1N1 flu in the school. However, in the future, we may be unable to take effective measures to protect our students, teachers and staff in case of health epidemics, natural disasters or terrorist attacks. In addition, the general economic conditions may be negatively affected by the actual or perceived occurrence of health epidemics, natural disasters or terrorist attacks, which may result in significant decreases in the number of students enrolled in our schools. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may be negatively affected by the oil pumping machines located next to our Panjin Guangzheng Preparatory School.

There are several oil pumping machines next to the campus of our Panjin Guangzheng Preparatory School, which are owned and managed by Independent Third Parties. The operation of oil pumping machines or the oil pumping activities are subject to significant inherent hazards and risks, which may have material negative impacts on the school operations, students and staff of our Panjin Guangzheng Preparatory School, including incurring environmental pollution, fire, mechanical injuries and electronic injuries. We have no control over whether the Independent Third Parties has undertaken appropriate and adequate safety measures over the oil pumping machines or the oil pumping activities. Even if safety measures were undertaken, accidents may occur. Given the proximity of the oil pumping machines to our school, in the event of massive accidents such as environmental pollution and fire, we may be forced to cease the operations of Panjin Guangzheng Preparatory School, our campus and school buildings may be damaged and the health and safety of all students and staff of the school may be significantly affected; in the event of individual accidents

RISK FACTORS

such as personal injuries, our school may be subject to legal disputes and damages and our reputation may be materially and negatively affected. In addition, we may have to incur significant costs to take preventative or remedial measures to protect the health and safety of our students, teachers, staff and other people in our Panjin Guangzheng Preparatory School. Our preventative or remedial measures may not be sufficient and effective in the events of accidents or natural disasters, and personal injuries, wrongful deaths or other damages may occur, which may subject us to significant amount of damages, negatively affect our reputation and deter prospective students from enrolling in our schools. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our brand and reputation may be negatively affected if we fail to adequately protect our intellectual property rights.

Our trademarks, trade name and other intellectual property rights are important to the promotion of our brand. We have spent more than a decade building our brand by emphasising quality education and the well-rounded development in our students. Unauthorised use of our trademarks, trade name or other intellectual property rights may damage our reputation and brand. The measures we take to protect our trademarks and other intellectual property rights may not be adequate. For instance, the trademark currently used by our Dongguan Guangming School and Dongguan Guangming Primary School was not registered. Furthermore, the application of laws governing intellectual property rights in China is uncertain and evolving and, as such, enforcement of intellectual property rights in China is relatively difficult. However, we cannot assure you that we will be able to complete the trademark registration. If we are unable to adequately protect our trademarks and other intellectual property rights, we may not be able to benefit from these rights, our brand name and reputation may be damaged. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Unauthorised disclosure or manipulation of sensitive information relating to our students and teachers may expose us to litigation and damages or may adversely affect the reputation of our schools.

We possess sensitive and private information about our students and teachers, such as names, addresses, contact numbers, ID numbers and exam scores of our students. We store these sensitive data primarily in computers located in our school offices. If such data was obtained, disclosed or manipulated by unauthorised third parties through security breaches to our computers or network, or was negligently misappropriated or disclosed by our staff, we may be sued and held liable for damages, which may incur significant costs, negatively affect our reputation and divert management attention and other resources. As a result, our business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and government structure. For example, the PRC government has implemented economic reform and measures emphasizing the utilisation of market forces in the development of the PRC economy in the past three decades. These reforms have resulted in significant economic growth and social prospects. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

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We cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. Stricter credit or lending policies in the PRC may affect our customers’ consumer credit or consumer banking business, and may also affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten credit or lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for our services and our business, financial condition and results of operations may be materially and adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation.

These factors are affected by a number of variables which are beyond our control.

Uncertainties with respect to the PRC legal system could materially and adversely affect us.

Our business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to change. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government authorities, and their implementation, interpretation and enforcement may involve uncertainties due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. For instance, MOFCOM published the Draft Foreign Investment Law on 19 January 2015, which proposes significant changes to the PRC foreign investment legal regime and may have a significant impact on our business. Please refer to “– Our business may be significantly affected by the Draft Foreign Investment Law, if implemented as proposed” above for further details. As a result, there is substantial uncertainty as to the legal protection available to our Shareholders and us. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention.

As our Shareholder, you hold an indirect interest in our operations in China. Our operations in the PRC are subject to PRC regulations governing PRC companies and schools. These regulations contain provisions that are required to be included in the articles of association of PRC companies

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and are intended to regulate the internal affairs of these companies. PRC company law and regulations, in general, and the provisions for the protection of shareholders’ rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections. As such, our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us or our management named in this document based on Hong Kong or other foreign laws.

We are a company incorporated under the laws of the Cayman Islands, we conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, a substantial number of our senior executive officers reside within China for a significant portion of the time and most are PRC nationals. As a result, it may be difficult for our Shareholders to effect service of process upon us or those persons inside mainland China. In addition, our PRC Legal Adviser has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Please refer to “Appendix IV – Summary of the Constitution of our Company and Cayman Companies Law” of this document for further details of the relevant laws of the Cayman Islands.

On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the “**Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries or Consolidated Affiliated Entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In utilising the [REDACTED] in the manner described in “[REDACTED]” of this document as an offshore holding company, we may extend loans to our PRC subsidiaries and our Consolidated Affiliated Entities, establish new subsidiaries, make additional capital contributions to our PRC subsidiaries or acquire, in offshore transactions, offshore entities with business operations inside China. Any loans to our PRC subsidiaries or our Consolidated Affiliated Entities are subject to PRC regulations and approvals. For example:

- loans we extend to Dongguan Ruixing, our wholly-owned subsidiary in China, or another PRC subsidiary, cannot exceed statutory limits and must be registered with the SAFE or its local counterparts;

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- loans we extend to our Consolidated Affiliated Entities, over a certain threshold, must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterparts; and
- capital contribution to our Consolidated Affiliated Entities must be approved by MOE and Ministry of Civil Affairs or their respective local counterparts.

On 30 March 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“**Circular 19**”). Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. For further details of Circular 19, please refer to “Regulations” of this document. As a result, we are required to apply Renminbi funds converted from the [REDACTED] within the business scope of Dongguan Ruixing or another PRC subsidiary. Circular 19 may significantly limit our ability to transfer the [REDACTED] or any [REDACTED] to Dongguan Ruixing or another PRC subsidiary or invest in or acquire any other companies in the PRC.

In addition, any capital contributions to Dongguan Ruixing or another PRC subsidiary or to any new subsidiaries that we may establish in the future must be approved by the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to use [REDACTED] and to capitalise our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

Restrictions on currency exchange under PRC laws may limit our ability to convert cash derived from our operating activities into foreign currencies and may materially and adversely affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from Dongguan Ruixing or another PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, conversion of Renminbi is permitted, without prior approval from the SAFE, for current account transactions, including profit distributions, interest payments and expenditures from trade-related transactions, as long as certain procedural requirements are complied with. However, approval from and registration with the SAFE and other PRC regulatory authorities are required where Renminbi is to be converted into foreign currency and remitted out of China for capital account transactions, which includes foreign direct investment and repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. Any existing and future restrictions on currency exchange in China may limit our ability to convert cash derived from our operating activities into foreign currencies to fund expenditures denominated in foreign currencies. If the foreign exchange restrictions in China prevent us from obtaining Hong Kong dollars or other foreign currencies as required, we may not be able to pay dividends in Hong Kong dollars or other foreign currencies to our Shareholders, or pay the salaries of our non-PRC teachers in currencies other than Renminbi. Furthermore, foreign exchange control in respect of the capital account transactions could affect our PRC subsidiaries’ ability to obtain foreign exchange or conversion into Renminbi through debt or equity financing, including by means of loans or capital contributions from us.

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If we are classified as a PRC “resident enterprise,” holders of our Shares may be subject to a PRC withholding tax upon the dividends payable by us and upon gain from the sale of our Shares.

Under the EIT Law and its implementing regulations, an enterprise established outside China with its “de facto management body” within China is considered a “resident enterprise” in China and will be subject to the PRC EIT at the rate of 25% on its worldwide income. The tax authority will normally review factors such as the routine operation of the organisational body that effectively manages the enterprise’s production and business operations, locations of personnel holding decision-making power, location of finance and accounting functions and properties of the enterprise. The EIT Law’s implementation regulations define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (the “**SAT Circular 82**”) on 22 April 2009. SAT Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located inside China, stating that only a company meeting all the criteria would be deemed having its de factor management body inside China. One of the criteria is that a company’s major assets, accounting books and minutes and files of its board and shareholders’ meetings are located or kept in the PRC. In addition, the SAT issued a bulletin on 27 July 2011, effective 1 September 2011, providing more guidance on the implementation of SAT Circular 82. This bulletin clarifies matters including residence status determination, post-determination administration and competent tax authorities. Although both SAT Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises and there are currently no further detailed rules or precedents applicable to us governing the procedures and specific criteria for determining “de facto management body” for companies like ours, the determination criteria set forth in SAT Circular 82 and the bulletin may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented with respect to such enterprises, regardless of whether they are controlled by PRC enterprises or PRC individuals.

As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. We do not believe that our Company, Bright Education Holdings, or any of our Hong Kong or BVI subsidiaries, should be qualified as a “resident enterprise” as each of our offshore holding entities is a company incorporated outside the PRC and we are not an offshore enterprise controlled by PRC individuals or domestic enterprises. As holding companies, each of these entities’ corporate documents, minutes and files of the board and shareholders’ meetings are located and kept outside of the PRC. Therefore, we believe that none of our offshore holding entities should be treated as a “resident enterprise” with its “de facto management bodies” located within China as defined by the relevant regulations for PRC EIT purposes. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities, there are uncertainties and risks associated with this issue.

Under the EIT Law, shareholders of a PRC resident enterprise will be subject to a 10% withholding tax upon dividends received from the PRC resident enterprise and on gain recognised with respect to the sale of shares of the resident enterprise. Accordingly, if we are treated as a PRC resident enterprise, our Shareholders may be subject to a 10% withholding tax upon dividends received from us and on gain recognised with respect to the sale of our Shares, unless such withholding tax is reduced by an applicable income tax treaty between China and the jurisdiction of the Shareholder. Any such tax may reduce the returns on your investment in our Shares.

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Fluctuations in exchange rates may result in foreign currency exchange losses and may have a material adverse effect on your investment.

The change in the value of Renminbi against the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. For instance, in the PRC from 1995 until July 2005, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and U.S. dollar, has been based on fixed rates set by the PBOC. The PRC government, however, has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 19 June 2010, the PBOC announced that it intends to further reform the Renminbi exchange rate regime by enhancing the flexibility of the Renminbi exchange rate. Following this announcement, the Renminbi had appreciated from approximately RMB6.83 per U.S. dollar to RMB6.12 per U.S. Dollar as of 15 June 2015. On 11 August 2015, the PBOC further enlarged the floating band for trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar to 2.0% around the closing price in the previous trading session, and Renminbi depreciated against the U.S. dollar by approximately 1.9% as compared to 10 August 2015, and further depreciated nearly 1.6% on the next day. On 30 November 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right (“SDR”) and decided that effective as of 1 October 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar or the U.S. dollar in the future.

Our revenue and costs are mostly denominated in Renminbi and a significant portion of our financial assets are also denominated in Renminbi. We rely entirely on dividends and other fees paid to us by our PRC subsidiaries and Consolidated Affiliated Entities. Any significant change in the exchange rates of the Hong Kong dollar against Renminbi may materially and adversely affect the value of and any dividends payable on, our Shares in Hong Kong dollars. For example, a further appreciation of Renminbi against the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert Hong Kong dollars into Renminbi for such purposes. An appreciation of Renminbi against the Hong Kong dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our Hong Kong dollar denominated financial assets into Renminbi, as Renminbi is the functional currency of our subsidiaries and Consolidated Affiliated Entities inside China. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the Hong Kong dollar against Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

The preferential tax and other treatments contemplated by us may change or may become unavailable.

As at the Latest Practicable Date, Bright Education HK was in the process of setting up a wholly foreign-owned enterprise in Tibet (the “**Proposed Tibet WFOE**”), which we may designate as the service provider under the Exclusive Management Consultancy and Business Cooperation Agreement for the purpose of the Contractual Arrangements, in replacement of Dongguan Ruixing in the future. We may make such arrangement in view of the preferential tax policies under the Regulations on the Implementation of Enterprise Income Tax Policy of Tibet Autonomous Region (《西藏自治區企業所得稅政策實施辦法》) promulgated on 1 May 2014, pursuant to which the Tibet local government has exempted 40% enterprise income tax payable by enterprises in the Tibet Autonomous Region for a period of two years commencing from 1 January 2015 to 31 December 2017. As at the Latest Practicable Date, we were not entitled to any such preferential tax treatments. We cannot assure you that the Proposed Tibet WFOE will be established as contemplated or at all and that even if the Proposed Tibet WFOE has been established, it is entitled to the preferential tax treatments, if any, and will continue to receive such preferential tax treatments.

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Moreover, the Decision (which was approved by the Standing Committee of the National People’s Congress on 7 November 2016 and will become effective on 1 September 2017) states that additional supportive measures will be provided for private schools. Please see “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” above for further details and the risks associated therewith. We cannot assure you that the preferential tax and other treatments contemplated by us will not change or that they will apply or continue to apply to our schools after the Decision becomes effective.

RISKS RELATING TO [REDACTED]

[REDACTED]

RISK FACTORS

[REDACTED]

RISK FACTORS

[REDACTED]