You should read the following discussion in conjunction with the consolidated financial statements included in the Accountants' Report and the notes thereto included in Appendix I to this document and the selected historical financial information and operating data included elsewhere in this document. The consolidated financial statements have been prepared in accordance with IFRS.

Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set out in "Forward-looking Statements" and "Risk Factors" in this document.

During the Track Record Period, we recorded imputed interest income on advances to Cinese Group and other related parties and incurred interest-bearing bank borrowings and interest expenses to fund such advances. We do not expect to recognise such imputed interest income or incur such bank borrowings or interest expenses following [**REDACTED**]. *Please refer to "– Imputed Interest Income and Related Interest Expenses" below for further details.*

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, 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.

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

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected financial information set forth below is derived from the Accountants' Report set out in Appendix I to this document and should be read in conjunction with the Accountants' Report set out in Appendix I to this document, the operating data included elsewhere in this document and "– Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

The following table presents a summary of our consolidated statements of profit and loss and other comprehensive income for the years ended 31 August 2014, 2015 and 2016:

Consolidated Statements of Profit and Loss and Other Comprehensive Income

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue	450,913	568,715	700,741
Cost of revenue	(239,717)	(289,194)	(370,352)
Gross profit	211,196	279,521	330,389
Other income	7,007	6,858	7,499
Other gains and losses	176	(1,260)	(6,201)
Selling expenses	(6,289)	(7,513)	(13,271)
Administrative expenses	(72,150)	(76,114)	(93,945)
[**REDACTED**] expenses	–	–	(24,401)
Finance income	46,316	117,600	64,105
Finance costs	(73,987)	(106,750)	(69,640)
Profit before taxation	112,269	212,342	194,535
Taxation	(21,360)	(30,045)	(40,172)
Profit and total comprehensive income for the year	90,909	182,297	154,363
Attributable to:			
Owners of the Company	90,917	182,305	154,367
Non-controlling interests	(8)	(8)	(4)
	90,909	182,297	154,363

The following table presents a summary of our consolidated statements of financial position as of 31 August 2014, 2015 and 2016:

Consolidated Statements of Financial Position

	Our Group		
	At 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
NON-CURRENT ASSETS			
Property, plant and equipment	925,194	1,006,912	1,344,405
Prepaid lease payments	218,308	213,055	226,324
Investment properties	17,500	18,100	19,700
Amounts due from related parties	1,074,930	99,220	–
Deposits	90,271	95,380	–
Deferred tax assets	666	677	2,775
Prepayments for construction to a related company	–	–	170,000
	2,326,869	1,433,344	1,763,204
CURRENT ASSETS			
Inventories – goods for sale	1,591	1,978	4,522
Deposits, prepayments and other receivables	51,952	25,761	30,416
Amounts due from related parties	287,537	1,486,418	550,830
Prepaid lease payments	5,253	5,253	5,698
Bank balances and cash	13,071	12,229	103,705
	359,404	1,531,639	695,171
CURRENT LIABILITIES			
Deferred revenue	224,817	285,146	365,005
Trade payables	14,362	25,185	39,936
Other payables and accrued expenses	286,552	203,971	207,549
Amounts due to related parties	336,908	432,838	339,788
Income tax payable	38,583	61,210	58,218
Borrowings	141,362	537,849	142,279
	1,042,584	1,546,199	1,152,775
NET CURRENT ASSETS (LIABILITIES)	(683,180)	(14,560)	(457,604)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,643,689	1,418,784	1,305,600
CAPITAL AND RESERVES			
Share capital/paid-in capital	83,400	83,400	–
Reserves	427,232	592,076	830,775
Equity attributable to owners of the Company	510,632	675,476	830,775
Non-controlling interests	(217)	(225)	–
	510,415	675,251	830,775
NON-CURRENT LIABILITIES			
Borrowings	1,128,638	737,651	465,421
Deferred tax liabilities	4,636	5,882	9,404
	1,133,274	743,533	474,825
	1,643,689	1,418,784	1,305,600

The following table sets forth a summary of our consolidated statements of cash flows for the years ended 31 August 2014, 2015 and 2016:

Consolidated Statements of Cash Flows

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Net cash from operating activities	241,100	319,148	337,612
Net cash (used in) from investing activities	(909,972)	(308,769)	251,066
Net cash from (used in) financing activities	648,035	(11,221)	(497,202)
Net (decrease) increase in cash and cash equivalents	(20,837)	(842)	91,476
Cash and cash equivalents at beginning of the year	33,908	13,071	12,229
Cash and cash equivalents at the end of the year	13,071	12,229	103,705

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the Accountants' Report set out in Appendix I to this document and the operating data included elsewhere in this document.

BASIS OF PRESENTATION

Due to regulatory restrictions on foreign ownership of our schools in China, we conduct a substantial portion of our business through our Consolidated Affiliated Entities. We do not hold any equity interests in our Consolidated Affiliated Entities. A wholly-owned subsidiary of our Company, Dongguan Ruixing, has entered into Contractual Arrangements with Guangdong Guangzheng and its equity holders, which became effective on 1 July 2016. As a result of the Contractual Arrangements, we effectively control our Consolidated Affiliated Entities and are able to receive substantially all of their economic interest returns. Consequently, we regard the Consolidated Affiliated Entities as indirect subsidiaries. We have consolidated the financial position and results of the Consolidated Affiliated Entities into our financial statements during the Track Record Period. Please refer to "Contractual Arrangements" of this document and the significant accounting policies set out in the Accountants' Report included in Appendix I to this document for further details. Our Directors are satisfied that our Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future by taking into account our cash flow projection, repayment of advance from related parties, unutilised bank facilities and our future capital expenditure in respect of its non-cancellable capital commitments. Our Directors consider that we have sufficient working capital to meet in full our financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, our financial statements have been prepared on a going concern basis.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Demand for Private Education in China

Our business has benefited from the increasing demand for private education in China. Demand for private education in China is a function of a number of factors, including the level of economic development and changes in demographics. The overall economic growth and the increase in per capita disposable income have increased the level of per capita expenditure of urban households on education services in China, which increased at a CAGR of 7.1% from 2012 to 2015, according to the Frost & Sullivan Report. In addition, demand for private education has increased along with the growth in urban population in China. According to the Frost & Sullivan Report, the total number of students enrolled in the PRC private primary and secondary schools increased from 12.8 million in 2012 to 14.7 million in 2015, representing a CAGR of approximately 4.7%. 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%. China's family planning policy was further relaxed in October 2015, and the related laws and regulations are expected to be further amended accordingly to allow almost all families to have two children, which may lead to a faster growth rate in urban populations in China, according to the Frost & Sullivan Report. Therefore, we anticipate the demand for high quality private education in China to continue to increase.

We are strategically expanding our school network to capitalise on the increasing demand for private education in China. 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 with respect to the parties' potential cooperation on the development of a new school overseas. Please refer to "Business – Development of New Schools" of this document for further details.

Student Enrolment Levels

Our revenue largely depends on the number of students enrolled in our schools, which affects the amount of tuition fees, boarding fees and fees from ancillary services we collect from our students. As of 1 September 2013, 2014, 2015 and 2016, the total number of students enrolled in our schools amounted to approximately 19,354, 22,837, 27,644 and 31,788, respectively, growing at a CAGR of 13.2% from 2013 to 2016. Our student enrolment level depends on a number of factors, in particular, the reputation of our schools, which is mainly driven by the quality of education we provide, our tuition levels and our capacity. The quality of education we provide is mainly reflected by the placement of our graduates, the well-rounded development of our students, the curriculum offered at our schools and our school facilities. We believe our proven track record in these aspects will continue to help us attract students who seek premium private education. Moreover, the quality of our teachers is also a major factor that has in the past played, and will continue to play, an important role in the success of our schools. Accordingly, we provide competitive compensation to attract and retain high quality teachers, maintain continuous training programmes and enforce stringent teacher evaluation systems to maintain and improve our teachers' performances, which we believe will have a positive impact on student enrolment levels at our schools.

Tuition and Boarding Fees

Our results of operations are affected by the level of tuition and boarding fees we charge. We charged tuition and boarding fees ranging between RMB14,200 and RMB21,200 per student for the 2013/2014 school year, between RMB13,000 and RMB25,200 per student for the 2014/2015 and between RMB13,000 and RMB25,200 for the 2015/2016 school years for our PRC curriculum programmes. For our international programmes, we charged tuition and boarding fees ranging between RMB36,200 and RMB92,600 per student for the 2013/2014, 2014/2015 and 2015/2016 school years.

During the Track Record Period, the tuition and boarding fees we charge per school year increased from RMB21,000-RMB21,400 to RMB23,200 per middle school student and from RMB23,000-RMB23,100 to RMB25,200 per high school student for newly admitted students of Dongguan Guangming School, and the tuition and boarding fees we charge per school year increased from RMB15,000 to RMB16,000-RMB18,000 per primary school student, from RMB17,000 to RMB18,000-RMB19,400 per middle school student and from RMB17,600 to RMB20,400 per high school student at Dongguan Guangzheng Preparatory School.

There are two school terms in each school year. We usually require students to pay tuition and boarding fees prior to the commencement of each school term. The tuition and boarding fees we charge are typically based on the demand for our educational programmes, the cost of our operations, the geographic markets where we operate our schools, the tuition fees charged by our competitors, our pricing strategy to gain market share and general economic conditions in China and the areas in which our schools are located. While we have successfully increased tuition and boarding rates at certain of our schools during the Track Record Period, there is no guarantee we will be able to continue to raise tuition and boarding fees. Please refer to "Risk Factors – Risks Relating to Our Business and Our Industry – Our business depends on our ability to maintain or raise the tuition and boarding fee levels we charge at our schools" of this document for further details. For those students who are unable to complete a school term, we have refund policies in place. We also offer partial tuition fee waiver to a certain percentage of our middle and high school students and discounted tuition fee rates to children of our teachers and staff who enrol in our schools. Please refer to "Business – Our Schools – Tuition and Boarding Fees" of this document for further details.

According to the Frost & Sullivan report, tuition rates at our schools are higher than those in the public school system in China. Historically, we have kept our tuition and boarding fees at levels we believe are competitive as compared to our competitors in order to attract more students and thereby, increase our student enrolment and market share. During the Track Record Period, even though we increased our tuition rates on several occasions for certain of our schools, we believe such increases did not adversely impact our reputation or affect our student enrolment.

Utilisation Rate of Our Facilities

In addition to student enrolment and tuition and boarding fees, the utilisation rate of our school facilities may also affect our revenue, gross margin and growth capacity. We incur a substantial amount of fixed costs in relation to the operation of our business each year. If we are able to increase the utilisation rate of our facilities, especially the utilisation rate of our schools that were established relatively recently, we expect to improve our gross margin. As of 1 September 2013, 2014, 2015 and 2016, we had an overall facility utilisation rate of approximately 83.7%, 89.0%, 90.5% and 95.9%, respectively, based on an aggregate capacity of 23,128, 25,719, 30,552 and 33,152, respectively, for all of our schools. The table below sets forth the utilisation rate of each of our existing schools as of the dates indicated:

	School Utilisation Rate (%)[1] as of 1 September			
School	**2013[2]**	**2014[3]**	**2015[4]**	**2016[5]**
Dongguan Guangming School	99.5	99.5	98.9	97.8
Dongguan Guangming Primary School	89.9	93.3	98.3	98.6
Dongguan Guangzheng Preparatory School	62.0	81.5	85.9	93.7
Huizhou Guangzheng Preparatory School	27.1	61.7	72.2	97.0
Panjin Guangzheng Preparatory School	–	41.0	68.7	85.2
Weifang Guangzheng Preparatory School	–	–	–	95.5
Total	83.7	89.0	90.5	95.9

Notes:

(1) School utilisation rate is calculated by dividing the number of students enrolled at a school by the capacity for students of the school. Capacity for students of a school is calculated based on the approximate number of beds available in student dormitories according to the internal records and calculations of the school. Please refer to "Business – Our Schools – Number of Students" of this document for further details. Although we have calculated our schools' respective capacity based on the number of beds available, we believe the facilities at certain of our schools may accommodate additional beds without material capital expenditure (subject to the receipt of necessary approvals).

(2) Represents the beginning of 2013/2014 school year.

(3) Represents the beginning of 2014/2015 school year.

(4) Represents the beginning of 2015/2016 school year.

(5) Represents the beginning of 2016/2017 school year.

Utilisation rates of our schools that were established more recently are relatively lower because most students enrol from first grade, and student enrolment in our new schools will gradually increase as students progress into higher grades. It usually takes a few years for a new school to increase its utilisation rate to high levels, which is affected by various factors, including market condition, pricing and the reputation of our schools, as well as competition in the relevant market. Our results of operations are affected by the amount of time our new schools take to increase their utilisation rate to a relatively high level. We added two new schools to our school network as of 1 September 2013, namely, Dongguan Guangzheng Preparatory School, which was acquired in August 2013, and Huizhou Guangzheng Preparatory School, which commenced operations in September 2013. Our overall utilisation rate increased from 83.7% as of 1 September 2013 to 89.0% as of 1 September 2014, mainly due to increased student enrolment in Dongguan Guangzheng Preparatory School and

Huizhou Guangzheng Preparatory School as they entered into the second school year operated by us. As part of our strategy, we intend to continue to expand our existing schools and establish new schools to increase our capacity. Please refer to the table below and "Business – Development of New Schools" of this document for further details.

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

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

Notes:

(1) The capacity for Dongguan Guangming School and Dongguan Guangming Primary School is calculated based on the approximate number of beds available in student dormitories according to the respective school's internal records and calculations.

(2) The capacity for Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School is calculated based on the estimated number of students that the student dormitories of the respective schools were designed to accommodate according to the relevant school campus construction plans, assuming that the expansion had been completed accordingly as of 1 September 2016.

(3) The capacity for Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School is based on the target maximum capacity for primary and middle school and international programme students as set forth in the cooperation agreements with the relevant local government authorities.

(4) The utilisation rate of each of our schools is calculated by dividing the number of students enrolled at a school by the existing or target capacity for students of the school.

(5) In addition to the cooperation agreements with the relevant local governmental authorities for the proposed establishment of Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School, we have also entered into a framework agreement with the local government for the potential establishment of a new school in Zhaoqing. The above table does not include information of this proposed new school as the details thereof will be subject to the parties' further discussion if we proceed with the establishment of this school.

Teachers' Salaries

Our profitability also depends on our ability to effectively control our costs. A significant component of our cost of revenue is staff costs, which primarily consist of salaries and other benefits for our teachers. We offer competitive remuneration to our teachers in order to attract and retain high-quality teachers and maintain and improve the teaching quality of our schools. For the years ended 31 August 2014, 2015 and 2016, salaries and other benefits for our teachers represented 28.4%, 27.0%, and 28.2% of our revenue, and 53.5%, 53.1% and 53.3% of our cost of revenue, respectively. Our staff costs increased during the Track Record Period as a result of increased number of teachers employed by us, as well as an increase in compensation levels. We employed approximately 1,162, 1,359, 1,666 and 1,960 teachers for our schools as of 1 September 2013, 2014, 2015 and 2016, respectively. In March 2015, we increased teachers' salaries at Dongguan Guangming School and Dongguan Guangming Primary School, as part of our strategy to maintain and attract high-quality teachers. As we continue to expand our school network and increase the capacity of our existing schools, we will need to recruit more teachers. We may also need to increase teachers' salaries and other benefits from time to time to stay competitive in the labour market. As a result, our staff costs as a percentage of revenue may increase. If we are unable to effectively manage any such increase, our profitability and results of operations may be adversely affected. Please refer to "Risk Factors – Our business depends on our ability to recruit and retain qualified and committed teachers and other school personnel" of this document for further details.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Our consolidated financial statements are prepared in accordance with the significant accounting policies set out in the Accountants' Report included in Appendix I to this document. We set forth below certain information with respect to those accounting policies which we believe are of critical importance to us or involve the most critical accounting estimates and judgments used in the preparation of our consolidated financial statements. Our estimates are based on our historical experience and other factors that we consider to be relevant and are reviewed on an on-going basis. However, our actual results may differ from these estimates. We have not changed our material assumptions or estimates in the past and have not noticed any material error regarding our assumptions or estimates. Our significant accounting policies and our accounting policies requiring critical accounting judgment or providing key sources of estimation uncertainty are set forth in note 3 and 4 of the Accountants' Report in Appendix I to this document.

Revenue Recognition

We measure revenue at the fair value of the consideration we receive or is receivable by us. Our revenue is reduced for estimated returns, discounts, and sales related tax. Our revenue consists of tuition fees, boarding fees and revenue from ancillary services. Our tuition and boarding fees are generally paid in advance at the beginning of each school semester, and we initially record such these payments as deferred revenue. We then recognise tuition and boarding fees as revenue proportionately over the relevant period of the applicable programme. We typically refund 90% of the tuition fees paid if a student withdraws before the school semester 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 month of the school term.

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:

	School year		
	2013/2014	**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

Revenue from ancillary services is recognised when the goods are delivered and services are provided to the students and the students have made payments for the relevant services.

Property, Plant and Equipment

Our property, plant and equipment, other than construction in progress, including our schools and administrative offices in use, are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. We recognise depreciation on property, plant and equipment in use using the straight-line method so as to write off the cost of items of property, plant and equipment to their estimated residual values over their estimated useful lives. We review the estimated useful lives, residual values and depreciation method at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Our estimates of useful lives are based on our experience of the actual useful lives of property, plant and equipment of similar nature and functions. We increase the depreciation charge where useful lives are estimated to be shorter than previously estimated.

We carry construction in progress at cost, less any recognised impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

We also assess our property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable and write-off or write-down obsolete assets that have been abandoned or impaired. We did not have material instances of impairment to plant, property and equipment due to obsolesce or otherwise during the Track Record Period.

As at 31 August 2014, 2015 and 2016, the carrying amount of property, plant and equipment were RMB925.2 million, RMB1,006.9 million and RMB1,344.4 million, respectively. Any change in our estimates with respect to the useful lives, residual values or value in use of our property, plant or equipment may have a material impact on our results of operations.

Accounting Judgments

In the process of applying our accounting policies, our Directors have made the following critical judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements and related notes:

Contractual Arrangements

We conduct a substantial portion of our business through the Consolidated Affiliated Entities in China due to regulatory restrictions on foreign ownership in our schools in the PRC. Although we do not have any equity interest in the Consolidated Affiliated Entities, our Directors concluded that we have control over the Consolidated Affiliated Entities as a result of the Contractual Arrangements and other measures, as we have the power over the Consolidated Affiliated Entities, have rights to variable returns from our involvement with the Consolidated Affiliated Entities and have the ability to affect those returns through our power over the Consolidated Affiliated Entities. Accordingly, we have consolidated the financial information of our Consolidated Affiliated Entities during the Track Record Period in the consolidated financial statements.

RESULTS OF OPERATIONS

The following table presents our summary consolidated statements of profit or loss and other comprehensive income for the years ended 31 August 2014, 2015 and 2016:

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue	450,913	568,715	700,741
Cost of revenue	(239,717)	(289,194)	(370,352)
Gross profit	211,196	279,521	330,389
Other income	7,007	6,858	7,499
Other gains and losses	176	(1,260)	(6,201)
Selling expenses	(6,289)	(7,513)	(13,271)
Administrative expenses	(72,150)	(76,114)	(93,945)
[**REDACTED**] expenses	–	–	(24,401)
Finance income	46,316	117,600	64,105
Finance costs	(73,987)	(106,750)	(69,640)
Profit before taxation	112,269	212,342	194,535
Taxation	(21,360)	(30,045)	(40,172)
Profit and total comprehensive income for the year	90,909	182,297	154,363

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We derive revenue from tuition fees and boarding fees collected from our students and from ancillary services provided to our students. The table below sets forth the revenue generated from tuition fees, boarding fees and ancillary services, by amount and as a percentage of our total revenue, for the periods indicated:

	Year ended 31 August					
	2014		**2015**		**2016**	
	(RMB'000)	*%*	*(RMB'000)*	*%*	*(RMB'000)*	*%*
Tuition fees	315,211	69.9%	391,685	68.9%	489,561	69.9%
Boarding fees	36,439	8.1%	50,539	8.9%	60,555	8.6%
Ancillary services	99,263	22.0%	126,491	22.2%	150,625	21.5%
Total revenue	450,913	100%	568,715	100%	700,741	100%

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

	Year ended 31 August					
	2014		**2015**		**2016**	
	(RMB'000)	%	*(RMB'000)*	%	*(RMB'000)*	%
Revenue						
Dongguan Guangming School						
Tuition fees	181,521	40.2%	187,559	33.0%	195,498	28.0%
Boarding fees	19,202	4.3%	22,078	3.9%	22,309	3.2%
Ancillary services[(1)]	78,784	17.5%	89,889	15.8%	94,577	13.3%
	279,507	62.0%	299,526	52.7%	312,384	44.5%
Dongguan Guangming Primary School						
Tuition fees	68,240	15.1%	83,607	14.7%	100,407	14.3%
Boarding fees	9,531	2.1%	13,129	2.3%	15,209	2.2%
Ancillary services[(1)]	–	–%	–	–%	–	–%
	77,771	17.2%	96,736	17.0%	115,616	16.5%
Dongguan Guangzheng Preparatory School						
Tuition fees	63,194	14.0%	97,423	17.1%	138,893	19.8%
Boarding fees	7,515	1.7%	12,534	2.2%	16,700	2.4%
Ancillary services	19,692	4.4%	29,909	5.3%	39,098	5.6%
	90,401	20.1%	139,866	24.6%	194,691	27.8%
Huizhou Guangzheng Preparatory School						
Tuition fees	2,256	0.5%	18,929	3.4%	41,779	6.0%
Boarding fees	191	0.0%	2,465	0.4%	5,338	0.8%
Ancillary services	787	0.2%	5,903	1.0%	12,625	1.8%
	3,234	0.7%	27,297	4.8%	59,742	8.6%
Panjin Guangzheng Preparatory School						
Tuition fees	–	–%	4,167	0.7%	12,984	1.9%
Boarding fees	–	–%	333	0.1%	999	0.1%
Ancillary services	–	–%	790	0.1%	4,325	0.6%
	–	–%	5,290	0.9%	18,308	2.6%
Total	450,913	100%	568,715	100%	700,741	100%

Note:

(1) During the Track Record Period, ancillary services for Dongguan Guangming Primary School were provided through the facilities of Dongguan Guangming School and revenue from ancillary services for Dongguan Guangming Primary School was recognised as revenue from ancillary services attributable to Dongguan Guangming School.

Tuition fees consist of the amount we charge our students for the educational services provided, such as curriculum and teaching materials, at our schools. Boarding fees consist of the amount we charge our students for staying at our on-campus dormitories. Ancillary services mainly include services provided at our on-campus canteens and medical rooms.

Cost of Revenue

Our cost of revenue primarily consists of (i) staff costs, which primarily consist of salaries and other benefits for our teachers, (ii) cost of goods sold for ancillary services, which primarily consist of cost of goods sold at our on-campus canteens, (iii) depreciation and amortisation on property, plant and equipment and land and buildings used by our schools, (iv) utilities and maintenance costs for our schools and (v) education expenses, which primarily consist of expenses related to educational activities, including teaching material expenses, scholarships and student activity expenses. The following table sets forth the components of our cost of revenue, by amount and as a percentage of revenue, for the periods indicated.

	Year ended 31 August					
	2014		**2015**		**2016**	
	(RMB'000)	%	*(RMB'000)*	%	*(RMB'000)*	%
Staff costs	128,260	28.4%	153,633	27.0%	197,501	28.2%
Cost of goods sold for ancillary services	47,432	10.5%	57,549	10.1%	76,336	10.9%
Depreciation and amortisation	28,869	6.4%	38,894	6.8%	46,739	6.7%
Utilities and maintenance	21,776	4.8%	22,775	4.0%	26,096	3.7%
Education expenses	13,380	3.0%	16,343	2.9%	23,680	3.4%
Total cost of revenue	239,717	53.1%	289,194	50.8%	370,352	52.9%

Sensitivity Analysis

The following table sets out a sensitivity analysis of: (i) the effect of the fluctuations of tuition fees during the Track Record Period, and (ii) the effect of the fluctuations of our staff costs during the Track Record Period, assuming no change of any other costs. The sensitivity analysis is hypothetical in nature and we assume that all other variables remained constant. The following sensitivity analysis is for illustrative purposes only, which indicates the likely impact on our profitability during the Track Record Period if the relevant variables increased or decreased to the extent illustrated. To illustrate the potential effect on our financial performance, the sensitivity analysis below shows the impact on our profit for the year with a 5% and 10% increase or decrease in tuition fees income and staff costs. While none of the hypothetical fluctuation ratios applied in the sensitivity analysis equals the historical fluctuations of the tuition fees and staff costs, we believe that the application of hypothetical fluctuations of 5% and 10% in the tuition fees income and staff costs presents a meaningful analysis of the potential impact of changes in the tuition fees and staff costs on our revenue and profitability.

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Sensitivity analysis of tuition fees			
Tuition fee income (decrease)/increase	**Impact to our profit for the year**		
(10)%	(23,641)	(29,376)	(36,717)
(5)%	(11,820)	(14,688)	(18,359)
5%	11,820	14,688	18,359
10%	23,641	29,376	36,717
Sensitivity analysis of staff costs			
Staff costs (decrease)/increase	**Impact to our profit for the year**		
(10)%	9,620	11,522	14,813
(5)%	4,810	5,761	7,406
5%	(4,810)	(5,761)	(7,406)
10%	(9,620)	(11,522)	(14,813)

Other Income

Investment and other income primarily consist of (i) rental income from investment properties, (ii) government grants, which primarily consists of discretionary and non-conditional subsidies we received from the PRC government authorities for organising school activities and outstanding academic performance of our schools, (iii) donations, (iv) staff quarter income, which consists of rental income from the staff quarters provided to our teachers and other staff and (v) other income.

Other Gains and Losses

Other gains and losses primarily consist of (i) net losses recognised upon the disposal of property, plant and equipment, (ii) gains arising from change in fair value of investment properties, (iii) gains arising from bargain purchase from our acquisition of Dongguan Guangzheng Preparatory School, (iv) penalties and late surcharges, which consist of the late payment surcharge imposed by tax authorities and a penalty imposed by a government authority in Panjin on Panjin Guangzheng for violating the relevant PRC laws and regulations. Please refer to "– Taxation" below for further details, (v) losses recognised upon the disposal of Dongguan Guangzheng Pharmaceutical and Nantong Guangzheng Property and (vi) other gains and losses.

Selling Expenses

Selling expenses primarily consist of (i) advertising expenses, which primarily comprise expenses for advertising our schools in newspapers and other media and public relations expenses, (ii) salaries for our marketing staff and (iii) other marketing expenses, which primarily comprise student recruitment bonuses, travelling expenses and miscellaneous expenses relating to student recruitment and the marketing of our schools. The table below summarises our selling expenses, by amount and as a percentage of revenue, for the periods indicated.

	Year ended 31 August					
	2014		**2015**		**2016**	
	(RMB'000)	%	*(RMB'000)*	%	*(RMB'000)*	%
Advertising expenses	4,979	1.1%	6,274	1.1%	9,243	1.3%
Salaries for marketing staff	267	0.1%	176	0.0%	331	0.1%
Other marketing expenses	1,043	0.2%	1,063	0.2%	3,697	0.5%
Total selling expenses	6,289	1.4%	7,513	1.3%	13,271	1.9%

Administrative Expenses

Administrative expenses primarily consist of (i) salaries and other benefits for general and administrative staff, (ii) rental expenses, (iii) depreciation of office buildings and equipment, (iv) office expenses, (v) travel expenses, (vi) entertainment expenses and (vii) other expenses, which mainly consist of repair and maintenance expenses, utilities, legal and professional fees, cleaning expenses, and other administrative expenses. The table below summarises our administrative expenses, by amount and as a percentage of revenue, for the periods indicated.

	Year ended 31 August					
	2014		**2015**		**2016**	
	(RMB'000)	%	*(RMB'000)*	%	*(RMB'000)*	%
Salaries and other benefits	49,211	10.9%	50,119	8.8%	60,466	8.6%
Depreciation of office buildings and equipment	5,401	1.2%	7,396	1.3%	8,177	1.3%
Rental expenses	2,900	0.6%	3,306	0.6%	3,661	0.5%
Office expenses	2,904	0.6%	2,817	0.5%	4,333	0.6%
Travel expenses	1,065	0.2%	1,165	0.2%	1,546	0.2%
Entertainment expenses	870	0.2%	974	0.2%	1,526	0.2%
Other expenses	9,799	2.2%	10,337	1.8%	14,236	2.0%
Total administrative expenses	72,150	16.0%	76,114	13.4%	93,945	13.4%

[REDACTED] Expenses

[**REDACTED**] expenses consists of expenses incurred in relation to [**REDACTED**]. We did not incur any [**REDACTED**] expenses for the years ended 31 August 2014 and 2015 and incurred [**REDACTED**] expenses of RMB24.4 million for the year ended 31 August 2016 in relation to the preparation for our [**REDACTED**].

Finance Income

Finance income consists of (i) imputed interest income on advances to Cinese Group; (ii) imputed interest income on advances to other related parties; (iii) interest income from deposits paid to a local government to secure a school building project; and (iv) interest income from bank deposits. The table below sets forth the components of our finance income for the periods indicated.

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Imputed interest income on advances to Cinese Group(1)	34,923	101,074	63,950
Imputed interest income on advances to other related parties(1)	7,298	11,328	–
Interest income from deposits paid for a school building project	3,824	5,109	–
Bank interest income	271	89	155
	46,316	117,600	64,105

Note:

(1) The amount of the advances to Cinese Group and other related parties was measured at its fair value at initial recognition based on the best estimate of the expected repayments by Cinese Group and other related parties at the time of recognising the amount due from Cinese Group and other related parties. The differences between the amount due from Cinese Group and other related parties and the fair value at initial recognition were recognised in equity as deemed distribution to equity holders, and the amount due from Cinese Group and other related parties was then carried at amortised cost using the effective interest method. Subsequently, if we revise our estimate of the expected repayments by Cinese Group and other related parties, the carrying amount of such amount due from Cinese Group and other related parties will be adjusted to reflect the actual and revised estimated cash flow. The adjustments were also recognised in equity as deemed distribution to equity holders. Due to the nature of the imputed interest income as a hypothetical income under IFRS, it had no cash inflow during the Track Record Period. As at the Latest Practicable Date, all the amounts due to and from related parties which were non-trade in nature had been fully settled. Please refer to "– Imputed Interest Income and Related Interest Expenses" below for further details.

Finance Costs

Finance costs consist of the interest expenses for our bank and other borrowings less interest capitalized in the cost of property, plant and equipment. The table below sets forth the components of our finance costs for the periods indicated.

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Interest expense on bank and other borrowings			
– wholly repayable within 5 years	67,465	86,124	70,159
– not wholly repayable within 5 years	11,574	23,752	9,849
Less: amounts capitalised in the cost of property, plant and equipment	(5,052)	(3,126)	(10,368)
	73,987	106,750	69,640

Taxation

Our income tax comprises current and deferred tax.

Our Company was incorporated in the Cayman Islands and is tax exempted under the tax laws of Cayman Islands as no business is carried out in Cayman Islands. Our wholly owned subsidiary, Bright Education BVI, was incorporated in the BVI and is tax exempted under the tax laws of BVI as no business is carried out in BVI.

Our wholly owned subsidiary in Hong Kong, Bright Education HK, is subject to profits tax under the tax laws of Hong Kong. However, no provision for Hong Kong profits tax has been made as our operations in Hong Kong had no assessable profit during the Track Record Period.

Our subsidiaries and Consolidated Affiliated Entities in the PRC are subject to EIT of 25%. In preparation of [**REDACTED**], we identified that the tax filings of certain members of our Group may not be complete and that past filings of those entities may not be accurate, due to the following:

(i) ambiguities in the relevant PRC tax laws and regulations with respect to

(a) private schools, school sponsors of which require reasonable returns:

In the PRC, school sponsors of private schools may or may not require "reasonable return" depending on various factors. According to the Law for Promoting Private Education and its implementing rules, private schools with school sponsors not requiring reasonable returns should be eligible for tax incentives that are the same as public schools, such as EIT exemption, subject to the local government and tax bureau's approval. On the other hand, for private schools with school sponsors requiring reasonable returns, according to the Law for Promoting Private Education and its implementing rules, any preferential tax treatment policies shall be separately formulated by the relevant authorities. However, as of the Latest Practicable Date, there were no formal PRC tax rules or regulations elaborating the tax incentives applicable to private schools with school sponsors requiring reasonable returns.

All of our schools are private schools with the school sponsors requiring reasonable returns. There were no PRC laws or regulations which defines the meaning of "reasonable return" as of the Latest Practicable Date. Pursuant to the Notices and Regulations, the return rate for school sponsors of private primary and middle schools should not exceed 5%-8% of the costs for students' education, which mainly include staff cost, depreciation, utilities, repairs and maintenance costs and other direct operating costs. We took such percentage as the benchmark in determining the amount of "reasonable return" when preparing our initial EIT filings for PRC tax purposes.

We previously considered that the entire profits of our schools comprised the "portion of reasonable return" and "portion exceeding reasonable return", and that the "portion of reasonable return", which the school sponsors are entitled to receive (even though the school sponsors of our schools have never received so), should be subject to EIT on the ground that there was no formal PRC tax rule or regulation elaborating the applicable tax incentives in this aspect, while the "portion exceeding reasonable return" should be eligible for EIT exemption on the ground that this portion of profits is non-distributable to the school sponsors, which are identical, in substance, to those private schools the school sponsors of which do not require reasonable returns. Accordingly, we have taken into account the benchmark in the Notices and Regulations in determining the "reasonable return portion" of our profits and arriving at the total taxable profit of RMB49.8 million for the calendar years 2013, 2014 and 2015 for the purpose of preparing the initial tax filings. The total taxable profit of RMB49.8 million was approximately equal to the total costs for students' education of our schools (amounting to approximately RMB1,047.9 million in aggregate for the calendar years 2013, 2014 and 2015) multiplied by the respective return rate ranging from 2.2% to 7.0% for school sponsor of our schools for the corresponding calendar year. We adopted this approach based on our interpretation and understanding of the local EIT regulations and our understanding of the common EIT filing practices in the same industry and region. We did not make enquiries in relation to the above interpretation prior to making tax filing with the competent local tax authority in Dongguan as it was a general practice for the tax authority to review the tax filings, and object to such filings if the tax authority disagreed with such filings. This general practice was confirmed by the competent local tax authority in Dongguan in an interview that we, together with the Sole Sponsor, our PRC Legal Adviser and our tax consultant, conducted with them in March 2016. In addition, the tax authority has not objected to the aforesaid initial EIT filings made for the calendar years 2013, 2014 and 2015.

After obtaining a better understanding of the relevant tax rules and compliance requirements based on the advice of the tax consultant and the aforesaid interview conducted with the competent local tax authority in March 2016, we subsequently made EIT back filings together with late payment charges based on the reassessed total taxable profit of RMB167.3 million to rectify the historical shortfall of EIT payment.

In addition, we, together with the Sole Sponsor, our PRC Legal Adviser and our tax consultant, conducted another interview with the competent local tax authority in Dongguan in December 2016, during which the tax authority confirmed, among other things, that (a) none of Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School was subject to any records of outstanding tax, tax omission or other non-compliance with laws and regulations, and the tax authority has already issued tax certificates to such schools confirming that their tax filings were in compliance with the applicable laws and regulations; (b) none of such schools had ever been subject to investigations by the tax authority by reason of any suspected or intentional tax evasion or omission; (c) each of such schools, after clarifying the preferential tax treatment under the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), had already proactively paid the additional tax and late payment surcharge; (d) the previous misunderstanding in the applicable requirements on tax resulting in late payment should not constitute any intentional non-compliance and hence should not be regarded as intentional tax evasion or omission; and (e) such schools had effectively rectified the historical shortfall under the previous tax filings by paying the additional tax and the tax authority has not raised any objection in relation to such previous tax filings.

Based on the aforesaid interview and the tax certificates, and given that (i) Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School had made additional tax payment and late payment surcharge to rectify the historical tax shortfall on their own initiatives; and (ii) such schools had not been investigated or penalized by the tax authorities during the Track Record Period, our PRC Legal Adviser is of the view that the historical tax shortfall has been rectified, and the possibility of the tax authorities initiating an investigation or proceeding, imposing penalty or demanding additional tax payment from our Group as a result of the historical tax shortfall is relatively remote;

(b) the treatment of earnings generated from on-campus canteens:

According to the relevant business tax and VAT regulations on the education industry, business tax and VAT shall be exempted from income generated from the provision of educational services, which should specifically be related to certain types of relevant income, subject to certain restrictions. However, the business tax and VAT regulations do not further elaborate in detail the business tax and VAT treatment when students consume part of the food onsite and part of the food offsite, creating ambiguities on how the relevant income should be apportioned and whether business tax and VAT exemption could be applied on the total income from providing the meal or catering services by the canteens. As such, we made the initial business tax and VAT filing based on an aggregate taxable income of RMB2.2 million for the calendar year 2013, 2014 and 2015.

After obtaining a better understanding of the relevant tax rules and compliance requirements from the competent tax authorities, we subsequently made business tax and VAT back filings together with late payment charges based on the aggregate additional taxable income of RMB83.6 million to rectify the historical shortfall of business tax and VAT payment; and

(ii) our observation that, based on publicly available information, none of the schools operated by other PRC-based education companies listed on the Stock Exchange paid any EIT in the PRC.

We first became aware of the possible historical shortfall relating to the PRC EIT, business tax and VAT in the beginning of 2016 during the communications with our Reporting Accountants, which were engaged and conducted audit field work for us in connection with the preparation for [**REDACTED**]. We then sought to gain a better understanding of the relevant tax regulations and practices, as well as such ambiguities with an aim to rectify and discharge any outstanding tax obligations. As a result, we engaged a tax consultant in February 2016 to review our tax filings, and sought advice from such tax consultant about the ambiguities relating to the relevant PRC tax laws and the appropriate remedial actions. According to the tax consultant, under the prevailing EIT laws, school sponsors which do not require reasonable returns are eligible for the same tax incentives that are applicable to public schools, such as EIT exemption. Given that school sponsors of all our schools require reasonable returns, based on the advice of the tax consultant and the interviews conducted with the relevant tax authorities, we decided not to formally apply to the tax authorities for EIT exemptions. According to the tax consultant, we underpaid certain PRC taxes during the Track Record Period, including EIT, business tax and VAT. Based on the tax consultant's advice, we have made tax provisions, including provisions for the historical shortfall of EIT, for the three financial years ended 31 August 2015 and the nine months ended 31 May 2016 in the amount of RMB88.2 million. In July and August 2016, our relevant PRC entities made re-filings with the relevant tax authorities and obtained tax clearance letters with respect to EIT, business tax and VAT payable for the calendar years 2013, 2014 and 2015. As of the Latest Practicable Date, such PRC entities had already paid the tax for the initial EIT filings of RMB12.5 million and tax shortfall for EIT of RMB29.8 million and VAT of RMB2.5 million for the aforesaid re-filings for the calendar years 2013, 2014 and 2015, and had also paid the late payment surcharge in the total amount of RMB4.8 million to the relevant tax authorities.

Among the existing school of our Group, Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School were the only schools established prior to the calendar year 2013 with substantial business operation, of which Dongguan Guangzheng Preparatory School was only acquired by our Group in August 2013. Dongguan Guangming School and Dongguan Guangming Primary School did not make additional tax provision or payment of EIT shortfall in respect of the calendar years prior to 2013 since their establishment, based on a number of factors, including:

(i) after we made the payments to rectify the historical shortfall of EIT payment, the Company, together with the Sole Sponsor, our PRC Legal Adviser and the tax consultant to our Group, conducted the aforesaid interview with the competent local tax authority in Dongguan in December 2016, during which the tax authority confirmed, among other things, that (a) none of these two schools was subject to any records of outstanding tax, tax omission or other non-compliance with laws and regulations, and the tax authority has already issued tax certificates to such schools confirming that their tax filings were in compliance with the applicable laws and regulations; (b) none of these two schools had ever been subject to investigations by the tax authority by reason of any suspected or intentional tax evasion or omission; and (c) these two schools had effectively rectified the historical shortfall under the previous tax filings by making the additional tax payment and the tax authority had not raised any objection in relation to such previous tax filings. Based on this interview and the tax certificates, and given that (a) these two schools had made additional tax payment and late payment surcharge to rectify the historical tax shortfall on their own initiatives; and (b) these two schools had not been investigated or penalized by the tax authorities during the Track Record Period, our PRC Legal Adviser is of the view that the possibility of the tax authorities initiating an investigation or proceeding, imposing penalty or demanding additional tax payment from our Group as a result of the historical tax shortfall is relatively remote; and

(ii) after these two schools have obtained their tax registration, the local tax authority accepted their tax re-filings for the period from 1 September 2012 up to 31 December 2015 and our schools have never been requested to make payments of EIT shortfall in respect of the calendar years prior to 2013.

Based on the aforesaid interview with the competent local tax authority, the tax certificates and the advice of our PRC Legal Adviser, our schools do not consider it necessary to make payment of EIT shortfall in respect of the calendar years prior to 2013.

As at the Latest Practicable Date, save for the aforesaid late payment surcharge which had been fully paid, no administrative action, fine or penalty had been imposed by the relevant tax authorities with respect to the aforesaid matters, nor had we been required to pay any underpaid amounts. Subsequent to the aforesaid re-filings and payment, our PRC entities have also obtained written confirmation from the relevant tax authorities confirming that we have made tax payments and that they have not found incidents of material violation of the relevant tax laws and regulations.

During the Track Record Period, we did not enjoy any preferential tax treatment and were not involved in any material tax dispute with respect to our income tax.

Going forward, we will continue to engage our tax consultant so as to seek professional advice on any tax issues or any changes to the tax rules in response to the Decision, which will become effective on 1 September 2017.

Each of our Controlling Shareholders has agreed to indemnify our Group pursuant to the Deed of Indemnity against, among other things, any demands, actions, claims, losses, liabilities, damages, costs, charges, fees, penalties, fines or expenses made, suffered or incurred by our Group in respect of or arising from historical shortfall on taxation in tax filings.

Please refer to "Risk Factor – The tax provision we made may not be sufficient to cover the PRC taxes and/or penalties that the PRC tax authorities may require us to pay" of this document for further details about the risks and uncertainties associated with our underpayment of taxes.

Imputed Interest Income and Related Interest Expenses

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

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

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

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

For further details about the imputed interest income on advances to Cinese Group and other related parties, please refer to "– Finance Income" above and "– Related Party Transactions and Balances" below. Save as disclosed above, our Directors confirm that there are no other material non-trade factors that would affect our financial statements during the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended 31 August 2016 Compared to Year Ended 31 August 2015

Revenue

Our revenue increased by 23.2% from RMB568.7 million for the year ended 31 August 2015 to RMB700.7 million for the year ended 31 August 2016, primarily as a result of increased student enrolment, which resulted in an increase in tuition and boarding fees as well as an increase in revenue from ancillary services. Student enrolment in our schools increased by 21.0% from 22,837 as of 1 September 2014 to 27,644 as of 1 September 2015, the beginning of the 2014/2015 and 2015/2016 school years, respectively, mainly due to an increase in the number of students enrolled in our Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Dongguan Guangming Primary School. The tuition and boarding fee rates for all of our schools remained unchanged for the 2015/2016 school year.

Revenue from tuition fees increased by 25.0% from RMB391.7 million for the year ended 31 August 2015 to RMB489.6 million for the year ended 31 August 2016, primarily as a result of the increased student enrolment in our schools.

Revenue from boarding fees increased by 19.8% from RMB50.5 million for the year ended 31 August 2015 to RMB60.6 million for the year ended 31 August 2016, primarily attributable to increased student enrolment in our schools.

Revenue from ancillary services increased by 19.1% from RMB126.5 million for the year ended 31 August 2015 to RMB150.6 million for the year ended 31 August 2016, primarily due to increased student enrolment in our schools.

Cost of Revenue

Cost of revenue increased by 28.1% from RMB289.2 million for the year ended 31 August 2015 to RMB370.4 million for the year ended 31 August 2016. Cost of revenue increased primarily as a result of increased staff costs, which increased by 28.6% from RMB153.6 million for the year ended 31 August 2015 to RMB197.5 million for the year ended 31 August 2016, primarily because (i) the number of teachers we employed increased by 22.1% from 1,364 as of 1 September 2014 to 1,666 as of 1 September 2015 in order to accommodate increased student enrolment in our schools and (ii) we increased teachers' salaries at our Dongguan Guangming School and Dongguan Guangming Primary School in March 2015 as part of our strategy to continue to attract and retain high quality teachers.

Cost of goods sold for ancillary services increased by 32.6% from RMB57.5 million for the year ended 31 August 2015 to RMB76.3 million for the year ended 31 August 2016, primarily due to increased sales volumes at our on-campus canteens mainly as a result of increased student enrolment. Our costs of goods sold for ancillary services increased at a higher rate than the increase of our revenue from ancillary services primarily because we were not seeking to maintain our margins for our on-campus canteens in light of the not-for-profit principle. Please refer to "Business – Ancillary Services" for further details about the not-for-profit principle.

Depreciation and amortisation increased by 20.2% from RMB38.9 million for the year ended 31 August 2015 to RMB46.7 million for the year ended 31 August 2016, primarily due to the enhancement and expansion of our Huizhou Guangzheng Preparatory School and Dongguan Guangzheng Preparatory School.

Utilities and maintenance costs increased by 14.6% from RMB22.8 million for the year ended 31 August 2015 to RMB26.1 million for the year ended 31 August 2016. Our utilities and maintenance costs increased at a lower rate than our revenue because a substantial portion of our utilities and maintenance costs are fixed costs.

Education expenses increased by 44.9% from RMB16.3 million for the year ended 31 August 2015 to RMB23.7 million for the year ended 31 August 2016, primarily as a result of increased expenses on teaching materials due to increased student enrolment in our schools and increased expenses on student scholarships as a result of increased student performances.

Gross Profit

Gross profit increased by 18.2% from RMB279.5 million for the year ended 31 August 2015 to RMB330.4 million for the year ended 31 August 2016. Our gross margin, which is gross profits stated as a percentage of revenue, decreased from 49.1% for the year ended 31 August 2015 to 47.1% for the year ended 31 August 2016.

Other Income

Other income increased by 9.3% from RMB6.9 million for the year ended 31 August 2015 to RMB7.5 million for the year ended 31 August 2016, primarily as a result of an increase in government grants and an increase in donations, which was partially offset by decreased staff quarter rental income, mainly due to decreased rental charges for staff.

Other Gains and Losses

Other gains and losses increased from a loss of RMB1.3 million for the year ended 31 August 2015 to a loss of RMB6.2 million for the year ended 31 August 2016, primarily due to the late payment surcharge we paid to the relevant PRC tax authorities as a result of certain underpaid PRC taxes and the loss we recognised on the disposal of Dongguan Guangzheng Pharmaceutical in January 2016.

Selling Expenses

Selling expenses increased by 76.6% from RMB7.5 million for the year ended 31 August 2015 to RMB13.3 million for the year ended 31 August 2016, primarily as a result of increased advertising expenses and student recruitment bonuses in relation to the marketing and promotion of our Dongguan Guangzheng Preparatory School and Panjin Guangzheng Preparatory School, as well as our Weifang Guangzheng Preparatory School, which commenced operations in September 2016.

Administrative Expenses

Our administrative expenses increased by 23.4% from RMB76.1 million for the year ended 31 August 2015 to RMB93.9 million for the year ended 31 August 2016, primarily as a result of increased staff salaries and other benefits. Other expenses increased from RMB10.3 million for the year ended 31 August 2015 to RMB14.2 million for the year ended 31 August 2016, primarily attributable to an increase in repair and maintenance expenses, and an increase in legal and professional fees.

[**REDACTED**] *Expenses*

We incurred [**REDACTED**] expenses of RMB24.4 million for the year ended 31 August 2016 in relation to the preparation of [**REDACTED**], while we did not incur any [**REDACTED**] expenses for the year ended 31 August 2015.

Finance Income

Finance income decreased by 45.5% from RMB117.6 million for the year ended 31 August 2015 to RMB64.1 million for the year ended 31 August 2016, primarily as a result of a decrease in the amount of imputed interest income on advances to Cinese Group and other related parties, which was mainly due to the repayment of advances by Cinese Group, the absence of imputed interest income on advances to other related parties and a decrease in interest income from deposits paid for a school building project as the project was cancelled and the deposits were repaid to the Group in September 2015.

Finance Costs

Finance costs decreased by 34.8% from RMB106.8 million for the year ended 31 August 2015 to RMB69.6 million for the year ended 31 August 2016, primarily as a result of a decrease in the level of our bank borrowings during the respective years.

Profit before Taxation

As a result of the foregoing, our profit before taxation decreased by 8.4% from RMB212.3 million for the year ended 31 August 2015 to RMB194.5 million for the year ended 31 August 2016. Our profit before taxation as a percentage of revenue was 27.8% for the year ended 31 August 2016 compared to 37.3% for the year ended 31 August 2015.

Taxation

Our income tax expenses increased by 33.7% from RMB30.0 million for the year ended 31 August 2015 to RMB40.2 million for the year ended 31 August 2016, primarily attributable to an increase in our taxable income. Our effective income tax rate, being tax charged for the year divided by profits before taxation, was 14.1% for the year ended 31 August 2015 and 20.7% for the year ended 31 August 2016. Our effective income tax rate is higher for the year ended 31 August 2016 than the year ended 31 August 2015, primarily due to a decrease in imputed interest income, which is not subject to the EIT.

Profit for the Year

As a result of the above factors, our profit decreased by 15.3% from RMB182.3 million for the year ended 31 August 2015 to RMB154.4 million for the year ended 31 August 2016.

Year Ended 31 August 2015 Compared to Year Ended 31 August 2014

Revenue

Our revenue increased by 26.1% from RMB450.9 million for the year ended 31 August 2014 to RMB568.7 million for the year ended 31 August 2015, primarily as a result of increased student enrolment, which resulted in an increase in tuition and boarding fees, as well as an increase in revenue from ancillary services. Student enrolment in our schools increased by 18.0% from 19,354 as of 1 September 2013 to 22,837 as of 1 September 2014, mainly due to an increase in the number of students enrolled in our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School as they entered into the second school year operated by us.

Revenue from tuition fees increased by 24.3% from RMB315.2 million for the year ended 31 August 2014 to RMB391.7 million for the year ended 31 August 2015 mainly due to increased student enrolment. Revenue from tuition fees increased also as a result of increased tuition fees per student for newly admitted students at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year.

Revenue from boarding fees increased by 38.7% from RMB36.4 million for the year ended 31 August 2014 to RMB50.5 million for the year ended 31 August 2015, attributable to increased student enrolment, as well as increased boarding fees per student at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year.

Revenue from ancillary services increased by 27.4% from RMB99.3 million for the year ended 31 August 2014 to RMB126.5 million for the year ended 31 August 2015, primarily due to increased student enrolment in our schools, particularly increased number of high school and middle school students who generally utilise higher levels of ancillary services.

Cost of Revenue

Cost of revenue increased by 20.6% from RMB239.7 million for the year ended 31 August 2014 to RMB289.2 million for the year ended 31 August 2015. Cost of revenue increased primarily as a result of increased staff costs, which increased by 19.8% from RMB128.3 million for the year ended 31 August 2014 to RMB153.6 million for the year ended 31 August 2015, mainly because (i) we increased teachers' salaries at our Dongguan Guangming School and Dongguan Guangming Primary School in March 2015 as part of our strategy to continue to attract and retain high quality teachers, and (ii) the number of teachers we employed increased by 16.9% from 1,167 as of 1 September 2013 to 1,364 as of 1 September 2014, as a result of increased student enrolment in our schools.

Cost of goods sold for ancillary services increased by 21.3% from RMB47.4 million for the year ended 31 August 2014 to RMB57.5 million for the year ended 31 August 2015, primarily due increased sales volumes at our on-campus canteens, which was mainly as a result of increased student enrolment in our schools.

Depreciation and amortisation increased by 34.7% from RMB28.9 million for the year ended 31 August 2014 to RMB38.9 million for the year ended 31 August 2015, primarily due to (i) the first full financial year of depreciation on certain newly constructed school buildings and student dormitories for Dongguan Guangzheng Preparatory School and (ii) the first full financial year of depreciation on Panjin Guangzheng Preparatory School, which commenced operations in September 2014.

Utilities and maintenance costs increased by 4.6% from RMB21.8 million for the year ended 31 August 2014 to RMB22.8 million for the year ended 31 August 2015, mainly due to the further expansion of Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School as they entered into the second school year operated by us. The increase was partially offset by a decrease in utilities and maintenance costs in Dongguan Guangming School as a result of the school's cost saving measures.

Education expenses increased by 22.1% from RMB13.4 million for the year ended 31 August 2014 to RMB16.3 million for the year ended 31 August 2015, primarily as a result of increased education expenses in Dongguan Guangming School and Huizhou Guangzheng Preparatory School. The increase in Dongguan Guangming School was mainly due to an increased amount of scholarships granted to students, and the increase in Huizhou Guangzheng Preparatory School was primarily the result of an increased amount of educational activities as the school entered into the second school year since its establishment.

Gross Profit

Gross profit increased by 32.4% from RMB211.2 million for the year ended 31 August 2014 to RMB279.5 million for the year ended 31 August 2015, primarily driven by our increased revenue. Our gross margin increased from 46.8% for the year ended 31 August 2014 to 49.1% for the year ended 31 August 2015.

Other Income

Other income decreased by 2.1% from RMB7.0 million for the year ended 31 August 2014 to RMB6.9 million for the year ended 31 August 2015, primarily as a result of decreased miscellaneous other income and rental income from investment properties, which was partially offset by an increase in government grants.

Other Gains and Losses

Other gains and losses were a gain of RMB0.2 million for the year ended 31 August 2014 and a loss of RMB1.3 million for the year ended 31 August 2015. In the year ended 31 August 2015, we incurred late payment surcharge of RMB1.8 million imposed by tax authorities.

Selling Expenses

Selling expenses increased by 19.5% from RMB6.3 million for the year ended 31 August 2014 to RMB7.5 million for the year ended 31 August 2015, primarily as a result of increased advertising expenses and student recruitment bonuses in relation to the promotion of our Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School, which were established relatively recently.

Administrative Expenses

Our administrative expenses increased by 5.5% from RMB72.2 million for the year ended 31 August 2014 to RMB76.1 million for the year ended 31 August 2015. Administrative expenses grew at a slower rate than revenue primarily because the number of and compensation for administrative staff remained relatively stable while student enrolment increased as we entered into the second school year operating Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School.

Finance Income

Finance income increased by 153.9% from RMB46.3 million for the year ended 31 August 2014 to RMB117.6 million for the year ended 31 August 2015, primarily as a result of an increase in the amount of imputed interest income on advances to Cinese Group and other related parties, which was primarily as a result of an increase in the level of outstanding advances to Cinese Group and other related parties during the respective years.

Finance Costs

Finance costs increased by 44.3% from RMB74.0 million for the year ended 31 August 2014 to RMB106.8 million for the year ended 31 August 2015, primarily as a result of the first full year effect of the interest expenses incurred on certain of our bank loans.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 89.1% from RMB112.3 million for the year ended 31 August 2014 to RMB212.3 million for the year ended 31 August 2015. Our profit before taxation as a percentage of revenue was 24.9% for the year ended 31 August 2014 compared to 37.3% for the year ended 31 August 2015.

Taxation

Our income tax expenses increased by 40.7% from RMB21.4 million for the year ended 31 August 2014 to RMB30.0 million for the year ended 31 August 2015, primarily as a result of an increase in our taxable income. Our effective income tax rate, being tax charged for the year divided by profits before taxation, was 19.0% for the year ended 31 August 2014 and 14.1% for the year ended 31 August 2015. Our effective income tax rate is lower for the year ended 31 August 2015 than the year ended 31 August 2014 primarily due to an increase in imputed interest income, which is not subject to the EIT tax.

Profit for the Period

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

Year Ended 31 August 2014 Compared to Year Ended 31 August 2013

Revenue

Our revenue increased by 40.9% from RMB320.1 million for the year ended 31 August 2013 to RMB450.9 million for the year ended 31 August 2014, primarily as a result of increased student enrolment, which resulted in an increase in tuition and boarding fees as well as an increase in revenue from ancillary services. Student enrolment in our schools increased by 38.8% from 13,947 as of 1 September 2012 to 19,354 as of 1 September 2013, mainly due to our acquisition of Dongguan Guangzheng Preparatory School in August 2013 and increased student enrolment in our Dongguan Guangming Primary School.

Revenue from tuition fees increased by 41.4% from RMB222.9 million for the year ended 31 August 2013 to RMB315.2 million for the year ended 31 August 2014, revenue from boarding fees increased by 39.4% from RMB26.1 million for the year ended 31 August 2013 to RMB36.4 million for the year ended 31 August 2014 and revenue from ancillary services increased by 39.9% from RMB71.0 million for the year ended 31 August 2013 to RMB99.3 million for the year ended 31 August 2014. In addition to increased student enrolment in our schools, the increase in revenue from tuition and boarding fees were also as a result of increased tuition and boarding fees per newly admitted student.

Cost of Revenue

Cost of revenue increased by 41.0% from RMB170.0 million for the year ended 31 August 2013 to RMB239.7 million for the year ended 31 August 2014. The increase in cost of revenue was primarily attributable to our acquisition of Dongguan Guangzheng Preparatory School in August 2013 and the commencement of operations of Huizhou Guangzheng Preparatory School in September 2013, which resulted in increases in the number of teachers we employed, the number of properties used by our schools and related operating costs.

Staff costs increased by 44.5% from RMB88.7 million for the year ended 31 August 2013 to RMB128.3 million for the year ended 31 August 2014, cost of goods sold for ancillary services increased by 44.1% from RMB32.9 million for the year ended 31 August 2013 to RMB47.4 million for the year ended 31 August 2014, depreciation and amortisation increased by 55.0% from RMB18.6 million for the year ended 31 August 2013 to RMB28.9 million for the year ended 31 August 2014 and utilities and maintenance costs increased by 36.9% from RMB15.9 million for the year ended 31 August 2013 to RMB21.8 million for the year ended 31 August 2014.

Education expenses decreased by 3.3% from RMB13.8 million for the year ended 31 August 2013 to RMB13.4 million for the year ended 31 August 2014, primarily attributable to decreases in Dongguan Guangming School and Dongguan Guangming Primary School, which was partially offset by increases in Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School, as well as by an increase in Panjin Guangzheng Preparatory School as a result of its preparatory activities to commence operations in September 2014.

Gross Profit

Gross profit increased by 40.8% from RMB150.0 million for the year ended 31 August 2013 to RMB211.2 million for the year ended 31 August 2014, primarily driven by our increased revenue. Our gross margin was 46.9% for the year ended 31 August 2013 and 46.8% for the year ended 31 August 2014.

Other Income

Other income increased by 18.9% from RMB5.9 million for the year ended 31 August 2013 to RMB7.0 million for the year ended 31 August 2014. The increase was primarily attributable to an increase in staff quarter income.

Other Gains and Losses

Other gains and losses decreased by 96.4% from a gain of RMB4.9 million for the year ended 31 August 2013 to a gain of RMB0.2 million for the year ended 31 August 2014, primarily because we recognised a gain from the acquisition of Dongguan Guangzheng Preparatory School during the year ended 31 August 2013.

Selling Expenses

Selling expenses increased by 42.6% from RMB4.4 million for the year ended 31 August 2013 to RMB6.3 million for the year ended 31 August 2014 mainly due to an increase in advertising expenses, primarily as a result of additional marketing efforts to promote our newly acquired Dongguan Guangzheng Preparatory School and our newly established Huizhou Guangzheng Preparatory School.

Administrative Expenses

Our administrative expenses increased by 50.0% from RMB48.1 million for the year ended 31 August 2013 to RMB72.2 million for the year ended 31 August 2014. Administrative expenses increased at a faster pace than revenue primarily due to the acquisition of our Dongguan Guangzheng Preparatory School in August 2013 and the commencement of operations of our Huizhou Guangzheng Preparatory School in September 2013, which resulted in increases in the number of administrative staff, the number of office buildings used by us and other ramp up costs for the first-year school operation.

Finance Income

Finance income decreased by 2.5% from RMB47.5 million for the year ended 31 August 2013 to RMB46.3 million for the year ended 31 August 2014, primarily as a result of a net decrease in imputed interest income on advances to Cinese Group and other related parties.

Finance Costs

Finance costs increased by 54.5% from RMB47.9 million for the year ended 31 August 2013 to RMB74.0 million for the year ended 31 August 2014, primarily due to an increase in our level of bank borrowings during the respective years.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 4.0% from RMB107.9 million before taxation for the year ended 31 August 2013 to RMB112.3 million for the year ended 31 August 2014. Our profit before taxation as a percentage of revenue was 33.7% for the year ended 31 August 2013 and 24.9% for the year ended 31 August 2014.

Taxation

Our income tax expenses increased by 13.2% from RMB18.9 million for the year ended 31 August 2013 to RMB21.4 million for the year ended 31 August 2014. The increase was primarily attributable to an increase in our taxable income. Our effective income tax rate was 17.5% for the year ended 31 August 2013 and 19.0% for the year ended 31 August 2014. Our effective income tax rate is higher for the year ended 31 August 2014 than the year ended 31 August 2013 primarily as a result of a decrease in imputed interest income, which is not subject to the EIT tax.

Profit for the Period

As a result of the foregoing, our profit increased by 2.1% from RMB89.0 million for the year ended 31 August 2013 to RMB90.9 million for the year ended 31 August 2014.

CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets forth details of our current assets and current liabilities as of the dates indicated:

	As of 31 August			As of 30 November
	2014	**2015**	**2016**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (Unaudited)
CURRENT ASSETS				
Inventories – goods for sale	1,591	1,978	4,522	4,468
Deposits, prepayments and other receivables	51,952	25,761	30,416	32,476
Amounts due from related parties	287,537	1,486,418	550,830	422,558
Prepaid lease payments	5,253	5,253	5,698	5,698
Bank balances and cash	13,071	12,229	103,705	26,462
TOTAL CURRENT ASSETS	359,404	1,531,639	695,171	491,662
CURRENT LIABILITIES				
Deferred revenue	224,817	285,146	365,005	185,272
Trade payables	14,362	25,185	39,936	61,780
Other payables and accrued expenses	286,552	203,971	207,549	195,534
Amounts due to related parties	336,908	432,838	339,788	374,025
Income tax payable	38,583	61,210	58,218	58,378
Borrowings	141,362	537,849	142,279	83,779
TOTAL CURRENT LIABILITIES	1,042,584	1,546,199	1,152,775	958,768
NET CURRENT LIABILITIES	(683,180)	(14,560)	(457,604)	(467,106)

As of 30 November 2016, our net current liabilities increased primarily as a result of increased amounts due to related parties, increased trade payables, decreased amounts due from related parties and decreased bank balances and cash.

Our bank balances and cash decreased from RMB103.7 million as of 31 August 2016 to RMB26.5 million as of 30 November 2016 primarily due to our repayment of bank loans subsequent to 31 August 2016 and up to 30 November 2016.

As of 31 August 2014, 2015 and 2016 and 30 November 2016, we recorded net current liabilities of RMB683.2 million, RMB14.6 million, RMB457.6 million and RMB467.1 million, respectively.

We recorded net current liabilities as of 31 August 2014, 2015 and 2016 and 30 November 2016, primarily as a result of (i) amounts due to related parties that are non-trade in nature, non-interest bearing and repayable on demand, which consist of advances from Cinese Group and other related parties and payables to related parties for the purchase of property, plant and equipment for the expansion or improvement of our schools; (ii) other payables and accrued expenses, which primarily consist of accruals for construction in connection with the maintenance and improvement of our school facilities, and accrued staff benefits and payroll; and (iii) borrowings, which primarily consist of our short-term bank borrowings.

For risks associated with our net current liabilities position, please refer to "Risk Factors – Risks Relating to Our Business and Our Industry – We recorded net current liabilities as of 31 August 2014, 2015 and 2016 and 30 November 2016 and may record net current liabilities in the future" of this document for further details.

As at the Latest Practicable Date, all the amounts due to and from related parties which were non-trade in nature had been fully settled. We expect to further improve our net current liabilities position by (i) receiving funds generated from our business operations and (ii) receiving the [**REDACTED**]. Taking into account of the funds generated from our business operations and our financial resources, including our unutilized banking facilities, our Directors are of the opinion that we have sufficient working capital to meet in full our financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the financial information have been prepared on a going concern basis.

Subsequent to 31 August 2016 and as of the Latest Practicable Date, subsequent settlement received in relation to other receivables amounted to approximately RMB7.6 million; subsequent payments made in relation to trade and other payables and accrued expenses amounted to approximately RMB34.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund our working capital requirements, our purchase of property, plant and equipment and to repay loans and related interest expenses. To date, we have funded our operations principally with cash generated from our operations and bank loans and other borrowings. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings, [**REDACTED**] and other funds raised from the capital markets from time to time. Any significant decrease in student enrolment, our tuition fees, boarding fees and revenue from ancillary services, or a significant decrease in the availability of bank loans or other financing may adversely impact our liquidity. As of 31 August 2014, 2015 and 2016, we had cash and cash equivalents of RMB13.1 million, RMB12.2 million and RMB103.7 million, respectively.

Cash Flow

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Net cash from operating activities	241,100	319,148	337,612
Net cash (used in) from investing activities	(909,972)	(308,769)	251,066
Net cash from (used in) financing activities	648,035	(11,221)	(497,202)
Net (decrease) increase in cash and cash equivalents	(20,837)	(842)	91,476
Cash and cash equivalents at beginning of the year	33,908	13,071	12,229
Cash and cash equivalents at the end of the year	13,071	12,229	103,705

Cash Flow from Operating Activities

We generate cash from operating activities primarily from tuition fees, boarding fees and revenue form ancillary services.

Our net cash from operating activities was RMB337.6 million for the year ended 31 August 2016, primarily consisting of RMB281.0 million of cash generated from operating activities before working capital adjustments, working capital adjustments of RMB98.3 million and cash outflows of RMB41.7 million attributable to income tax paid. Working capital adjustments primarily consist of an increase in deferred revenue of RMB79.9 million primarily attributable to increased student enrollment in our schools and an increase in trade payables of RMB14.8 million.

Our net cash from operating activities was RMB319.1 million for the year ended 31 August 2015, consisting of cash generated from operating activities of RMB247.3 million before working capital adjustments, working capital adjustments of RMB78.0 million and cash outflows of RMB6.2 million attributable to income tax paid. Working capital adjustments primarily consist of an increase in deferred revenue of RMB60.3 million primarily due to increased student enrolment in our schools and an increase in trade payables of RMB10.8 million.

Our net cash from operating activities was RMB241.1 million for the year ended 31 August 2014, consisting of cash generated from operating activities of RMB173.7 million before working capital adjustments, working capital adjustments of RMB68.0 million and cash outflows of RMB0.6 million attributable to income tax paid. Working capital adjustments primarily consist of an increase in deferred revenue of RMB46.5 million primarily due to increased student enrolment in our schools and an increase in other payables and accruals of RMB19.3 million.

Cash Flows (used in) from Investing Activities

Our expenditures for investing activities were primarily for advances to and repayments from Cinese Group other related parties.

Our net cash from investing activities was RMB251.0 million for the year ended 31 August 2016, primarily attributable to repayment from Cinese Group of RMB717.8 million and repayments from related parties of RMB627.8 million, which were partially offset by advances to related parties of RMB989.8 million and payments for the acquisition of property, plant and equipment of RMB178.2 million, which was primarily used for Weifang Guangzheng Preparatory School.

Our net cash used in investing activities was RMB308.8 million for the year ended 31 August 2015, primarily attributable to advances to related parties of RMB786.7 million, RMB193.6 million used to purchase property, plant and equipment for the enhancement of our school facilities and advances to Cinese Group of RMB100.0 million, which were partially offset by repayments from related parties of RMB664.0 million and repayments from Cinese Group of RMB94.5 million.

Our net cash used in investing activities was RMB910.0 million for the year ended 31 August 2014, primarily attributable to RMB1,190.0 million advances to Cinese Group, RMB428.0 million advances to related parties and RMB231.6 million used to purchase property, plant and equipment for our Panjin Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Dongguan Guangzheng Preparatory School, which was partially offset by repayments from related parties of RMB555.2 million and repayments from Cinese Group of RMB455.0 million.

Cash Flows (used in) from Financing Activities

Our cash flows relating to financing activities primarily relate to advances from related parties, repayments to related parties and repayment of bank borrowings.

Our net cash used in financing activities was RMB497.2 million for the year ended 31 August 2016, attributable RMB717.8 million used in repayment of bank borrowings, RMB383.1 million used in repayments to related parties, RMB88.3 million of interest paid on bank loans and RMB12.5 million in [**REDACTED**] expenses paid, which were partially offset by RMB654.5 million in advances from related parties and RMB50.0 million in proceeds from bank borrowings.

Our net cash used in financing activities was RMB11.2 million for the year ended 31 August 2015, attributable to RMB110.3 million of interest paid on bank loans, RMB102.7 million in repayments to related parties and RMB94.5 million in repayment of bank borrowings, which were partially offset by RMB196.3 million in advances from related parties and RMB100.0 million in proceeds from bank borrowings.

Our net cash from financing activities was RMB648.0 million for the year ended 31 August 2014, attributable to RMB1,190.0 million in proceeds from bank borrowings and RMB59.1 million in advances from related parties, which were partially offset by RMB455.0 million in repayment of bank borrowings, RMB76.1 million of interest paid on bank loans and RMB70.0 million in repayments to related parties.

Working Capital

We intend to continue to finance our working capital with cash generated from our operating activities. We will closely monitor the level of our working capital, particularly in view of our strategy to continue to expand our school network.

Our future working capital requirements will depend on a number of factors, including, but not limited to, our operating income, the size of our school network, the cost of constructing new school premises, maintaining and upgrading existing school premises, purchasing additional educational facilities and equipment for our schools and hiring additional teachers and other educational staff. Our Directors are of the view that our available cash balances, the anticipated cash flows from operations, bank loans and other banking facilities and [**REDACTED**] will be sufficient to meet our present and anticipated working capital requirements for the next 12 months from the date of this document, in the absence of unforeseeable circumstances. Based on the review of financial documents and other due diligence documents, discussion with the Directors and the Directors' confirmation, the Sole Sponsor has no reason to believe that the Company cannot meet the working capital requirement for the 12 months period from the date of this document.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily related to the acquisition of Dongguan Guangzheng Preparatory School, the purchase of land use rights for Huizhou Guangzheng Preparatory School and the construction of school premises for Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School. Our capital expenditures for the years ended 31 August 2014, 2015 and 2016 were RMB262.6 million, RMB210.6 million and RMB200.4 million, respectively. The following table sets forth our additions of property, plant and equipment and leasehold levels, respectively, for the periods indicated.

	Year ended 31 August		
	2014	**2015**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Property, plant and equipment	231,558	193,628	178,191
Prepaid land lease payments	5,000	–	19,217
Payment for acquisition of Dongguan Guangzheng Preparatory School	26,000	17,000	3,000
Total	262,558	210,628	200,408

CONTRACTUAL OBLIGATIONS, CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Operating Leases

During the Track Record Period, we, as tenant, leased certain office properties and staff apartments under operating leases. The table below sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	As of 31 August			As of 30 November
	2014	**2015**	**2016**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (Unaudited)
Within one year	3,181	4,788	4,701	4,320
In the second to fifth year inclusive	13,365	13,720	12,812	13,129
Over five years	37,965	35,302	34,543	33,713
Total	54,511	53,810	52,056	51,162

Capital Commitments

Our capital commitments primarily relate to the construction of new schools, the expansion and improvement of our existing schools. The following table sets forth a summary of our capital commitments as of the dates indicated:

	As of 31 August			As of 30 November
	2014	**2015**	**2016**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (Unaudited)
Capital expenditure contracted but not provided in the Financial Information in respect of the acquisition of – property, plant and equipment	61,777	31,404	231,756	200,029

Contingent Liabilities

As of 30 November 2016, save as disclosed in the paragraph headed "Contingent Liability" below, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. The Directors have confirmed that there has not been any material change in our contingent liabilities since 31 August 2016.

INDEBTEDNESS

Our indebtedness include bank and other borrowings, amounts due to related parties that are non-trade in nature and other payables.

Bank and Other Borrowings

Our borrowings primarily consisted of short-term working capital loans and long-term borrowings primarily used to fund our business operations. Our borrowings as of 31 August 2014, 2015 and 2016 and 30 November 2016 being the latest practicable date for the purpose of indebtedness statement, were as follows:

	As of 31 August			As of 30 November
	2014	**2015**	**2016**	**2016**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (Unaudited)
Borrowings				
Bank				
– Secured	1,070,000	1,075,500	607,700	454,400
Trust financing arrangements with equity repurchase obligations	200,000	200,000	–	–
Total borrowings	1,270,000	1,275,500	607,700	454,400
Carrying amounts repayable				
– Within one year	141,362	337,849	142,279	83,779
– More than one year, but not exceeding two years	297,849	118,849	119,279	73,779
– More than two years, but not exceeding five years	396,547	345,547	235,337	101,337
– More than five years	234,242	273,255	110,805	195,505
	1,070,000	1,075,500	607,700	454,400
Trust financing arrangements with equity repurchase obligations[(1)]				
– Within one year	–	200,000	–	–
– More than one year, but not exceeding two years	200,000	–	–	–
	200,000	200,000	–	–
Less: Amounts due within one year shown under current liabilities	(141,362)	(537,849)	(142,279)	(83,779)
	1,128,638	737,651	465,421	370,621
The exposure of borrowings:				
– Fixed rate	390,000	390,000	23,000	20,000
– Variable rate	880,000	885,500	584,700	434,400
	1,270,000	1,275,500	607,700	454,400

Note:

(1) We entered into trust financing arrangements with a trust financing company in the form of transferring equity interest and issuing new shares of Panjin Guangzheng to the trust financing company with repurchase obligation at a fixed amount in a future date. Please refer to "History and Development – Our Consolidated Affiliated Entities" for further details of the trust financing arrangements.

Our borrowings as of 31 August 2014, 2015 and 2016 were all denominated in RMB. The table below sets for the effective interest rates for our borrowings as at the dates indicated:

	As at 31 August		
	2014	**2015**	**2016**
	(%)	*(%)*	*(%)*
Effective interest rate for variable-rate bank loans	6.4-8.4	5.9-8.6	4.8-6.9
Effective interest rate for fixed-rate bank loans	7.3	7.3	4.6
Effective interest rate for fix-rate trust financing arrangements	12.0	12.0	N/A

As of 30 November 2016, our bank loans were secured and guaranteed and we had unutilised banking facilities of RMB275.6 million.

Subsequent to 30 November 2016 and up to the Latest Practicable Date, we have repaid bank loans of RMB169.7 million and accordingly our borrowings were reduced to RMB284.7 million as at the Latest Practicable Date.

During the Track Record Period, certain of our related parties provided guarantees and mortgages for the loans we borrowed. All guarantees and mortgages provided by our related parties will be released upon [**REDACTED**].

Our bank loan agreements contain certain covenants that, among other things, require the borrower to ensure that its debt to equity ratio does not exceed certain percentage, and/or to obtain prior written consent from the debtor prior to incurring material additional debt, reducing registered capital and engaging in certain transactions such as mergers and acquisitions, investments, share transfers, change in controlling shareholders or beneficial owners and material asset and securities sales.

Our Directors confirm that as at the Latest Practicable Date, save as disclosed above, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we did not experience any difficulty in obtaining bank loans and other borrowings and we did not have any material default in payment of trade and non-trade payables, bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Amounts due to Related Parties

During the Track Record Period, we incurred indebtedness from amounts due to related parties that are non-trade in nature, unsecured, non-interest bearing and repayable on demand. As at the Latest Practicable Date, all amounts due to and from related parties which were non-trade in nature had been fully settled. Our amounts due to related parties that are non-trade in nature (which are also unsecured and unguaranteed) as of 31 August 2014, 2015 and 2016 and 30 November 2016, being the latest practicable date for the purpose of indebtedness statement, were as follows:

	Relationship	As of 31 August 2014	2015	2016	As of 30 November 2016
		(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (Unaudited)
Mr. Liu	Controlling Equity Holders and director	(102,727)	(119,725)	(155,877)	(158,112)
Ms. Li	Controlling Equity Holders and director	(7,521)	(10,317)	(7,764)	(7,764)
Cinese Group	Controlled by Mr. Liu	(147,625)	(145,307)	(25,715)	(43,322)
東莞富盈酒店有限公司 (Dongguan Cinese Hotel Co. Ltd.) ("Dongguan Cinese Hotel")	Controlled by Mr. Liu	(300)	(313)	(247)	(223)
東莞富盛實業投資有限公司 (Dongguan Fusheng Industrial Investment Co. Ltd.) ("Dongguan Fusheng")	Controlled by Ms. Li	(200)	(200)	(200)	(200)
東莞石碣富盈酒店有限公司 (Dongguan Shijie Cinese Hotel Co. Limited) ("Dongguan Shijie Cinese Hotel")	Controlled by Mr. Liu	–	–	(50)	(44)
東莞萬盛房地產開發有限公司 (Dongguan Wansheng Real Estate Development Co. Ltd.) ("Dongguan Wansheng Real Estate")	Controlled by Mr. Liu	(68,852)	(143,897)	(131,282)	(138,407)
東莞市興大教育投資有限公司 Dongguan Xingda Education Investment Co. Ltd.	Controlled by Ms. Li	(4,395)	(4,385)	(4,385)	(4,385)
東莞市合興教育投資有限公司 Dongguan Hexing Education Investment Co. Ltd.	Controlled by Ms. Li	(598)	(598)	(598)	(598)
東莞市富勤實業投資有限公司 Dongguan Fuqin Industrial Investment Co. Ltd.	Controlled by Ms. Li	(1,095)	(1,095)	(1,095)	(1,095)
Dongguan Cinese Real Estate	Controlled by Mr. Liu	–	(1,031)	–	–
		(333,313)	(426,868)	(327,213)	(354,150)

Other Payables

Our indebtedness also include consideration payable for the acquisition of Dongguan Guangzheng Preparatory School and payables for the land use right acquired for the use of Dongguan Guangzheng Preparatory School. Such other payables are unsecured and unguaranteed. We acquired our Dongguan Guangzheng Preparatory School in August 2013 for a total consideration of RMB250.0 million. As of 31 August 2014, 2015 and 2016 and 30 November 2016, consideration payable for the acquisition of Dongguan Guangzheng Preparatory School amounted to RMB24.0 million, RMB7.0 million and RMB4.0 million and RMB4.0 million, respectively. As of 31 August 2014, 2015 and 2016 and 30 November 2016, our payables for the land use right acquired for the use of Dongguan Guangzheng Preparatory School amounted to RMB12.4 million, RMB12.4 million and RMB12.4 million and RMB12.4 million, respectively.

Contingent Liability

On 19 March 2015, an individual who is an Independent Third Party, initiated court proceedings in relation to the advances he made on behalf of Dongguan Guangzheng Preparatory School during its establishment for a total amount of RMB5.0 million and the related interests thereof. As of the Latest Practicable Date, the outcome of this legal proceeding had yet to be finalised.

Except as disclosed above, as of 30 November 2016, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

[**REDACTED**] EXPENSES

We expect to incur a total of approximately RMB[49.3] million of [**REDACTED**] expenses (assuming an [**REDACTED**] of [**REDACTED**], being the mid-point of the indicative [**REDACTED**] range between [**REDACTED**] and [**REDACTED**], and assuming that the [**REDACTED**] is not exercised at all) in relation to [**REDACTED**], of which approximately RMB24.4 million were charged to profit and loss and approximately RMB6.6 million was capitalised during the Track Record Period. For the remaining expenses, we expect to charge approximately RMB6.2 million to our profit or loss and to capitalise approximately RMB12.1 million. [**REDACTED**] expenses represent professional fees and other fees incurred in connection with [**REDACTED**], excluding [**REDACTED**]. The [**REDACTED**] expenses above were the best estimate as at the Latest Practicable Date and were for reference only and the actual amount may differ from this estimate.

KEY FINANCIAL RATIOS

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

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

Notes:

(1) Gross profit margin equals our gross profit divided by revenue for the year.

(2) Net profit margin equals our net profit after tax divided by revenue for the year.

(3) Adjusted net profit margin equals our adjusted net profit after tax divided by revenue for the year. Adjusted net profit equals the sum of our net profit, finance costs in relation to advances to Cinese Group and other related parties, loss on disposal of subsidiaries and [**REDACTED**] expenses, less the sum of imputed interest income on advances to Cinese Group and other related parties, without taking into account the potential impact of PRC taxes, which may or may not be applicable. Please refer to "Summary – Selected Historical Financial Information" of this document for further details.

(4) Return on assets equals net profit for the year divided by total assets as of the end of the year.

(5) Return on equity equals net profit for the year divided by total equity amounts as of the end of the year.

(6) Current ratio equals our current assets divided by current liabilities as of the end of the year.

(7) Debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year.

(8) Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt includes all interest-bearing bank loans and other borrowings.

(9) Interest coverage ratio equals profit before interest and tax (less finance income) of one year divided by finance costs of the same year.

Analysis of Key Financial Ratios

Gross Profit Margin

Our gross profit margin increased from 46.8% for the year ended 31 August 2014 to 49.1% for the year ended 31 August 2015, primarily driven by (i) increased student enrolment in our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School as they entered into the second school year operated by us, and (ii) increased tuition and boarding fee rates at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year. Our gross profit margin decreased to 47.1% for the year ended 31 August 2016, primarily due to increased staff costs mainly as a result of increased number of teachers and increased teachers' salaries. The tuition and boarding fee rates for all of our schools remained unchanged for the 2015/2016 school year.

Net Profit Margin

Our net profit margin increased from 20.2% for the year ended 31 August 2014 to 32.1% for the year ended 31 August 2015, primarily attributable to (i) increased student enrolment in our schools, which was mainly because our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School entered into the second school year operated by us; (ii) increased tuition and boarding fee rates at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year; and (iii) increased imputed interest income on advances to Cinese Group and other related parties, which was mainly due to increased level of outstanding advances to Cinese Group and other related parties. Our net profit margin decreased to 22.0% for the year ended 31 August 2016, primarily due to the [**REDACTED**] expenses incurred of RMB24.4 million, increased administrative expenses, as well as increased selling expenses in relation to the marketing and promotion of our schools. The tuition and boarding fee rates for all of our schools remained unchanged for the 2015/2016 school year.

Adjusted Net Profit Margin

Our adjusted net profit margin increased from 26.3% for the year ended 31 August 2014 to 30.4% for the year ended 31 August 2015, primarily attributable to (i) increased student enrolment in our schools, which was mainly because our Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School entered into the second school year operated by us; and (ii) increased tuition and boarding fee rates at our Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School for the 2014/2015 school year. Our adjusted net profit margin decreased to 26.5% for the year ended 31 August 2016, primarily due to the [**REDACTED**] expenses incurred of RMB24.4 million, increased administrative expenses, as well as increased selling expenses in relation to the marketing and promotion of our schools. The tuition and boarding fee rates for all of our schools remained unchanged for the 2015/2016 school year.

Return on Assets and Return on Equity

Our return on assets ratio increased from 3.4% for the year ended 31 August 2014 to 6.1% for the year ended 31 August 2015, mainly due to the first school year ramp up period for Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School, both of which commenced operations in September 2013. Our return on assets ratio increased to 6.3% for the year ended 31 August 2016.

Return on equity ratio increased from 17.8% for the year ended 31 August 2014 to 27.0% for the year ended 31 August 2015, primarily because student enrolment in our schools increased. Our return on equity ratio decreased to 18.6% for the year ended 31 August 2016, primarily due to the [**REDACTED**] expenses incurred.

Current Ratio

Our current ratio increased from 0.34 as of 31 August 2014 to 0.99 as of 31 August 2015, primarily due to an increase in amounts due from related parties.

Our current ratio, decreased to 0.60 as of 31 August 2016, primarily due to a decrease in amounts due from related parties and an increase in amounts due to related parties.

Debt to Equity Ratio and Gearing Ratio

Our debt to equity ratio and gearing ratio decreased from 2.46 and 2.49 as of 31 August 2014, respectively, to 1.87 and 1.89 as of 31 August 2015, respectively, mainly because of increased total equity at year end.

Our debt to equity ratio and gearing ratio decreased to 0.61 and 0.73 as of 31 August 2016, respectively, primarily due to decreased bank borrowings at year end.

Interest Coverage Ratio

Our interest coverage ratio remained stable at 1.89 for the year ended 31 August 2014 and 2015. Our interest coverage ratio increased to 2.87 for the year ended 31 August 2016, mainly because of decreased finance costs, which was primarily due to lower level of bank borrowings.

RELATED PARTY TRANSACTIONS AND BALANCES

Related Party Transactions and Balances that are Trade in Nature

Related Party Transactions

During the years ended 31 August 2014, 2015 and 2016, we entered into the following transactions with related parties:

Related party	Relationship	Nature of transactions	Year ended 31 August 2014	2015	2016
			(RMB'000)	*(RMB'000)*	*(RMB'000)*
Dongguan Yingwei	Controlled by Mr. SP Liu	Purchase of goods	10,943	11,957	13,150
Dongguan Changying	Controlled by Mr. SP Liu	Purchase of goods	2,622	3,754	5,854
Dongguan Yingfa	Controlled by a close family member of Mr. Liu	Purchase of goods	1,656	2,987	3,661
Dongguan Cinese Hotel	Controlled by Mr. Liu	Hospitality expenses	45	364	1,263
Dongguan Wenfeng	Controlled by a close family member of Mr. Liu	Construction expenses	504	5,158	48,674
Dongguan Cinese Real Estate	Controlled by Mr. Liu	Construction expenses	–	–	212,500
Mr. Liu	Controlling equity holder and director	Acquisition of a subsidiary	–	–	10
Mr. Liu Jiefeng (劉杰鋒)	Close family member of Mr. Liu	Disposal of subsidiaries	–	–	720
Mr. SP Liu	Father of Mr. Liu	Disposal of a subsidiary	–	–	80

During the years ended 31 August 2014, 2015 and 2016, the Group entered into the following construction contracts with related parties, which are controlled by Mr. Liu and/or their close family members:

Related party	Relationship	Nature of transactions	Year ended 31 August 2014	2015	2016
			(RMB'000)	*(RMB'000)*	*(RMB'000)*
Dongguan Wenfeng	Controlled by a close family member of Mr. Liu	Contract amounts entered	5,351	29,937	51,774
Dongguan Cinese Real Estate	Controlled by Mr. Liu	Contract amounts entered	–	–	590,000

We expect to discontinue the aforesaid related party transactions in relation to the purchase of goods and hospitality expenses prior to [**REDACTED**], while the aforesaid disposal of subsidiaries had been completed as of the Latest Practicable Date. During the year ended 31 August 2016, we entered into construction agreements with Dongguan Cinese Real Estate, a company controlled by Mr. Liu with respect to the construction of Weifang Guangzheng Preparatory School and Guang'an Guangzheng Preparatory School. On 20 December 2016, we entered into another construction agreement with Dongguan Cinese Real Estate with respect to the construction of Yunfu Guangzheng Preparatory School. Please see "Connected Transactions" section for further details of the construction agreements with Dongguan Cinese Real Estate.

Our Directors believe that each of the related party transactions set out above and in note 36 to the Accountant's Report in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

Related Party Balances

As of 31 August 2014, 2015 and 2016, we did not incur amounts due from related parties that are trade in nature and our amounts due to related parties that are trade in nature were RMB3.6 million, RMB6.0 million and RMB12.6 million, respectively. The table below sets forth a summary of the amounts due to our related parties that are trade in nature, by amount and as a percentage of the total amounts due to our related parties that are trade in nature, as of the dates indicated.

	As of 31 August 2014		2015		2016	
	(RMB'000)	%	*(RMB'000)*	%	*(RMB'000)*	%
Amounts due to Dongguan Yingwei	1,229	34.2%	2,449	41.0%	7,162	56.9%
Amounts due to Dongguan Changying	382	10.6%	1,272	21.3%	2,609	20.7%
Amounts due to Dongguan Yingfa	388	10.8%	653	11.0%	1,186	9.4%
Amounts due to Dongguan Wenfeng	1,596	44.4%	1,596	26.7%	1,618	12.9%
Total amounts due to related parties	3,595	100%	5,970	100%	12,575	100%

Amounts due to the abovesaid related parties are trade in nature, unsecured, non-interest bearing and repayable on demand. As of 31 August 2014, 2015 and 2016, amounts due to the abovesaid related parties were aged within 180 days based on invoice date.

Related Party Balances that are Non-Trade in Nature

Amounts Due From Related Parties

As of 31 August 2014, 2015 and 2016, amounts due from our related parties that are non-trade in nature were RMB1,362.5 million, RMB1,585.6 million and RMB550.8 million, respectively. The table below sets forth a summary of the amounts due from our related parties as of the dates indicated.

	Relationship	At 31 August 2014	2015	2016	Maximum amount outstanding during Year ended 31 August 2014	2015	2016
		(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Mr. Liu	Controlling Equity Holders and director	120,424	149,877	50,691	120,424	214,735	235,222
Ms. Li	Controlling Equity Holders and director	77,811	54,221	41,478	84,968	77,811	54,221
Cinese Group – *borrowings*	Controlled by Mr. Liu	1,014,409	1,163,021	212,171	1,014,409	1,163,201	1,163,201
Cinese Group	Controlled by Mr. Liu	148,721	216,416	192,269	148,721	216,416	657,469
Dongguan Cinese Real Estate	Controlled by Mr. Liu	–	–	44,228	–	–	44,228
Dongguan Fusheng	Controlled by Ms. Li	266	266	266	266	266	266
Dongguan Cinese Hotel	Controlled by Mr. Liu	836	1,837	787	836	1,837	1,837
Dongguan Wenfeng	Controlled by a close family member of Mr. Liu	–	–	8,940	–	–	8,941
		1,362,467	1,585,638	550,830			
Analysed for reporting purposes as:							
Current assets		287,537	1,486,418	550,830			
Non-current assets		1,074,930	99,220	–			
		1,362,467	1,585,638	550,830			

Amounts due from Cinese Group (borrowings) represented advances provided by our Group to Cinese Group with carrying amount of RMB1,014.4 million, RMB1,163.0 million and RMB212.2 million as of 31 August 2014, 2015 and 2016, respectively. Such advances were unsecured, non-interest bearing and repayable in two years. The nominal value of the advances as of 31 August 2014, 2015 and 2016 were RMB1,165.0 million, RMB1,230.0 million and RMB215.2 million, respectively.

Amounts due from Mr. Liu and Ms. Li, both of whom are Directors of our Group, include advances provided by our Group to Mr. Liu and Ms. Li with carrying amount of RMB151.0 million as of 31 August 2014. Such advances were unsecured, non-interest bearing and the management expected the advances would be repayable over one year. The nominal value of the advances as of 31 August 2014 was RMB162.4 million.

According to the Provisions of the Supreme People's Court on Certain Issues Concerning Application of Law in Trial of Cases Involving Private Lending (最高人民法院關於審理民間借貸案件適用法律若干問題的規定), effective on 1 September 2015, private loan contracts entered into between legal persons for purposes of production and operations are effective, subject to certain circumstances set out therein. Accordingly, as (i) the advances provided by our Group to our related parties as set out above were made for purpose of business operations; (ii) such advances were not made for generating profit through loan refinancing or other illegal purpose; and (iii) such advances were interest-free loans, our PRC Legal Adviser are of the view that such advances were not in breach of the applicable PRC laws and regulations.

During the Track Record Period, we recognised imputed interest income on the aforesaid advances to Cinese Group and Mr. Liu and Ms. Li under IFRS. The imputed interest income recognised on advances to Cinese Group was RMB34.9 million and RMB101.1 million and RMB64.0 million for the years ended 31 August 2014, 2015 and 2016, respectively. The imputed interest income recognised on advances to Mr. Liu and Ms. Li was RMB7.3 million and RMB11.3 million as of 31 August 2014 and 2015, respectively. Such imputed interest income is only a hypothetical income under IFRS and had no cash inflow during the Track Record Period. As at the Latest Practicable Date, all the amounts due to and from related parties which were non-trade in nature had been fully settled. Please refer to "– Finance Income" and "– Imputed Interest Income and Related Interest Expenses" above for further details.

The other amounts due from Cinese Group, Mr. Liu and Ms. Li and other related parties as of 31 August 2014, 2015 and 2016 were also unsecured, non-interest bearing and repayable on demand.

Amounts Due To Related Parties

As of 31 August 2014, 2015 and 2016, amounts due to our related parties that are non-trade in nature were RMB333.3 million, RMB426.9 million and RMB327.2 million, respectively. The table below sets forth a summary of the amounts due to our related parties which were non-trade in nature as of the dates indicated.

		At 31 August		
	Relationship	**2014**	**2015**	**2016**
		(RMB'000)	*(RMB'000)*	*(RMB'000)*
Mr. Liu	Controlling Equity Holders and director	102,727	119,725	155,877
Ms. Li	Controlling Equity Holders and director	7,521	10,317	7,764
Cinese Group	Controlled by Mr. SP Liu	147,625	145,307	25,715
Dongguan Cinese Hotel	Controlled by Mr. Liu	300	313	247
Dongguan Fusheng	Controlled by Mr. Liu	200	200	200
Dongguan Shijie Cinese Hotel Co. Ltd.	Controlled by Mr. Liu	–	–	50
Dongguan Wansheng Real Estate	Controlled by Mr. Liu	68,852	143,897	131,282
Dongguan Cinese Real Estate	Controlled by Mr. Liu	–	1,031	–
Dongguan Xingda Education Investment Co. Ltd.	Controlled by Ms. Li	4,395	4,385	4,385
Dongguan Hexing Education Investment Co. Ltd.	Controlled by Ms. Li	598	598	598
Dongguan Fuqin Industrial Investment Co. Ltd.	Controlled by Mr. Liu	1,095	1,095	1,095
		333,313	426,868	327,213

The aforementioned amounts due to our related parties are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

As at the Latest Practicable Date, all the amounts due to and from related parties which were non-trade in nature had been fully settled.

Compensation of key management personnel

The remuneration of Directors and other members of key management of our Group during the Track Record Period is set out in note 36 of the Accountants' Report in Appendix I to this document.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation. Accordingly, our Company has no reserve available for distribution to the Shareholders as of 31 August 2016.

NON-DISTRIBUTABLE RESERVES AND DIVIDENDS

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

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our Consolidated Affiliated Entities, which are incorporated in the PRC. Our Consolidated Affiliated Entities must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and paying dividends to us. Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises, our Company's subsidiaries and Consolidated Affiliated Entities in the PRC must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of each relevant entity prior to payment of dividends. These reserves include (i) a general reserve and (ii) a development fund. Subject to certain cumulative limits, the general reserve requires annual appropriations of 10% of after-tax profits as determined under PRC laws and regulations at each year-end until the balance reaches 50% of the relevant PRC entity's registered capital. PRC laws and regulations requires a private school that requires reasonable returns to make an annual appropriation of 25% of its after-tax income to its development fund prior to payments of reasonable returns. Such appropriations are required to be used for the construction or maintenance of the school or for the procurement or upgrading of educational equipment. The total amount of development fund reserves our schools made during the three years ended 31 August 2014, 2015 and 2016 was RMB28.7 million, RMB39.3 million and RMB35.4 million, respectively.

Under the relevant PRC laws and regulations, on-campus canteens shall in principle 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 competent education authorities and price authorities pursuant to 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 surplus, if any, from the operation of 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". 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 are not in breach of the aforesaid "not-for-profit" principle. 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. Our Directors confirm that 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 paid out of the non-distributable reserve and the aforesaid regulatory requirements do not restrict the transfer of such service fees to Dongguan Ruixing or its designated third party, as the service fees are incurred as consideration for the services that relate to or are used by the on-campus canteens. Please refer to "Business – Ancillary Services" for further details.

No dividend has been paid or proposed by our Company during the Track Record Period, nor has any dividend been proposed since the Track Record Period.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Substantially all of our revenue and expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk. Although in general, our exposure to foreign exchange risk should be limited, the value of your investment in our Shares will be affected by the exchange rate between the Hong Kong dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while the Shares will be traded in Hong Kong dollars.

The change in the value of Renminbi against the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. For instance, in the PRC from 1995 until July 2005, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and US dollar, was based on fixed rates set by the PBOC. The PRC government, however, has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 21 July 2005, this revaluation resulted in the Renminbi appreciating against the US dollar and the Hong Kong dollar by approximately 2 per cent on that date. On 23 September 2005, the PRC government widened the daily trading band for the Renminbi against non-US dollar currencies from 1.5 per cent to 3.0 per cent to improve the flexibility of the new foreign exchange system. As a result, the Renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. On 20 June 2010, the PBOC announced that it intended to further reform the Renminbi exchange rate regime by enhancing the flexibility of the Renminbi exchange rate. On 16 April 2012, the PBOC enlarged the previous floating band of the trading prices of the Renminbi against the US dollar in the inter-bank spot foreign exchange market from 0.5 per cent to 1 per cent in order to further improve the managed floating Renminbi exchange rate regime based on market supply and demand with reference to a basket of currencies. On 15 March 2014, the PBOC further enlarged the floating band of the trading prices of the Renminbi against the US dollar in the inter-bank spot foreign exchange market from 1 per cent to 2 per cent, effective from March 2014. On 11 August 2015, the People's Bank of China (PBOC) announced a change to the daily fixing mechanism of the RMB exchange rate, which is now based on the previous day's average closing rate and takes into account exchange rate developments of the most important international currencies. On 30 November 2015, the International Monetary Fund (IMF) included the RMB with a 10.92% weighting to its Special Drawing Right (SDR) basket, effective 1 October 2016. To the extent that we need to convert Hong Kong dollars we receive from [**REDACTED**] into Renminbi for our operations, appreciation of the Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert the Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amounts available to us.

Interest Rate Risk

Our fair value interest rate risk primarily related to our fixed-rate borrowings. We are also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and cash and bank borrowings which carried interest at prevailing market interest rates. It is our policy to keep certain borrowings at floating rates of interest so as to minimise the fair value interest rate risk. We currently do not use any derivative contracts to hedge its exposure to interest rate risk. However, the Directors will consider hedging significant interest rate risk should the need arise.

Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of each reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, our post-tax profit for the years ended 31 August 2014, 2015 and 2016 would decrease/increase by RMB3.3 million, RMB3.3 million and RMB1.8 million, respectively. This is mainly attributable to our exposure to interest rates on its bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure at the end of the reporting period does not reflect the exposure during the respective years.

Credit Risk

Our maximum exposure to credit risk in the event of the counterparties' failure to perform its obligations is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk on other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of our Company believe that there is no material credit risk inherent in our outstanding balance of other receivables.

The credit risk on bank balances is limited because the counterparties are reputable financial institutions.

Liquidity risk

As of 31 August 2014, 2015 and 2016 and 30 November 2016, we recorded net current liabilities of RMB683.2 million, RMB14.6 million, RMB457.6 million and RMB467.1 million, respectively. In view of these circumstances, our Directors have given consideration of our future liquidity and performance and our available sources of finance in assessing whether we will have sufficient financial resources to continue as a going concern. Our Directors are satisfied that our Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future by taking into account our cash flow projection, repayment of advance from related parties, unutilised bank facilities and our future capital expenditure in respect of its non-cancellable capital commitments. Our Directors consider that we have sufficient working capital to meet in full our financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, our financial statements have been prepared on a going concern basis.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, save as disclosed in the paragraph headed "Indebtedness" above, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

The value of our property interests as of 31 December 2016 as valued by DTZ Cushman Wakefield Limited, an independent property valuer, was RMB508.3 million. There was a net revaluation deficit, representing the deficit market value of the properties below their book value as of 31 August 2016. There was a net revaluation deficit, representing the deficiency in market value of the properties below their net book value as of 31 December 2016. We considered that there is no impairment on these properties as the value in use of these properties are higher than the carrying amount as of 31 December 2016. Further details of our property interests and the text of the letter and valuation certificates of these property interests prepared by DTZ Cushman Wakefield Limited are set out in Appendix III to this document.

Disclosure of the reconciliation of the valuation of the interests in properties attributable to us as of 31 December 2016 and such property interests in our consolidated statements of financial position as of 31 August 2016 as required under Rule 5.07 of Listing Rules is set forth below:

	RMB'000
Net book value of the following properties as at 31 August 2016:	
Buildings and construction in progress included in property, plant and equipment	1,257,974
Prepaid lease payments	232,022
Investment properties	19,700
Less: Buildings and lease payment located on collective owned land without commercial value	(863,496)
	646,200
Less: Depreciation and amortisation for the four months ended 31 December 2016	(6,100)
Fair value loss on investment properties	(1,400)
	638,700
Valuation surplus (deficit)	(130,400)
Valuation as at 31 December 2016	508,300

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there had been no material adverse change in the industry in which we operate since 31 August 2016 and there was no event since 31 August 2016 which would materially affect the information shown in the Accountant's Report in Appendix I to this document.

[**REDACTED**]