

## BUSINESS

### OVERVIEW

We were the largest private education group in South China operating premium primary and secondary schools, as measured by student enrolment as of 1 September 2015, according to the Frost & Sullivan Report. Premium private schools offer higher quality education, more advanced educational facilities and a more satisfying environment to students through higher tuition fees than non-premium or mass market private schools, according to the Frost & Sullivan Report. As of 1 September 2016, we operated six premium private schools with a total student enrolment of 31,788 students.

We initially selected Dongguan, Guangdong province, to begin the development of our school network in 2003 based on its high population density, strategic location within the Pearl River Delta economic zone and rapidly expanding middle class population. In 2013, we expanded our school network to Huizhou, Guangdong province, another densely populated city with robust economic growth. After successfully establishing our presence and reputation in Guangdong province, we began to expand to other cities located in China’s major economic zones. In September 2014, our school in Panjin, Liaoning province in the Northeast Three Provinces economic zone commenced operations. Our new school in Weifang, Shandong province in the Bohai Economic Rim economic zone commenced operations in September 2016 and recruited approximately 718 students as of 1 September 2016. We have entered into cooperation agreements with the local government of Guang’an, Sichuan province and the local government of Yunfu, Guangdong province, respectively, to establish a new school in each of these cities, 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.

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

We believe that we have a reputation for providing quality private education and that our brand name is well-known in and beyond the regions where our schools are located. For each of the 2013/2014, 2014/2015 and 2015/2016 school years, at least 94.8% of our high school graduates were admitted to universities in China, and for the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 18.4%, 21.4% and 23.2% of our high school graduates were admitted to First Class Universities in China, respectively. In addition to PRC educational programmes, we provide international programmes for our high school students. Graduates from our international programmes were admitted to reputable universities and colleges overseas. We offer a wide-range of school-based elective courses, including courses for sports, art, music and Chinese culture, in order to facilitate the well-rounded development of our students.

We experienced stable growth during the Track Record Period in terms of student enrolment, teachers employed and revenue. From the year ended 31 August 2014 to the year ended 31 August 2016, our total revenue increased at a CAGR of approximately 15.8%. The table below sets forth certain information with respect to our growth.

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

	For the years ended 31 August		
	2014	2015	2016
	(RMB million)	(RMB million)	(RMB million)
Total revenue	450.9	568.7	700.7

## OUR STRENGTHS

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

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

We were the largest private education group in South China operating premium primary and secondary schools, as measured by student enrolment as of 1 September 2015, according to the Frost & Sullivan Report. As of 1 September 2016, we operated six premium private schools with a total student enrolment of 31,788 students, of which four are in Guangdong province, one is in Liaoning province and one is in Shandong province. As of 1 September 2016, 29,480 of our 31,788 students enrolled in our schools located in South China.

We established our first school in Dongguan, Guangdong province in 2003; our second and third schools commenced operations in Dongguan in 2004 and 2013, respectively; and we established our fourth school in Huizhou, Guangdong province in 2014. We have since become a leading private educational group in Guangdong province, a densely populated and economically developed province in South China. According to the National Bureau of Statistics of China, as of 31 December 2015, Guangdong province had a population of 108.5 million and contributed the largest GDP among all provinces and municipalities in China, accounting for 10.8% of the national total. After having successfully established our reputation and presence in Guangdong province, we expanded into the Northeast Three Provinces economic zone by establishing a school in Panjin, Liaoning province in 2014. Our new school in Weifang, Shandong province commenced operations in September 2016 and recruited approximately 718 students as of 1 September 2016. We experienced a rapid growth in terms of student enrolment, as presented in the table below:

School	Year of Establishment	Student Enrolment as of 1 September			
		2013	2014	2015	2016
<b>South China</b>					
Dongguan Guangming School	2003	10,580	10,416	10,417	10,510
Dongguan Guangming Primary School	2004	4,367	5,130	5,959	5,973
Dongguan Guangzheng Preparatory School	2013	4,151	5,820	7,768	9,094
Huizhou Guangzheng Preparatory School	2014	256	1,189	2,500	3,903
<b>Other regions</b>					
Panjin Guangzheng Preparatory School	2014	–	282	1,000	1,590
Weifang Guangzheng Preparatory School	2016	–	–	–	718
<b>Total</b>		19,354	22,837	27,644	31,788

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

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

### **Strong reputation for student performance and high quality PRC curriculum programmes**

We focus on providing high quality PRC curriculum programmes for primary and secondary school students and emphasize the well-rounded development of our students. We believe that our brand name is well-known in and beyond the regions where our schools are located. For each of the 2013/2014, 2014/2015 and 2015/2016 school years, 94.8% of our high school graduates were admitted to universities in China. According to the Frost & Sullivan Report, the national average admission rate to universities was 38.7% and 38.9% for the 2014/2015 and 2015/2016 school years, respectively. In addition, for the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 18.4%, 21.4% and 23.2% of our high school graduates were admitted to First Class Universities in China, respectively. According to the Frost & Sullivan Report, the provincial admission rate to First Class Universities in Guangdong was 8.6% and 10.0% for 2014/2015 and 2015/2016 school years, respectively. In the 2016 PRC national higher education entrance examination, one of our high school graduates was ranked in the top 10 and one was ranked in the top 20 in Guangdong province in terms of the total exam scores achieved, and 10 of our high school graduates were admitted to Peking University and Tsinghua University. We provide various resources to help our students prepare for standardised examinations for higher education, including exam preparation lectures by experienced teachers, practice tests, mock exams and review courses.

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

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

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

We have a team of qualified and committed teachers as we believe the quality of teachers is critical to the success of our schools. As of 1 September 2016, we employed 1,960 teachers and over 79% of our PRC-qualified teachers held bachelors or higher degrees. We provide competitive compensation to attract and retain good teachers, offer training and personalised support to our teachers and continuously monitor the teaching quality at our schools.

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

We offer both primary and secondary school curriculum programmes, which allows us to attract students at an early age and create a stable student pipeline for our schools. For the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 86.9%, 82.4% and 83.3% of our primary school graduates enrolled in our middle schools, and approximately 51.9%, 54.9% and 58.7% of our middle school graduates enrolled in our high schools. As a substantial percentage of our primary and middle school students chose to continue to enroll in our schools upon graduation during the Track Record Period, our schools were able to maintain stable student enrolment without having to incur significant marketing costs and thus were able to achieve solid track record of stable revenue growth and high profit margins, leading to high business visibility of our schools. We believe that the continuity of the curriculum offered by our primary and secondary schools and the offering of art, music and sports classes from an early age at our schools have also contributed to the attractiveness of our schools and thus our business visibility. In addition, we believe that our offering of a full range of primary and secondary curriculum programmes provides us with certain advantages of economies of scale, including the ability to attract and retain qualified teachers, the ability to offer various extra-curricular courses, leverage in negotiations with suppliers for lower costs and reduced fixed costs per student.

We believe our reputation, market leadership, advanced educational facilities and our school capacities enable us to attract and retain large student bodies, which allows us to increase revenue without incurring significant additional costs. We believe our profitability largely reflects the economies of scale present at our schools. For the years ended 31 August 2014, 2015 and 2016, our adjusted net profit margin was 26.3%, 30.4% and 26.5%, respectively.

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### **Successful track record in replicating our profitable business model**

We believe we are able to successfully and efficiently replicate our business model of operating reputable schools with high profit margins. We established our first and second schools in Dongguan and have successfully expanded our school network in Guangdong province in the Pearl River Delta economic zone and into other economic zones. Our new school in Weifang, Shandong province in the Bohai Economic Rim economic zone commenced operations in September 2016 and we have entered into cooperation agreements with the local government of Guang'an, Sichuan province and the local government of Yunfu, Guangdong province, respectively, to establish a new school in each of these cities, 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 order to leverage on the success of our Dongguan Guangming School and Dongguan Guangming Primary School, we apply consistent principles in all of our schools in terms of school objective, educational philosophy and management approaches, and utilise consistent systems and guidelines in all of our schools in terms of student recruitment, curriculum, teaching methods, student discipline, parent communication and daily operations. In 2014, we successfully replicated our business model in Huizhou, Guangdong province by establishing Huizhou Guangzheng Preparatory School. We assigned principals, teachers and staff who are well-trained school managers to our school in Huizhou to help implement our principles, systems and guidelines and to provide training and on-going support. We believe the success of our business model is demonstrated by our ability to quickly commence operations at our Huizhou school and the significant interest the school attracted at its early stage of operations. As of 1 September 2015 and 2016, we had 2,500 and 3,903 students enrolled in our Huizhou Guangzheng Preparatory School, representing a year-on-year growth of 110.3% and 56.1%, respectively. We believe our school in Huizhou continues to hold significant potential for further scalability, and therefore increased profitability. Adopting a similar approach, student enrolment in our Panjin Guangzheng Preparatory School increased to 1,000 students within one year from its commencement of operations and to 1,590 as of 1 September 2016.

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

### **Committed and stable management team**

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

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



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

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

### OUR STRATEGIES

We intend to pursue the following business strategies:

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

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

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### **Increase the utilisation rate of our existing schools**

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

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

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

In addition, we have expanded into the Northeast Three Provinces economic zone by establishing a school in Panjin, Liaoning province, which commenced operations in September 2014, and into the Bohai Economic Rim economic zone by establishing a school in Weifang, Shandong province, which commenced operations in September 2016 and recruited 718 students as of 1 September 2016. The school offers primary and middle school education for the 2016/2017 school year. We intend to further expand into the West Delta economic zone and have entered into a cooperation agreement with the local government of Guang'an, Sichuan province to establish a new school in the city. We also intend to engage in discussions with the local government authorities of various cities in Shandong and Sichuan provinces to explore the possibility of establishing a new school in each city.

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

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

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### **Enhance profitability by optimizing pricing strategies and increasing revenue sources**

We expect tuition and boarding fees to continue to be the primary source of our revenue. We intend to upgrade and expand our facilities, further improve the contents of the courses we offer and employ additional high quality teachers in our schools, which we believe will help us remain attractive to prospective parents and students even at higher tuition levels. Subject to regulatory approval and market conditions, we plan to increase tuition and boarding fees in schools where we believe there is high demand for our educational programmes and where we have built sufficient parent and student loyalty. We believe that our economies of scale enable us to improve our facilities and educational programmes in the manner necessary to attract new students at lower costs than schools with a smaller student body.

### **Continually adapt to changing educational preferences in target markets**

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

### **OUR EDUCATIONAL PHILOSOPHY**

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



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

### OUR SCHOOLS

As of the Latest Practicable Date, we operated six premium private schools on five campuses. Four of our schools are located in Guangdong province in the Pearl River Delta economic zone: Dongguan Guangming School, Dongguan Guangming Primary School (located at the same campus site as Dongguan Guangming School), Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School. Our fifth school, Panjin Guangzheng Preparatory School, is located in Liaoning province in the Northeast Three Provinces economic zone. Panjin Guangzheng Preparatory School commenced operations in September 2014 and is our first school outside of Guangdong province as part of our expansion strategy. In addition, our new school in Weifang, Shandong province in the Bohai Economic Rim economic zone commenced operations in September 2016 and recruited approximately 718 students as of 1 September 2016.

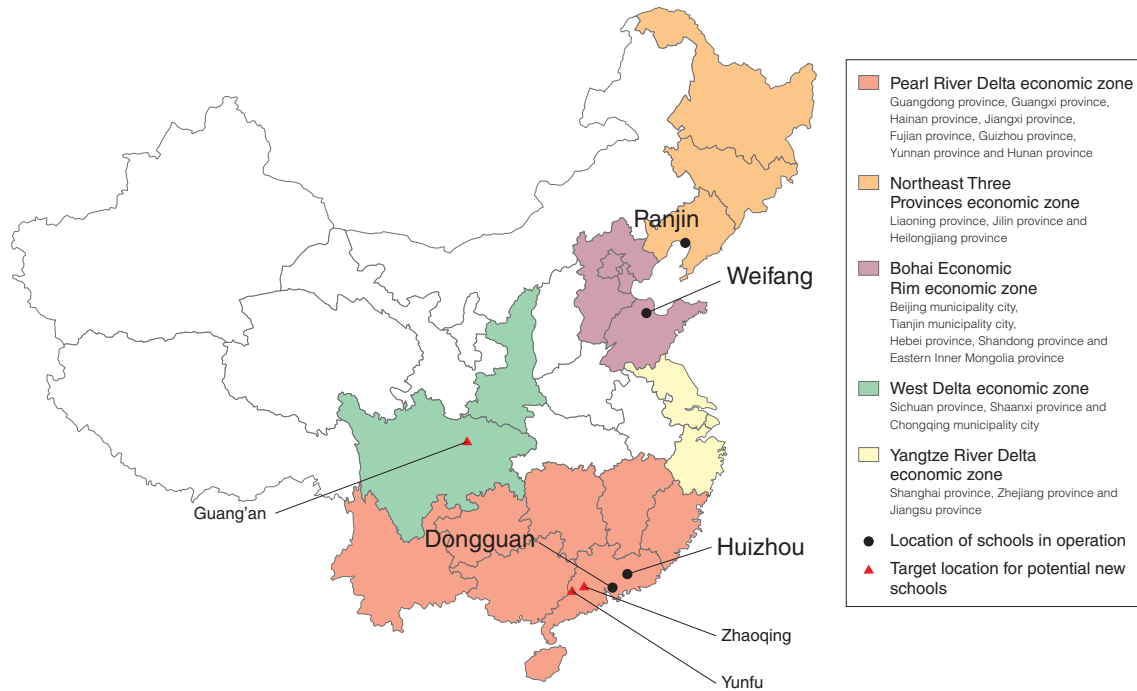
The following table sets forth the type of education that we provide in each of our schools:

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

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

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



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

As of 31 December 2016, the total site area of the parcels of land on which our schools are developed ranged from 24,192.0 sq.m. to 206,340.7 sq.m.. As of 1 September 2016, our schools' existing capacity for students ranged from 752 to 10,744 students. We equip our schools with advanced education facilities, which enables us to offer a variety of courses. Our school facilities generally include classrooms, multi-media rooms, a gymnasium, outdoor fields, sports courts (such as basketball, badminton or soccer courts), table tennis centres, laboratories, library, art rooms (such as dancing and drawing rooms), administrative offices, canteen, laundry rooms and student dormitories, as well as staff apartments. We also offer school supplies, daily necessities and other items at our schools for the convenience of our students.

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### Number of Students

As of 1 September 2016, we had a total student enrolment of approximately 31,788 students, including 7,733 high school students, 12,509 middle school students, 11,199 primary school students and 347 students in the international programmes. The following table sets forth information with respect to the approximate student enrolment, capacity and utilization rate of each of our schools as of the dates indicated:

School	Student Enrolment as of 1 September				Capacity for Students <sup>(1)</sup> as of 1 September				School Utilisation Rate (%) <sup>(1)</sup> as of 1 September			
	2013 <sup>(2)</sup>	2014 <sup>(3)</sup>	2015 <sup>(4)</sup>	2016 <sup>(5)</sup>	2013 <sup>(2)</sup>	2014 <sup>(3)</sup>	2015 <sup>(4)</sup>	2016 <sup>(5)</sup>	2013 <sup>(2)</sup>	2014 <sup>(3)</sup>	2015 <sup>(4)</sup>	2016 <sup>(5)</sup>
<b>Dongguan Guangming School<sup>(6)</sup></b>												
High school	3,362	2,908	2,744	2,656	3,394	2,954	2,760	2,852	99.1	98.4	99.4	93.1
Middle school	7,160	7,421	7,588	7,780	7,168	7,424	7,680	7,792	99.9	100.0	98.8	99.8
International programme	58	87	85	74	68	88	92	100	85.3	98.9	92.4	74.0
<b>Subtotal</b>	<b>10,580</b>	<b>10,416</b>	<b>10,417</b>	<b>10,510</b>	<b>10,630</b>	<b>10,466</b>	<b>10,532</b>	<b>10,744</b>	<b>99.5</b>	<b>99.5</b>	<b>98.9</b>	<b>97.8</b>
<b>Dongguan Guangming Primary School</b>	<b>4,367</b>	<b>5,130</b>	<b>5,959</b>	<b>5,973</b>	<b>4,858</b>	<b>5,496</b>	<b>6,062</b>	<b>6,060</b>	<b>89.9</b>	<b>93.3</b>	<b>98.3</b>	<b>98.6</b>
<b>Dongguan Guangzheng Preparatory School</b>												
High school	1,576	2,260	3,187	3,684	3,856	3,416	4,040	4,024	40.9	66.2	78.9	91.6
Middle school	1,113	1,523	1,942	2,319	1,296	1,592	1,952	2,416	85.9	95.7	99.5	96.0
Primary school	1,314	1,885	2,421	2,818	1,336	1,926	2,822	2,986	98.4	97.9	85.8	94.4
International programme	148	152	218	273	208	208	224	280	71.2	73.1	97.3	97.5
<b>Subtotal</b>	<b>4,151</b>	<b>5,820</b>	<b>7,768</b>	<b>9,094</b>	<b>6,696</b>	<b>7,142</b>	<b>9,038</b>	<b>9,706</b>	<b>62.0</b>	<b>81.5</b>	<b>85.9</b>	<b>93.7</b>
<b>Huizhou Guangzheng Preparatory School</b>												
High school	–	372	903	1,393	–	624	1,312	1,418	–	59.6	68.8	98.2
Middle school	166	459	914	1,423	576	624	1,208	1,456	28.8	73.6	75.7	97.7
Primary school	90	358	683	1,087	368	679	945	1,150	24.5	52.7	72.3	94.5
<b>Subtotal</b>	<b>256</b>	<b>1,189</b>	<b>2,500</b>	<b>3,903</b>	<b>944</b>	<b>1,927</b>	<b>3,465</b>	<b>4,024</b>	<b>27.1</b>	<b>61.7</b>	<b>72.2</b>	<b>97.0</b>
<b>Panjin Guangzheng Preparatory School</b>												
Middle school	–	81	304	601	–	448	448	868	–	18.1	67.9	69.2
Primary school	–	201	696	989	–	240	1,007	998	–	83.8	69.1	99.1
<b>Subtotal</b>	<b>–</b>	<b>282</b>	<b>1,000</b>	<b>1,590</b>	<b>–</b>	<b>688</b>	<b>1,455</b>	<b>1,866</b>	<b>–</b>	<b>41.0</b>	<b>68.7</b>	<b>85.2</b>
<b>Weifang Guangzheng Preparatory School</b>												
Middle school	–	–	–	386	–	–	–	392	–	–	–	98.5
Primary School	–	–	–	332	–	–	–	360	–	–	–	92.2
<b>Subtotal</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>718</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>752</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>95.5</b>
<b>Total</b>	<b>19,354</b>	<b>22,837</b>	<b>27,644</b>	<b>31,788</b>	<b>23,128</b>	<b>25,719</b>	<b>30,552</b>	<b>33,152</b>	<b>83.7</b>	<b>89.0</b>	<b>90.5</b>	<b>95.9</b>

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*Notes:*

- (1) As all of our schools are boarding schools, capacity for students is calculated based on the approximate number of beds available in student dormitories according to the respective school’s internal records and calculations. School utilisation rate is calculated by dividing the number of students enrolled at a school by the capacity for students of the school. Although we have calculated our schools’ respective capacity based on the number of beds available, we believe the facilities at our Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School may accommodate additional beds without material capital expenditure (subject to the receipt of necessary approvals).
- (2) Represents the beginning of the 2013/2014 school year.
- (3) Represents the beginning of the 2014/2015 school year.
- (4) Represents the beginning of the 2015/2016 school year.
- (5) Represents the beginning of the 2016/2017 school year.
- (6) Capacity for students for the high school section of Dongguan Guangming School decreased as we reallocated certain student dormitories to the middle school section based on student enrolment.

### **Educational Programmes and Curriculum**

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

#### ***PRC Curriculum Programmes***

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

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

#### ***International Programmes***

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

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### *Extra-Curricular Programmes*

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

### **Student Placement**

For each of the 2013/2014, 2014/2015 and 2015/2016 school years, at least 94.8% of our high school graduates were admitted to universities in China, and for the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 18.4%, 21.4% and 23.2% of our high school graduates were admitted to First Class Universities in China. In the 2016 PRC national higher education entrance examination, one of our high school graduates was ranked in the top 10 and one was ranked in the top 20 in Guangdong province in terms of the total exam scores achieved, and 10 of our high school graduates were admitted to Peking University and Tsinghua University. We offer various resources to help our students prepare for the PRC national higher education entrance examination, including exam preparation lectures by experienced teachers, practice tests, mock exams and review courses. Graduates from our international programmes were admitted to reputable universities and colleges overseas.

For the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 51.9%, 54.9% and 58.7% of our middle school graduates enrolled in our high schools, and approximately 86.9%, 82.4% and 83.3% of our primary school graduates enrolled in our middle schools.

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

### **Counsellors**

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

### **Management of Schools**

Major decisions and policies concerning our schools such as school principal nominations, tuition levels, the construction of material new facilities and the use of significant funds are determined by Guangdong Guangzheng, our PRC subsidiary. Guangdong Guangzheng oversees day-to-day school management affairs through a review and reporting system, which requires each school to report material activities such as significant procurement and significant personnel changes to Guangdong Guangzheng for its review. Guangdong Guangzheng monitors the financial activities of each school through biannual and periodic audits from time to time. Guangdong Guangzheng also oversees school management through periodic joint principal meetings, at which school principals report to Guangdong Guangzheng on school developments and major issues. Each of our schools is managed on a day-to-day basis by its principals, who are assisted by several vice principals. Each



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vice principal is responsible for one or more specific aspects of each school’s operations, such as educational curriculum, student admissions, moral education, security and logistics, student affairs and human resources. All of our school principals and vice principals have extensive experience in education and school administration. We believe this management system allows us to maximize the capabilities of our educators and administrative personnel to enhance the quality of education we provide and promote students’ well-being.

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

### **Government Support and Grants**

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

Three of our schools, Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School have received discretionary government grants for the school activities we organized or the academic achievements of our students. For the 2013/2014, 2014/2015 and 2015/2016 school years, the total amount of government grants our schools received amounted to RMB0.6 million, RMB1.5 million and RMB2.0 million, respectively.

### **Tuition and Boarding Fees**

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

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

	Tuition and Boarding Fees <sup>(1)</sup>			
	2013/2014 school year	2014/2015 school year	2015/2016 school year	2016/2017 school year
	(RMB)	(RMB)	(RMB)	(RMB)
<b>Dongguan Guangming School</b>				
High school	18,700- 21,200	23,000- 25,200	23,000- 25,200	25,600- 38,600
Middle school	17,100- 19,800	21,000- 23,200	21,000- 23,200	23,600- 27,600
International programmes	92,600	92,600	92,600	92,600
<b>Dongguan Guangming Primary School</b>	14,200- 18,600	15,040- 21,000	15,040- 21,000	18,180- 24,400
<b>Dongguan Guangzheng Preparatory School</b>				
High school	20,000	20,400- 22,400	20,400- 22,400	22,800- 33,800
Middle school	18,000	18,000- 19,400	18,000- 19,400	19,800- 23,000
Primary school	16,000	16,400- 18,000	16,400- 18,000	16,600- 21,200
International programmes	36,200- 52,000	50,600- 88,600	50,600- 88,600	50,600- 88,600
<b>Huizhou Guangzheng Preparatory School</b>				
High school	— <sup>(2)</sup>	23,000 <sup>(3)</sup>	23,000 <sup>(3)</sup>	23,000- 25,600
Middle school	18,000	18,000	18,000	18,000- 20,600
Primary school	18,200	18,200	18,200	18,200- 20,800
<b>Panjin Guangzheng Preparatory School</b>				
Middle school	— <sup>(4)</sup>	18,000	18,000	18,000
Primary school	— <sup>(4)</sup>	13,000- 14,200	13,000- 14,200	13,000- 14,200
<b>Weifang Guangzheng Preparatory School</b>				
Middle school	— <sup>(4)</sup>	— <sup>(4)</sup>	— <sup>(4)</sup>	13,000
Primary school	— <sup>(4)</sup>	— <sup>(4)</sup>	— <sup>(4)</sup>	11,000

*Notes:*

- (1) We increased tuition and boarding fees prior to and during the Track Record Period for certain of our schools. Our increased tuition and boarding fees may only apply to newly admitted students for the respective school year, while our existing students may continue to pay the tuition and boarding fees prior to the increase. As a result, tuition and boarding fees for certain of our schools are presented as a range, which include the tuition and boarding fees paid by students who are admitted to our schools at different school years. Tuition fees for certain of our schools include miscellaneous fees such as medical examination fee and course material fee.
- (2) High school section of the school did not admit any students for the school year.

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- (3) We did not obtain the fee permit for the high school section of the school for the 2014/2015 and 2015/2016 school years, respectively. On 15 July 2016, the Development and Reform Commission of Huizhou, being the competent government authority for price regulation, issued written confirmation confirming that the school had passed all inspections conducted by the authority since its establishment and had not been subject to penalties for violating the relevant laws and regulations on price regulation.
- (4) The school did not commence operations for the school year.

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

The following table sets forth the number of students withdrawn from our schools and the amount of tuition fee refunds paid by us in the respective school year indicated below:

	2013/2014	School year 2014/2015	2015/2016
Total number of students withdrawn from our schools (percentage of the total student enrolment)	111 (0.6%)	141 (0.6%)	209 (0.8%)
Amount of tuition fee refunds paid by us	RMB0.7 million	RMB0.9 million	RMB1.3 million

### Ancillary Services

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

### Canteens

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

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commenced operations in September 2016, but we only obtained the requisite food operation licence for such canteen in December 2016. Our PRC Legal Adviser has advised us that for operating an on-campus canteen without the requisite food operation licence, we may be subject to confiscation of the income derived from and the relevant food and other facilities used for the operations of the canteen, as well as being subject to monetary penalties. However, we have received a written confirmation in October 2016 from the local government of Weicheng District, being the competent government authority for the supervision of the overall operations of Weifang Guangzheng Preparatory School, which confirms that the local government acknowledges the current operations of Weifang Guangzheng Preparatory School and supports its continuous operations.

Under the relevant PRC laws and regulations, on-campus canteens in principle must be operated on a “not-for-profit” basis. However, such “not-for-profit” principle is not defined in any PRC laws and regulations. We consulted 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, if any, from our on-campus canteens, which may be applied for 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 receive 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, our Directors have decided to voluntarily establish a non-distributable reserve and transfer all the retained earnings of our on-campus canteens since the operation thereof into such reserve. As of 31 August 2016, all such retained earnings in the amount of RMB182.5 million had been transferred to the aforesaid non-distributable reserve. Our PRC Legal Adviser is of the view that, the establishment of the non-distributable reserve and the transfer of such retained earnings to the reserve for the continuous operation and improvement of the relevant on-campus canteens and other purposes permitted by PRC laws and regulations are not in breach of the aforesaid “not-for-profit” principle. During the Track Record Period, capital expenditure on certain improvement work of our on-campus canteens was funded by such retained earnings. Subsequent to 31 August 2016, we have entered into a number of construction contracts under which we will incur approximately RMB7.3 million on the renovation of the canteens of our schools. Furthermore, we plan to incur an additional RMB4.0 million to purchase equipment for our canteens. Such capital expenditures subsequent to 31 August 2016 have been and/or will be funded by the aforesaid non-distributable reserve.

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

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The operating profit contribution from the on-campus canteens was approximately RMB33.5 million, RMB46.6 million and RMB48.6 million for the years ended 31 August 2014, 2015 and 2016, respectively. In arriving at the above figures, we have taken into account certain cost allocation, based on our management’s judgment and to the extent practicable, with respect to the operation of our on-campus canteens and before tax. We manage the accounts of our on-campus canteens separately from the accounts for our tuition and boarding fees. Our PRC Legal Adviser is of the view that, if any services provided by Dongguan Ruixing or its designated third party relate to or are used by the on-campus canteens, the relevant service fees can be settled by using the non-distributable reserve and the aforesaid regulatory requirements do not restrict the settlement of such service fees to Dongguan Ruixing or its designated third party, as and when the service fees are incurred as consideration for the services that relate to or are used by the on-campus canteens.

### *Medical Rooms*

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

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

### *Other Services*

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



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### **Dongguan Guangming School**

Dongguan Guangming School was established in 2003 in Dongguan, Guangdong province and is one of the earliest schools operated by us. The educational philosophy of the school is to “form a foundation for lifelong learning and to educate for the advancement of society”. The school offers both PRC curriculum programmes and international programmes. As of 1 September 2016, the school had a total student enrolment of 10,510 students, comprising of 2,656 high school students, 7,780 middle school students and 74 students in the international programmes and employed 602 teachers.

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

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

The school is located on the same campus site as Dongguan Guangming Primary School. As of 31 December 2016, the total site area of the parcels of land on which the school is developed was approximately 135,247.2 sq.m.. As of 1 September 2016, the school had a capacity of 10,744 students. The school campus offers a variety of facilities, some of which are shared with Dongguan Guangming Primary School.

### ***International Programmes***

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

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

As of 1 September 2016, the international programmes had 74 students. Graduates from the international programmes are eligible for certificates of completion for completing A Level or ACT courses. During the Track Record Period, graduates from the international programmes were admitted to reputable overseas universities and colleges.

### **Dongguan Guangming Primary School**

Dongguan Guangming Primary School was established in 2004 in Dongguan, Guangdong province and is one of the earliest schools operated by us. The school offers primary school education. As of 1 September 2016, the school had a total student enrolment of 5,973 students and employed 311 teachers.

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

The school is located on the same campus site as Dongguan Guangming School. As of 31 December 2016, the total site area of the parcels of land on which the school is developed was approximately 24,192.0 sq.m.. As of 1 September 2016, the school had a capacity of 6,060 students. The school campus offers a variety of campus facilities, some of which are shared with Dongguan Guangming School.

### **Dongguan Guangzheng Preparatory School**

We acquired H.S. Kama International School (東莞市華南師大嘉瑪學校) in August 2013 and changed its name to Dongguan Guangzheng Preparatory School. The school is located in Dongguan, Guangdong province and offers both PRC curriculum programmes and international programmes. As of 1 September 2016, the school had a total student enrolment of 9,094 students, comprising of 3,684 high school students, 2,319 middle school students, 2,818 primary school students and 273 students in the international programmes and employed 550 teachers.

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

As of 31 December 2016, the total site area of the parcels of land on which the school is developed was approximately 193,265.3 sq.m.. As of 1 September 2016, the school had a capacity of 9,706 students.

### ***International Programme***

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

As of 1 September 2016, the international programmes had 280 students and employed 38 teachers. Graduates from the international programmes are eligible for certificates of completion for completing A Level or ACT courses. During the Track Record Period, graduates from the international programme were admitted to reputable universities and colleges overseas.

### **Huizhou Guangzheng Preparatory School**

Huizhou Guangzheng Preparatory School was established in 2014 in Huizhou (Huicheng District), Guangdong province and is the first school we operated outside of Dongguan. The school offers primary and secondary school education. As of 1 September 2016, the school had total student enrolment of 3,903 students, comprising of 1,393 high school students, 1,423 middle school students and 1,087 primary school students and employed 299 teachers. The school produced its first batch of middle and high school graduates at the end of the 2015/2016 school year.

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We believe Huizhou Guangzheng Preparatory School is well recognised for its sports, music and art courses. As of 31 December 2016, the total site area of the parcel of land on which the school is developed was approximately 64,321.1 sq.m.. As of 1 September 2016, the school had a capacity of 4,024 students.

### **Panjin Guangzheng Preparatory School**

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

Panjin Guangzheng Preparatory School offers primary and middle school education. As of 1 September 2016, the school had a total student enrolment of 1,590 students, comprising of 601 middle school students and 989 primary school students and employed 136 teachers.

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

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

As of 31 December 2016, the total site area of the parcels of land on which the school is developed was approximately 206,340.7 sq.m.. As of 1 September 2016, the school had a capacity of 1,866 students.

### **Weifang Guangzheng Preparatory School**

Weifang Guangzheng Preparatory School commenced operations in September 2016 in Weifang, Shandong province, representing the second school operated by us outside of Guangdong province. We selected Weifang to establish our sixth school because Weifang has a number of factors that we believe are important to driving the demand for high quality private education. For instance, Weifang is located in Shandong province in the Bohai Economic Rim economic zone, one of the five major economic zones in China; its neighboring cities, Qingdao and Yantai, are two of the leading economies in Shandong province and have a rapidly growing middle-class; it has a long-lasting tradition of promoting education as it is close to the hometown of Confucius, a well-known teacher and philosopher in the history of China. As of 31 December 2015, Weifang had a population of 9.3 million and a GDP of RMB517.1 billion, according to the Statistics Bureau of Weifang.

Weifang Guangzheng Preparatory School offers primary and middle school education. As of 1 September 2016, the school had a total student enrolment of 718 students, comprising 386 middle school students and 989 primary school students and employed 62 teachers. As of 31 December 2016, the total site area of the parcel of land on which the school is developed was approximately 104,758.0 sq.m.. As of 1 September 2016, the school had a capacity of 752 students.

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### Development of New Schools

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

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

#### *New Schools in the PRC*

School	Status	Intended school commencement date	Estimated maximum capacity for students <sup>(1)</sup>	Estimated total capital expenditure (RMB’000)	Costs incurred <sup>(2)</sup> (RMB’000)	Intended source of funds	Intended allocation of [REDACTED] (HK\$’000)
Guang’an Guangzheng Preparatory School	Entered into a cooperation agreement with the local government in May 2016	1 September 2017	9,280	439,800	170,000	Self-owned capital and/or [REDACTED]	[REDACTED]
Yunfu Guangzheng Preparatory School	Entered into a cooperation agreement with the local government in July 2016	1 September 2017	10,680	522,000	Nil	Self-owned capital and/or [REDACTED]	[REDACTED]

#### *Notes:*

- (1) Relates to the target maximum capacity for primary, middle and high school education, as well as international programmes. The estimated maximum capacity for students is based on the target maximum capacity for students as set forth in the cooperation agreements with the relevant local government authorities. Please refer to “– Guang’an Guangzheng Preparatory School” and “– Yunfu Guangzheng Preparatory School” below for further details.
- (2) Represents capital expenditure incurred up to the Latest Practicable Date.
- (3) In addition to the cooperation agreements with the relevant local governmental authorities for the proposed establishment of Guang’an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School, we have also entered into a framework agreement with the local government for the potential establishment of a new school in Zhaoqing. The above table does not include information of this proposed new school as the details thereof will be subject to the parties’ further discussion if we proceed with the establishment of this school.

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### *New School in Canada*

School	Status	Intended school commencement date	Target student enrolment <sup>(1)</sup>	Estimated total capital expenditure (CAD'000)	Costs incurred <sup>(2)</sup> (USD)	Intended source of funds	Intended allocation of [REDACTED] (HK\$'000)
Dewey College (secondary school)	Business proposal submitted	1 September 2017	500-600	2,000	Approximately 55,000	Self-owned capital and/or [REDACTED]	[REDACTED]

#### *Notes:*

- (1) The target student enrolment is based on the business proposal we have made to Dewey College with respect to the work schedule, financial projections and implementation of the proposed business development plans for the potential investment and development of a new school in Canada. Please refer to “– Dewey College (secondary school)” below for further details.
- (2) Represents capital expenditure incurred up to the Latest Practicable Date.

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

In order to implement our school development strategy, we have established a development centre, which is responsible for project evaluation, liaison with local government authorities, and the construction, establishment and promotion our new schools. The development centre reports directly to our vice president and had 15 staff as of 31 August 2016. We generally intend to model our new school campuses based on the campus site of our Dongguan Guangming School and Dongguan Guangming Primary School, and may also make adjustments based on local conditions.

### *Guang'an Guangzheng Preparatory School*

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

#### **Land use right**

The local government allocates the land use right to us for free provided that the land is used for primary, middle and high school education and allocates the land use right to us at a designated price if the land is used for kindergarten and international programmes<sup>(1)</sup>.

#### **School construction**

We are responsible for completing the construction of the campus site and the school buildings by the end of August 2017. The school is expected to commence operations in September 2017.



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<b>Preferential policies</b>	The local government offers certain preferential policies and provides assistance to the school to facilitate its construction.
<b>Target maximum capacity<sup>(2)</sup></b>	9,280 students.

*Notes:*

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

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

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

### *Yunfu Guangzheng Preparatory School*

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

<b>Land use right</b>	The local government allocates the land use right to us at a designated price. The land must be used for educational purposes <sup>(1)</sup> .
<b>School construction</b>	We are responsible for the construction of the campus site and all the real estate properties of the school.
<b>Preferential policies</b>	The local government offers certain preferential policies and provides assistance to the school to facilitate its construction and operations.
<b>Target maximum capacity<sup>(2)</sup></b>	10,680 students.

*Notes:*

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

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

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

### *Zhaoqing Guangming Preparatory School*

On 15 December 2016, we 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 Zhaoqing Guangming Preparatory School, which will offer, among other things, primary and middle school education. Under the framework agreement, we will obtain the land use right for the construction of the proposed school pursuant to the relevant laws and regulations, and the local government will provide us with certain preferential policies and assistance to facilitate the construction and operations of the proposed school. We expect that if we proceed with the establishment of this school, we will negotiate further with the counterparty and enter into further definitive agreement(s) as and when appropriate.

### *Dewey College (secondary school)*

On 10 February 2016, we entered into a memorandum of understanding (“MOU”) with Dewey College, an independent high school subject to inspection by the Ontario Ministry of Education, Canada, with respect to the parties’ potential cooperation in setting up a private school in Ontario, Canada, providing secondary and pre-university education. According to the MOU, we will provide funding for the new school, the amount of which will be determined at a later date; while Dewey College will provide school management services and utilize its partnership relations with certain Canadian universities to provide assistance to our graduates who wish to pursue further studies in Canada. In addition, according to the MOU, the parties agree to jointly organize holiday study programmes such as English summer camps, explore further business opportunities in the education sector in Canada, explore and develop joint training and research projects, arrange seminars, workshops and academic exchange activities, and exchange information on education and training. As at the Latest Practicable Date, we 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. Further, we have made a business proposal with respect to the work schedule, financial projections and implementation of the proposed business development plans including (i) expanding the campus of Dewey College (including acquiring a new campus) in order to increase the student enrolment number and improving the current school facilities to accommodate the future inflow of student graduates from our schools; and (ii) developing online education programmes and teaching resources for Ontario Secondary School credits towards achievement of an Ontario Secondary School Diploma which can be introduced to the students of our schools in the PRC on a fee basis. The potential cooperation with Dewey College under the MOU and the proposed business development plans outlined above are subject to uncertainties, and therefore may or may not materialise as contemplated or at all. For details of the risks associated therewith, please refer to “Risk Factors – Risks relating to our business and our industry – We may not be able to successfully execute our growth strategies” of this document.

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

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

On 7 November 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改〈中華人民共和國民辦教育促進法〉的決定》) was approved by the Standing Committee of the National People’s Congress (the “**Decision**”), which will become effective on 1 September 2017. The Decision has made certain amendments to the Law for Promoting Private Education. According to the Decision, school sponsors of private schools can choose to establish schools as not-for-profit or for-profit entities, with the exception of schools providing compulsory education, which can only be established as not-for-profit entities.

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” of this document.

#### Potential implications of the Decision on us

Certain potential implications of the Decision on us include:

- *Classification of our schools as not-for-profit schools under the Decision*

All of our existing schools which provide compulsory education, namely our primary and middle schools, as well as our high schools are currently not-for-profit schools under the classification of the Decision, for the reasons that: (i) the Education Law of the PRC (before the amendments on 27 December 2015) requires that all private schools must not be established for profit-making purposes (although such schools may be operated for reasonable return pursuant to the Law for Promoting Private Education in the PRC then effective); (ii) all of our existing schools were established as not-for-profit schools before the promulgation of the Decision and, since their establishment, have never changed their status to for-profit schools under the applicable PRC Laws and regulations; and (iii) neither the amendments to the Education Law of the PRC nor the Decision have affected the not-for-profit status of our existing schools.

- *Change of status to for-profit school*

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

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. However, on the basis that the foreign ownership restriction and foreign control restrictions as described in “Regulations – Foreign Investment in Education in the PRC” and “Contractual Arrangements – PRC Laws and Regulations Relating to Foreign Ownership in the Education Industry” remain in effect, we will still be required to maintain our Contractual Arrangements pursuant to which we will control such school and will provide corporate management and education management consultancy services, intellectual property licensing services as well as technical and business support service in return for service fees. According

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

With respect to our new schools in operation or proposed new schools, namely Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School, Yunfu Guangzheng Preparatory School and Zhaoqing Guangming Preparatory School, we have not made any definitive decision as to whether to commence offering high school education in such schools. In the event that we decide in doing so, we will adopt the same approach in deciding whether any such new high schools will be operated as for-profit schools or not.

As advised by our PRC Legal Adviser, the above mentioned arrangement relating to our high schools does not violate the applicable PRC laws, since the Decision does not require existing private high schools to decide whether to become for-profit or not-for-profit schools within a time limit.

- *Operating profits or reasonable return*

According to the Decision, private schools are either for-profit or not-for-profit schools and the Decision no longer makes a distinction between schools the school sponsors of which require reasonable return and 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.

Notwithstanding that the school sponsors of all of our schools require reasonable returns, as the school sponsors of all of our schools have never obtained any reasonable return from our schools (that is, none of the operating profits of our schools have been passed to the school sponsors) and do not intend in doing so, we consider that the above amendment does not affect our schools.

- *Contractual Arrangements*

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

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

We have been advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of the Decision which affect or may affect our industry as a whole or any of our schools, especially given that the relevant implementation regulations had not been promulgated as at the Latest Practicable Date. Please refer to the risk factors associated with the Decision including, among other things, “Risk Factors – 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”.

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

### OUR STUDENTS AND STUDENT RECRUITMENT

As of 1 September 2016, we had a total student enrolment of approximately 31,788 students, including 7,733 high school students, 12,509 middle school students, 11,199 primary school students and 347 students in the international programmes.

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

We encourage our primary and middle school graduates to apply for our middle and high schools, as applicable, either within the same school or with another school in our school network that provides the desired higher level of education. Graduates from our schools enjoy priority in the admission process and will generally be admitted to their desired higher-level schools within our school network. For the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 86.9%, 82.4% and 83.3% of our primary school graduates enrolled in our middle schools. For the same school years, approximately 51.9%, 54.9% and 58.7% of our middle school graduates enrolled in our high schools.

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



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organizing promotion events, donating to good causes and participating in community services. For the years ended 31 August 2014, 2015 and 2016, our selling expenses in relation to marketing and student recruitment were RMB6.3 million, RMB7.5 million and RMB13.3 million, respectively.

### OUR TEACHERS AND TEACHER RECRUITMENT

We employ a team of qualified and committed teachers, which enables us to offer a variety of mandatory and elective courses and provide moral guidance to our students. As of 1 September 2016, we employed 1,960 teachers, including 486 high school teachers, 765 middle school teachers, 671 primary school teachers and 38 teachers for the international programmes. The following table sets forth the number of teachers for each of our schools as of the dates specified:

School	2013	1 September 2014	2015	2016
Dongguan Guangming School	622	605	606	602
Dongguan Guangming Primary School	239	268	321	311
Dongguan Guangzheng Preparatory School	280	366	464	550
Huizhou Guangzheng Preparatory School	21	84	190	299
Panjin Guangzheng Preparatory School	–	36	85	136
Weifang Guangzheng Preparatory School	–	–	–	62
<b>Total</b>	<b>1,162</b>	<b>1,359</b>	<b>1,666</b>	<b>1,960</b>

As of 1 September 2016, one of our teachers had Exceptional Teacher qualifications, 97 had Advanced Teacher qualifications, eight were provincial level academic leaders and 47 were city-level academic leaders. Exceptional Teacher qualification is an honorable qualification awarded to teachers who have made exceptional contributions to the education industry. The city-level educational authorities select the awardees from potential candidates nominated by the schools. The selected awardees are to be approved by provincial governments and registered with the administrative department of education under the State Council. Advanced Teacher qualification is a professional qualification awarded to teachers who meet certain requirements and have made certain achievements as teachers. Potential candidates submit applications to their respective schools, which review and select the qualified awardees according to the relevant rules, regulations and local policies. Each school receives a quota from the relevant government authorities with respect to number or percentage of Advanced Teacher qualification it is able to award. As of 1 September 2016, over 79% of our PRC-qualified teachers held bachelors or higher degrees.

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

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To attract and retain high-quality teachers, we believe we offer a relatively competitive salary and benefits package and generally offer free or low cost accommodation on campus or close to our schools. As of 1 September 2016, approximately 13.7% of our 1,960 teachers had been with us for over five years and 10.5% had been with us for more than ten years. We believe we have experienced a relatively low turnover ratio involving our teachers during the Track Record Period. For the 2013/2014, 2014/2015 and 2015/2016 school years, approximately 14.5%, 9.7% and 12.5% of our teachers voluntarily resigned from our schools.

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

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

## COMPETITION

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

We believe our principal competitive advantages include:

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

We expect competition to persist and intensify. Our existing and potential competitors may have access to resources that we do not have, may be able to devote greater resources to student recruitment, campus development and brand promotion than we can and may respond more quickly

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to changes in the market than we do. Please refer to “Industry Overview” and “Risk Factors – Risks Relating to Our Business and Industry – 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” of this document for further details about the competition we face and the impacts on our business.

### EMPLOYEES

We had 2,046, 2,348, 2,763, 3,355 employees as of 1 September 2013, 2014, 2015 and 2016, respectively. The following table sets forth the approximate numbers of our employees by function as of the dates indicated:

Types of Employees	2013	As of 1 September		
		2014	2015	2016
Executive Directors and senior management	9	9	9	10
Teachers	1,162	1,359	1,666	1,960
Counsellors	291	342	418	487
Administrative and supporting staff	374	386	396	533
Campus security	66	74	73	95
Accounting and finance staff	28	32	29	39
Ancillary service supporting staff	116	146	172	231
<b>Total</b>	<b>2,046</b>	<b>2,348</b>	<b>2,763</b>	<b>3,355</b>

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

### CUSTOMERS AND SUPPLIERS

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

Our suppliers primarily comprise of food, educational services and educational material suppliers. For the years ended 31 August 2014, 2015 and 2016, purchases from our five largest suppliers amounted to RMB22.3 million, RMB29.9 and RMB30.5 million, respectively, representing 9.3%, 10.3% and 8.2% of the cost of revenue, respectively. During the same periods, purchases from our largest supplier, 東莞市盈威食品有限公司 (Dongguan Yingwei Foods Company Limited), amounted to RMB10.9 million, RMB12.0 million and RMB113.2 million, respectively. Three of our five largest suppliers during the Track Record Period are related parties of our Group for accounting purposes, namely 東莞市盈威食品配送中心 (Dongguan Yingwei Foods Co. Ltd.) and 東莞市厚街長盈食品經營店 (Dongguan Houjie Chang Ying Food Store) which are controlled by Mr. SP Liu (being the father of Mr. Liu) and 東莞市厚街盈發副食店 (Dongguan Houjie Yingfa Grocery Store) which is controlled by a close family member of Mr. Liu. For the years ended 31 August 2014, 2015 and 2016, purchases from these three suppliers in aggregate amounted to RMB13.9 million, RMB16.9 million and RMB22.7 million, respectively. As of the Latest Practicable Date, we intended to discontinue the aforesaid related party transactions prior to [REDACTED]. Please refer to “Financial Information – Related Party Transactions” and note 36 to the Accountants’ Report in Appendix I to this document

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for further details. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

### INTELLECTUAL PROPERTY

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

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

### AWARDS AND RECOGNITIONS

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

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

#### Comprehensive Awards

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

#### Academic Awards

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2014	Model School for Standardized Compulsory Education in Guangdong Province (廣東省義務教育標準化學校)	Department of Education of Guangdong Province (廣東省教育廳)	Dongguan Guangming Primary School Dongguan Guangming School (middle school section)
2014	Model School for Language and Writing Standardization in Dongguan (東莞市語言文字規範化示範校)	Language Commission, Dongguan Education Bureau (東莞市語言文字工作委員會、東莞市教育局)	Dongguan Guangming School Dongguan Guangzheng Preparatory School

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

## Sports, Art and Chinese Culture Education Awards

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2015	Dongguan Guangming School high school male basketball team was invited to attend the prestigious Iolani Classic Basketball Tournament held in Honolulu, Hawaii as China's representative team	China School Sports Federation, Basketball Branch (中國中學生體育協會籃球分會)	Dongguan Guangming School
2013	Featured School for Traditional Sports in Guangdong (track and field) (廣東省體育傳統項目學校 (田徑))	Sports Bureau of Guangdong Province (廣東省體育局) Department of Education of Guangdong Province (廣東省教育廳)	Dongguan Guangzheng Preparatory School
2011	Youth Basketball Training Base for Guangdong (廣東省青少年籃球訓練基地)	Sports Bureau of Guangdong Province (廣東省體育局)	Dongguan Guangming School
2009	Sports-specialty Students Training Base for Tsinghua University (清華大學體育特長生培養基地)	Sports Department, Tsinghua University (清華大學體育部)	Dongguan Guangming School



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Year	Award/Accreditation	Awarding Organization	Awarded Entity
2008	Training Base for Arts-Specialty Students in China (中國藝術特長生優秀培訓基地)	Ministry of Education – Committee for the Promotion of Art Education in China; Ministry of Culture – Development Foundation of Chinese Society and Culture; Election Office for Outstanding Specialty Students in China; Dongguan Office for Star Kids ((教育部)中國藝術教育促進會;(文化部)中華社會文化發展基金會;中國優秀特長生推選活動辦公室;東莞市寶貝之星活動辦公室)	Dongguan Guangzheng Preparatory School
2008	Leading School for Calligraphy Education in Guangdong (廣東書法教育先進學校)	Guangdong Teenage Calligraphy Competition Organizing Committee (廣東省青少年書法大賽組委會)	Dongguan Guangming School

### Moral Education Awards

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

### Campus Related Awards

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

## PROPERTIES

As of 31 December 2016, we owned the land use rights for 17 parcels of land in the PRC with a total site area of approximately 728,124.2 sq.m. and 49 buildings and eight units with a total gross floor area of approximately 535,914.7 sq.m. All of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of 31 December 2016, we also leased the land use rights for one parcel of land with a total site area of approximately 2,398 sq.m. and 17 buildings and units with a total gross floor area of 74,334.4 sq.m. from Independent Third Parties for the operations of our schools.

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### Owned Properties

#### Land

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.. The following table sets forth a summary of the land use rights we owned:

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

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

The parcels of land held by Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School are government-allocated land. As advised by our PRC Legal Adviser, under the applicable PRC laws and regulations, all such parcels of land, being government-allocated land, and the buildings attached thereto cannot be transferred, leased or pledged without prior approval of the relevant government authorities.

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### *Buildings*

As of 31 December 2016, we owned 49 buildings and eight units in the PRC with an aggregate gross floor area of approximately 535,914.7 sq.m.. The following table sets forth a summary of the buildings we owned:

Building Used by	No. of Buildings/ Units	Gross Floor Area (sq.m.)	Location	Existing Use
Guangdong Guangzheng	8 units	1,476.0	Dongguan, Guangdong Province	Office
Dongguan Guangming School	14 buildings	138,429.3	Dongguan, Guangdong Province	Education
Dongguan Guangming Primary School	6 buildings	69,471.9	Dongguan, Guangdong Province	Education
Dongguan Guangzheng Preparatory School	12 buildings	138,525.3	Dongguan, Guangdong Province	Education
Huizhou Guangzheng Preparatory School	3 buildings	63,988.8	Huizhou, Guangdong Province	Education
Panjin Guangzheng Preparatory School	11 buildings	76,588.2	Panjin, Liaoning Province	Education
Weifang Guangzheng Preparatory School	3 buildings	47,435.2	Weifang, Shandong Province	Education
<b>Total</b>	49 buildings and 8 units	535,914.7		

As of 31 December 2016, we leased, as the landlord, the eight units owned by Guangdong Guangzheng with a total gross floor area of approximately 1,476 s.q.m to a single tenant for a term due to expire on 31 December 2020. For the years ended 31 August 2014, 2015 and 2016, our property rental income was RMB1.0 million, RMB0.9 million and RMB1.0 million, respectively. As advised by our PRC Legal Adviser, all educational facilities in a school cannot be pledged under the applicable PRC laws and regulations.

### *Building ownership certificates*

As of the Latest Practicable Date, we had not obtained the building ownership certificates for a total of 32 of our owned buildings: (i) eight of the 14 buildings used by Dongguan Guangming School with a gross floor area of approximately 67,070 sq.m., (ii) six buildings used by Dongguan Guangming Primary School with a gross floor area of approximately 69,471.9 sq.m., (iii) four of the 12 buildings used by Dongguan Guangzheng Preparatory School with a gross floor area of approximately 70,229.2 sq.m., (iv) 11 buildings occupied by Panjin Guangzheng Preparatory School with a gross floor area of approximately 76,588.2 sq.m., including four buildings that had not been put to use as of the Latest Practicable Date with a gross floor area of 24,600.4 sq.m., and (v) three buildings occupied by Weifang Guangzheng Preparatory School with a gross floor area of approximately 47,435.2 sq.m..

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### *Other certificates*

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

	Affected total gross floor area (sq.m.)		
	Planning certificate	Construction permit	Certificate for passing environmental assessments
Dongguan Guangming School	48,030.0	21,836.0	–
Dongguan Guangming Primary School	69,471.9	69,471.9	69,471.9
Dongguan Guangzheng Preparatory School	62,145.5	62,145.5	70,229.2
Weifang Guangzheng Preparatory School	–	84,764.6	47,435.2

For further details on the legal consequences, potential penalties and risks and uncertainties associated with the legal defects to certain of our owned buildings, please refer to “– Legal Proceedings and Compliance” below, “Risk Factors – Risks Relating to Our Business and Our Industry – We are subject to extensive governmental approvals and compliance requirements for the construction and development of our schools and in relation to the land and buildings that we own” of this document. As of the Latest Practicable Date, we had obtained the relevant certificates which indicate that all the buildings in use and owned by us can be used safely, including the certificate of passing construction completion inspections, the completion report or the safety assessment report for building structures, as applicable, and the certificate for passing fire control assessments.

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

### **Leased Properties**

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

As of 31 December 2016, we leased 17 buildings and units with a total gross floor area of approximately 74,334.4 sq.m. from Independent Third Parties, including 12 buildings in Dongguan, Guangdong Province with a gross floor area of approximately 63,008.2 sq.m., which were used as student dormitories and staff apartments for Dongguan Guangming School, two buildings in Dongguan, Guangdong Province with a gross floor area of approximately 10,902 sq.m., which were used as staff apartments for Dongguan Guangzheng Preparatory School, one unit in Weifang, Shandong Province (the lease of which is currently under renewal) with a gross floor area of approximately 197.1 sq.m., which was used as staff apartments for Weifang Guangzheng Preparatory School, one unit in Panjin, Liaoning Province with a gross floor area of approximately 122.5 sq.m., which was used as staff office and apartments, and one unit in Yunfu, Guangdong Province with a gross floor area of approximately 104.5 sq.m., which was used as Yunfu Guangzheng Preparatory

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School’s registered address. The 14 leased buildings in Dongguan, Guangdong Province have lease terms ranging from one to 20 years. The leased unit in Weifang, Shandong Province had a lease term of one year till November 2016, which is currently under renewal. The leased unit in Panjin, Liaoning Province has a lease term of one year and the lease expires on 31 July 2017. The leased unit in Yunfu has a lease term of one year and the lease expires on 23 August 2017. For the years ended 31 August 2014, 2015 and 2016, our property rental expenses were RMB3.5 million, RMB4.8 million and RMB5.8 million, respectively.

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

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

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

### **Indemnity from our Controlling Shareholders**

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

### **INSURANCE**

We maintain various insurance policies against certain risks and unexpected events, such as school liability insurance, student personal accident insurance and property insurance for vehicles. We also provide social security insurance including pension insurance, unemployment insurance, work related injury insurance and medical insurance for our PRC employees. We do not maintain business interruption insurance, product liability insurance or key-man life insurance. We consider



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our insurance coverage to be generally in line with companies of similar size in the same industry in China. Please refer to “Risk Factors – Risks Relating to Our Business and Our Industry – We have limited insurance coverage” of this document for further details of risks associated with our insurance coverage.

### Licences and Permits

Our PRC Legal Adviser has advised that, as of the Latest Practicable Date, except as otherwise disclosed in this document, we had obtained the licences, permits, approvals and certificates and made the registrations and filings necessary to conduct our operations in all material respects from the relevant government authorities in the PRC and that such licences, permits, approvals, certificates, registrations and filings remained in full effect in all material respects.

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

Holder	Licence/Permit	Granting authority	Grant date	Expiry date
Dongguan Guangming School	Private school operating licence <sup>(1)</sup>	Dongguan Education Bureau	1 January 2014	31 December 2019
	Registration certificate for private non-enterprise entities	Dongguan Civil Affairs Bureau	1 December 2016	30 November 2020
Dongguan Guangming Primary School	Private school operating licence	Dongguan Education Bureau	1 January 2014	31 December 2019
	Registration certificate for private non-enterprise entities	Dongguan Civil Affairs Bureau	1 December 2016	30 November 2020
Dongguan Guangzheng Preparatory School	Private school operating licence <sup>(1)</sup>	Dongguan Education Bureau	1 January 2017	31 December 2022
	Registration certificate for private non-enterprise entities	Dongguan Civil Affairs Bureau	1 December 2016	30 November 2020
Huizhou Guangzheng Preparatory School	Private school operating licence	Huizhou Education Bureau	6 May 2015	5 May 2019
	Registration certificate for private non-enterprise entities	Huizhou Civil Affairs Bureau	17 December 2015	6 May 2019
Panjin Guangzheng Preparatory School	Private school operating licence	Panjin Education Bureau	27 November 2014	November 2017
	Registration certificate for private non-enterprise entities	Panjin Xinglongtai Civil Affairs Bureau	14 October 2016	14 October 2018
Weifang Guangzheng Preparatory School	Private school operating licence	Weifang Weicheng District Education Bureau	15 June 2016	14 June 2019
	Registration certificate for private non-enterprise entities	Weifang Civil Affairs Bureau	28 July 2015	27 July 2020

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*Notes:*

- (1) Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, private schools are required to pass annual inspections conducted by the relevant government authorities. For the 2014/2015 school year, our Dongguan Guangming School and Dongguan Guangzheng Preparatory School did not pass their annual inspections primarily due to school management oversight. We promptly improved the internal control of the two schools. On 29 April 2016, Dongguan Education Bureau, being the competent government authority responsible for the annual inspection of schools in Dongguan, issued a letter confirming that our Dongguan Guangming School and Dongguan Guangzheng Preparatory School had complied with all the relevant laws, regulations and rules in relation to education and had met the standards of all on-site and other inspections conducted by the relevant governing authorities during the year of 2016 up to the date of the letter. We also engaged our PRC Legal Adviser to conduct an interview with Dongguan Education Bureau on 17 May 2016, which confirmed that after conducting a preliminary inspection of Dongguan Guangming School and Dongguan Guangzheng Preparatory School, they did not find any incident that would prevent the schools from passing their 2015/2016 annual inspections. Both our Dongguan Guangming School and Dongguan Guangzheng Preparatory School passed the latest annual inspection, namely, the 2015/2016 annual inspection, conducted by the relevant government authority. Based on the above, our Directors are of the view that failure to pass the 2014/2015 annual inspection does not constitute a material non-compliance incident and in any event does not have a material adverse impact on our Dongguan Guangming School or Dongguan Guangzheng Preparatory School or our Group as a whole.

## HEALTH AND SAFETY MATTERS

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

In 2014, a student in Dongguan Guangming School fell from his dormitory building and his parents initiated court proceedings against us in relation to the student’s death. In November 2015, the court ruled that our school was not at fault in the management, education and security protection of students and that the school should pay the plaintiffs RMB100,000 in compensation and dismissed all other claims of the plaintiffs 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 “– Legal Proceedings and Compliance” below for further details. We have put in place enhanced health and safety measures with a view to preventing the recurrence of similar incidents on our school premises, including (i) increasing the patrols by our staff in student dormitories, (ii) enhancing the communication with parents and students to better understand the physical and psychological status of our students, (iii) holding educational talks to increase student awareness of health and safety matters, (iv) further promoting the on-campus counselling services provided by our teachers and counselors, and (v) conducting additional training to the relevant staff to ensure appropriate and prompt responses in circumstances of emergency.

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## BUSINESS

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### LEGAL PROCEEDINGS AND COMPLIANCE

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

- in March 2015, an individual who is an Independent Third Party, initiated court proceedings in Dongguan against us in relation to, according to his allegations, the advances he made on behalf of our Dongguan Guangzheng Preparatory School during its establishment for a total amount of RMB5.0 million and related interests. As of the Latest Practicable Date, the outcome of this legal proceeding had yet to be finalized; and
- In April 2015, parents of a student initiated court proceedings against us seeking over RMB780,000 in damages in relation to the death of the student who fell from his dormitory building in Dongguan Guangming School in 2014. The court held that, (i) our teacher acted appropriately by speaking to the student, with prior consent from his parents, when the teacher found out about the large amount of cash carried by the student, duly performed his duty of management and safety protection by stopping the student from engaging in a dangerous act, and (ii) an ordinary person could not have predicted the incident as there was no unusual behavior by the student on the day of the incident. Accordingly, 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 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.

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

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

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### (i) Material Non-compliance

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

Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
<p>1. During the Track Record Period and up to the Latest Practicable Date, we breached the relevant requirements for making full contributions to the social insurance plans and the housing provident fund for our employees.</p> <p>We estimate that the amount of social insurance payments and housing provident fund contributions that we did not pay during the three years ended 31 August 2014, 2015 and 2016 were RMB13.9 million, RMB16.5 million and RMB4.7 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.</p>	<p>The non-compliance was primarily caused by administrative oversight, the relevant school management being unfamiliar with the relevant regulatory requirements, different levels of acceptance of the social insurance scheme by our employees and inconsistent implementation or interpretation by local authorities in the PRC of the relevant regulations.</p>	<p>Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, late fees and fines will be imposed on an employer for not making full social insurance payments for employees in a timely manner. If any competent government authority is of the view that the social insurance payments we made for our employees breached the requirements under relevant PRC laws and regulations, it can order us to pay the outstanding balance within a prescribed time period and a late fee of 0.05% of the total outstanding balance per day. If we fail to pay the outstanding balance within the prescribed time period, we may be subject to a fine ranging between one to three times of the total outstanding balance.</p>	<p>We have engaged our PRC Legal Adviser to conduct interviews with the relevant human resources and social security bureaus and housing provident fund management centres in Dongguan, Huizhou and Panjin to determine the likelihood of penalties and the current practice of these authorities with respect to implementation and interpretation of the relevant regulations. Each of these authorities confirmed in the interview that:</p> <p>(a) it would not initiate any request for payment of the outstanding balance solely based on the fact that we made partial social insurance payments and housing provident fund contributions; and</p> <p>(b) it would not initiate any proceedings of penalties solely based on the fact that we made partial social insurance payments and housing provident fund contributions.</p> <p>We have also obtained written confirmation from the relevant local human resources and social security bureaus and housing provident fund management centres in Dongguan, Huizhou and Panjin, to the effect, confirming that we did not violate the relevant PRC laws and regulations or we have started to make the relevant contributions.</p>	<p>Mr. Li Jiuchang, Mr. Ng Cheuk Him and Mr. Deng Guoqing.</p>	<p>Given the interviews with and written confirmation from the competent authorities and the advice from our PRC Legal Adviser, our Directors believe that we do not need to make provision for the outstanding balance of the social insurance payments and housing provident fund contributions.</p> <p>Based on the foregoing and on the basis that our Group will fully comply with all applicable requirements for social insurance plans and housing provident funds by the end of 2017, our Directors are of the view that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole. Our Controlling Shareholders have agreed to indemnify our Group pursuant to the Deed of Indemnity for this non-compliance incident.</p>

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



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Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
			<ul style="list-style-type: none"> <li>We have established an internal control team to monitor our on-going compliance with the social insurance and housing provident fund contribution regulations and oversee the implementation of any necessary measures to comply with the applicable laws and regulations.</li> </ul> <p>We will disclose the process of the aforesaid rectification in our interim/annual reports as appropriate and, where applicable, explanation for any delay in such rectification.</p> <p>Our PRC Legal Adviser is of the view that there is no legal impediment for us to rectify this non-compliance.</p>		

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Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Senior management in charge of rectification	Potential impact on our operations and financial condition
<p>2. During the Track Record Period and up to the Latest Practicable Date, we had not obtained the land use right certificates for the seven parcels of land used by our Dongguan Guangming Primary School with a gross site area of approximately 24,192 sq.m. and the construction permits for the buildings built on such land.</p> <p>Revenue from our Dongguan Guangming Primary School accounted for 17.2%, 17.0% and 16.5% of our total revenue for the years ended 31 August 2014, 2015 and 2016, respectively. As of 31 December 2016, the properties held and occupied by Dongguan Guangming Primary School had no commercial value. Please refer to the property valuation report as set out in Appendix III to this document for further details.</p>	<p>The non-compliance related to Dongguan Guangming Primary School was primarily caused by administrative oversight, and the relevant school management being unfamiliar with the relevant regulatory requirements for the transfer of land use rights.</p>	<p>Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, our rights to the land may be challenged by third parties if we use land without a land use right certificate.</p> <p>As advised by our PRC Legal Adviser, we may be subject to administrative fines or other penalties due to the lack of the relevant certificates and permits for our buildings including those as set out in “Risk Factor – Risk Relating to Our Business and Our Industry – We are subject to extensive governmental approvals and compliance requirements for the construction and development of our schools and in relation to the land and buildings that we own”.</p> <p>As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government authorities with respect to this non-compliance, nor had any of our schools been required to rectify this non-compliance or our rights to the land be challenged by third party.</p>	<p>We have taken reasonable steps to rectify this non-compliance:</p> <ul style="list-style-type: none"> <li>We have applied for the real estate ownership certificates for the real estate used by our Dongguan Guangming Primary School. On 24 December 2015, Office for Application of Property Permits for Completed Properties of 東莞市東城街道辦事處已建房屋補辦房地產手續辦公室, being, as confirmed by our PRC Legal Advisor, the competent authority for accepting application for real estate ownership certificate post-registration of completed properties, accepted our application. On 9 September 2016, the Dongguan Urban and Rural Planning Bureau (東莞市城鄉規劃局) issued Dongguan construction land planning approval to Dongguan Dongcheng Subdistrict Office (東莞市東城街道辦事處), for the land occupied by Dongguan Guangming Primary School, confirming the use of land by Guangming Primary School is in compliance with the applicable land and construction planning requirements.</li> <li>We are closely following up with the government authority with respect to the status of our application.</li> </ul> <p>We will disclose the process of the aforesaid rectification in our interim/annual reports as appropriate and, where applicable, explanation for any delay in such rectification.</p> <p>Our PRC Legal Adviser is of the view that, after submitting the requisite documents to the relevant government authority and completing the requisite procedures, there is no legal impediment for us to rectify this non-compliance.</p>	<p>Mr. Li Jiuchang, Mr. Ng Cheuk Him and Mr. Deng Guoqing.</p>	<p>Our Directors take the view that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole, because (i) the relevant government authority has accepted our application for the relevant real estate ownership certificates; (ii) we intend to submit all the requisite documents to the government authority and complete all the requisite procedures to obtain the real estate ownership certificates; and (iii) our Controlling Shareholders have agreed to indemnify our Group pursuant to the Deed of Indemnity for this non-compliance incident including, where required, to procure appropriate alternative suitable premises for our use. On the basis of aforesaid, our Directors believe that we do not need to make provision for this non-compliance incident.</p> <p>In the unlikely event that we are unable to obtain the land use right certificates and required to discontinue our use of the affected buildings, we do not believe it will have a material adverse impact on our operations as we believe that there will be alternative premises available with proximity of the relevant affected buildings (including premises to be procured by our Controlling Shareholders pursuant to the Deed of Indemnity where appropriate) and/or that our other properties could be reconfigured at minimal cost to accommodate our use, where appropriate.</p>

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### (ii) Systemic Non-compliance

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

#### (a) Building ownership certificates and related certificates and permits

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

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### (b) Settlement through Personal Bank Accounts

#### (A) Background

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

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

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

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Corresponding Corporate Account	Name of Bank	Opening Date	Cessation Date	Primary Use
7. <i>Ms. Li</i> Dongguan Guangzheng Preparatory School	Dongguan Rural Commercial Bank, ChaShan ZengBu branch	2 December 2013	1 June 2016	Deposits of cash generated from students’ pre-payments for the on-campus canteen; Making payments for operating expenses of the on-campus canteen
8. <i>Ms. Li</i> Dongguan Guangzheng Preparatory School	Dongguan Rural Commercial Bank, ChaShan ZengBu branch	19 August 2014	31 August 2015	Deposits of cash generated from students’ pre-payments for the on-campus canteen; Making payments for operating expenses of the on-campus canteen
9. <i>Mr. He Shan</i> Panjin Guangzheng Preparatory School	China Guangfa Bank, Panjin branch	11 July 2014	31 August 2015	Making payments for the operating expenses of the school and to suppliers

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

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

We used one Personal Bank Account registered under the name of Mr. He because we did not receive the registration certificate for private non-enterprise entities for Panjin Guangzheng Preparatory School, without which, as advised by our PRC Legal Adviser, we were unable to open a corporate bank account registered under the name of the school. We received the registration certificate for private non-enterprise entities for Panjin Guangzheng Preparatory School in October 2016. In addition, as Panjin Guangzheng Preparatory School is geographically far from Guangdong province, where our corporate bank accounts were located when we first started business in Panjin, we considered it inefficient and costly to deposit and withdraw cash from our corporate bank accounts for the use of Panjin Guangzheng Preparatory School. As a result of the foregoing, we used a Personal Bank Account registered under the name of Mr. He, who is based in Panjin. Mr. He is a senior management of our Group and executive vice principal of Panjin Guangzheng Preparatory School. Through the use of the Personal Bank Account registered under the name of Mr. He, we were able to make payments more efficiently to the relevant suppliers to enable the timely commencement of operations of our Panjin Guangzheng Preparatory School. When Panjin Guangzheng Preparatory School commenced operations in September 2014, we were also able to make payments for the operating expenses of the school more efficiently through the Personal Bank Account registered under the name of Mr. He.



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## BUSINESS

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

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

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

As of 1 June 2016, we had ceased the use of all Personal Bank Accounts. As of the Latest Practicable Date, we had transferred all material bank balances in the Personal Bank Accounts to our corporate bank accounts. The independent internal control consultant of the Group (the “**Internal Control Consultant**”) reviewed the design of our internal control policies and procedures on the use of Personal Bank Accounts during the Track Record Period and is of the view that they were adequate and had been effectively implemented.

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

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

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For the years ended 31 August 2014, 2015 and 2016, the payments made from the Personal Bank Accounts was RMB114.0 million, RMB151.3 million and RMB87.3 million, accounting for 3.4%, 6.3% and 2.1%, respectively, of the total payment amounts made from all of our bank accounts, including both corporate bank accounts and the Personal Bank Accounts. During the same periods, the total number of payment transactions through the Personal Bank Accounts was 10,279, 9,166 and 914, respectively. The purposes of payments made from the Personal Bank Accounts and the corporate bank accounts are substantially the same, which primarily included payments to suppliers, intercompany transfers within the Group, staff payroll and bonuses, advances to related parties, repayment of bank borrowings and other operating expenses payments. For the years ended 31 August 2014, 2015 and 2016, payments to suppliers represented 37.0%, 35.6% and 53.8% of the total payment amounts from the Personal Bank Accounts, respectively. For the same periods, intercompany transfers within the Group represented 42.4%, 50.9% and 39.0% of the total payment amounts from the Personal Bank Accounts, respectively.

For the years ended 31 August 2014, 2015 and 2016, the total cash received through the Personal Bank Accounts was RMB114.6 million, RMB148.6 million and RMB85.3 million, accounting for 3.5%, 6.2% and 2.1%, respectively, of the total cash received through all of our bank accounts, including both corporate bank accounts and the Personal Bank Accounts. During the same periods, the total number of cash receipt transactions through the Personal Bank Accounts was 646, 1,029 and 511, respectively. The purposes of the cash received through the Personal Bank Accounts and the corporate bank accounts are substantially the same, which primarily included cash received in advance for ancillary services and tuition and boarding fees, intercompany transfers within the Group, repayment from related parties and proceeds from bank borrowings. For the years ended 31 August 2014, 2015 and 2016, cash deposits represented 83.8%, 78.5% and 82.8% of the total cash received through the Personal Bank Accounts, respectively. For the same periods, intercompany transfers within the Group represented 14.4%, 11.3% and 7.2% of the total cash received through the Personal Bank Accounts, respectively.

Our Directors consider that the cessation of the usage of the Personal Bank Accounts has no material adverse effect on our business operations and financial results, taking into account that (i) the operations of all our schools remain normal after such cessation; (ii) the total amount of payments made from and the total deposits into the Personal Bank Accounts accounted for a relatively small percentage of the total payment amounts from and the total deposit amounts into all of our bank accounts for the years ended 31 August 2014, 2015 and 2016, respectively; and (iii) our audited financial statements for the year ended 31 August 2016, which covers the period after the cessation of the usage of the Personal Bank Accounts from 1 June 2016 to 31 August 2016, shows no irregularities.

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

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

### *(E) Transactions under the Arrangements*

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

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## BUSINESS

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

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

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

*(G) Legal consequence of the Arrangements*

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

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

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

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

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

- we have enhanced our internal control manual to require all the receipts and payments must be made through corporate accounts and no personal bank account could be opened and used. As of the Latest Practicable Date, such manual had become effective and the relevant staff of our Group had been notified; and

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- the managers of the finance department of our Group shall, under the supervision of Mr. Ng Cheuk Him, our chief financial officer and executive Director, closely monitor all members of our Group to ensure that no personal bank account is opened and used by any member of our Group by (i) checking all accounting records to detect whether any personal bank account is involved in the receipt or payment of funds and (ii) reviewing all bank statements of the corporate accounts of our Group to detect any abnormal or unauthorised transfer of funds. In case of any indication of use of personal bank accounts for the receipt or payment of funds by any member of our Group, they should report to Mr. Ng Cheuk Him immediately.

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

Our Internal Control Consultant is not aware of any material issues and irregularities with respect to our internal control policies and procedures regarding the making and receiving of payments through both the Personal Bank Accounts and corporate accounts. Moreover, our Internal Control Consultant is of the view that, despite the short implementation period, our enhanced internal control measures are adequate and have been effectively implemented, for the following reasons:

- all usage of the Personal Bank Accounts has ceased since 1 June 2016;
- we have enhanced our internal control manual to require all the making and receiving of payments be made through corporate accounts and no personal bank accounts shall be opened and used; and
- in its follow-up reviews, the Internal Control Consultant was not aware of any making or receiving of payments through the Personal Bank Accounts.

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

## INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

- we have established internal audit policies and an independent internal audit department. Our internal audit policies cover, among other things, the supervision of financial operations, business operations, compliance matters and risk management matters. The internal audit department will perform internal audits on, among other things, the financial, operational, compliance and risk management aspects of our Group and reports to the audit committee of our Board from time to time. Members of the internal audit department will not participate in the ordinary business operations of our Group;
- we have established a risk assessment system, which covers, among other things, the management of strategic risks, market risks, legal risks, operational risks, financial risks and information and technology risks of our Group. Senior management of the Company has also assessed our risks and established corresponding measures to control identified risks;
- we have established a legal department, which reports directly to our Board. The legal department is responsible for providing legal advice on the operations of our Group, drafting and reviewing contracts, communicating with external legal advisers and coordinating legal training and counseling (to be provided in-house or by external legal advisers) to our management and staff. Moreover, in addition to our Compliance Adviser appointed pursuant to the Listing Rules, our Group will engage external professional advisers (including Hong Kong and PRC legal advisers) of appropriate qualifications and experience to provide advice and guidance on the legal and compliance matters from time to time;



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- we have adopted policies, systems and procedures relating to human resources management, information system management, financial reporting and disclosure, cash flow and investment management; and
- we have adopted policies, systems and procedures relating to sales, procurement, suppliers, fixed assets management and the management of construction in progress.

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

### Risk Management

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

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

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