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BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

We currently conduct our private education business through our Consolidated Affiliated Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of high schools to Sino-foreign cooperation, in addition to imposing a qualification requirement on the foreign owners. Further, government approval in respect of Sino-foreign cooperation had been withheld. We do not hold any equity interest in our Consolidated Affiliated Entities. The Contractual Arrangements, through which we obtain control over and derive the economic benefits from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimise the potential conflict with relevant PRC laws and regulations.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP IN THE EDUCATION INDUSTRY

Primary school and middle school education

Pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund’s Entry into the Education Sector and Promoting Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見) promulgated by the MOE on 18 June 2012 (the “**Implementation Opinions**”), foreign-invested companies that engage in educational activities in the PRC should comply with the Foreign Investment Catalog.

Under the Foreign Investment Catalog, the latest amendment to which was promulgated by the NDRC and the MOFCOM in March 2015 and became effective on 10 April 2015, primary schools and middle schools offering compulsory education for students from grade one to nine fall within the “prohibited” category. As a result of the prohibition on foreign ownership, foreign investors (including individuals, companies, partnerships, educational institution and any other entities) are prohibited from owning primary schools or middle schools in the PRC, whether through direct investments or through wholly-owned subsidiaries in the PRC.

For this reason, the primary schools and middle schools operated by us in the PRC are held by Guangdong Guangzheng, Panjin Guangzheng and Huizhou Guangzheng, which are directly or indirectly wholly-owned by the Registered Shareholders, and controlled by us pursuant to the Contractual Arrangements.

High school education

Pursuant to the Foreign Investment Catalog, the provision of high school education in the PRC falls within the “restricted” category. In particular, the Foreign Investment Catalog explicitly restricts high schools to Sino-foreign cooperation, which means that foreign investors may only operate pre-schools and high schools through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation. In addition, the Foreign Investment Catalog also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national; and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the “**Foreign Control Restriction**”).

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, the foreign investor in a Sino-foreign cooperative school for PRC students at a high school (a “**Sino-Foreign Cooperative Private School**”) must be a foreign educational institution with relevant qualification and high quality of education (the “**Qualification Requirement**”). Furthermore, pursuant to the Implementation Opinions, the foreign portion of the total investment in a Sino-Foreign Cooperative Private School should be below 50% (the “**Foreign Ownership Restriction**”) and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

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Our PRC Legal Adviser (i) has reviewed the Sino-foreign cooperative school application form (中外合作辦學機構申請表) setting out the information required from the foreign investor (indicating its type), which may be a national, public or private school or a for-profit entity or not-for-profit entity or other types; and (ii) has advised that it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement. We have taken steps to meet the Qualification Requirement as set out in the paragraph below headed "Plan to comply with the Qualification Requirement" below. In the event that we decide to establish a Sino-foreign cooperative school in the PRC, we will seek guidance and advice from the relevant government authorities as to specific criteria to be met and whether the Qualification Requirement has been satisfied.

On 17 May 2016, with the assistance of our PRC Legal Adviser, we consulted Dongguan Education Bureau. We were advised by the interviewee, namely the vice head of the private schools administration division (民辦學校管理科) of Dongguan Education Bureau that:

1. save for one kindergarten, no Sino-foreign cooperative private high schools in Dongguan had been approved after the Sino-Foreign Regulation became effective on 1 September 2003;
2. the execution of the Contractual Arrangements will not be considered as Sino-foreign cooperation in the operation of schools and does not require approval from the education authorities;
3. generally a full secondary school operates as a single entity and has only one school sponsor, and separation of an established full secondary school to a middle school and a high school is generally not supported by the government.

As advised by our PRC Legal Adviser, based on (i) the Education Law of the PRC which provides that secondary and lower education shall be managed by the local people's government under the leadership of the State Council; and (ii) the Law for Promoting Private Education which provides that educational administrative departments of local people's governments at or above the county level shall manage the non-state education within their respective administrative area, the interviewee at Dongguan Education Bureau was the competent authority to confirm the above. It is unlikely that his views will be challenged by higher authorities in the PRC.

We have obtained written confirmations from Guangdong Education Bureau, Dongguan Education Bureau, Huizhou Education Bureau, Panjin City Education Bureau and Guang'an Education and Sports Bureau confirming that the examination and approval process for Sino-foreign cooperative high school had been suspended as of such respective confirmation. Our PRC Legal Adviser advised that such confirmations are consistent with our PRC Legal Adviser's understanding of the policy of the Ministry of Education of the PRC regarding the approval of Sino-foreign cooperative high schools, which had been confirmed in the written confirmation issued by Guangdong Education Bureau. We have also obtained (i) a written confirmation from the Dongguan Education Bureau that it does not support the separate operation of the high school section of Dongguan Guangzheng Preparatory School and Dongguan Guangming School; (ii) a written confirmation from the Huizhou Education Bureau that Huizhou Guangzheng Preparatory School was approved to be established as an institution offering full 12-year education, of which the high school section forms an integral part, and the separate operation of its high school section is not necessary; and (iii) a written confirmation from Weicheng District Education Bureau of Weifang City, confirming that, based on its communications with Weifang City Education Bureau, given that Weifang Guangzheng Preparatory School had not started the operation of its high school section, Weifang City Education Bureau would not respond or provide confirmation on enquiries relating to the operation of high school or cooperation in connection therewith.

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As at the Latest Practicable Date, we had not made any definitive decision to commence offering high school education in Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School, Yunfu Guangzheng Preparatory School, or Zhaoqing Guangming Preparatory School, and accordingly had not commenced any actual preparatory work for any such offering. In the event that we decide to commence any such preparatory work, we will seek legal advice as well as guidance from the competent governmental authorities, where appropriate, with respect to the offering of high school education prior to the commencement thereof in any of these schools.

As advised by our PRC Legal Adviser, the Guangdong governmental authority has not promulgated any implementing measures or specific guidance pursuant to the Sino-Foreign Regulation as of the Latest Practicable Date. Our Company is not aware of any applications in respect of Sino-Foreign cooperative schools, whether private or public, being previously submitted for approval with the authority in Guangdong Province. As advised by our PRC Legal Adviser, private schools established by enterprises, institutions, public organizations, other social organisations and individuals using non-government funds are highly regulated under the Law for Promoting Private Education and its implementation rules, which are not applicable to public schools. Please refer to the section headed “Regulatory Overview – Regulations on Private Education in the PRC” in this document for further details.

Given that as at the Latest Practicable Date, as advised by our PRC Legal Adviser, we did not meet the Qualification Requirement as we had no experience in operating a school outside of the PRC, it is therefore not practicable for us to seek to apply to reorganise any of our Consolidated Affiliated Entities as a Sino-foreign cooperative private school.

Notwithstanding the above, we are committed to working towards meeting the Qualification Requirement. We have adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. We will make inquiries of relevant educational authorities following the [REDACTED] to understand any regulatory developments, including whether there will be any change in policy for approving Sino-Foreign Cooperative Private School in the Guangdong Province, and assess whether we are qualified to meet the Qualification Requirement, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC laws and regulations. Please refer to the paragraphs headed “Circumstances in which we will unwind the Contractual Arrangements” and “Plan to comply with the Qualification Requirement” in this section for further details.

Due to the regulatory restrictions stated above, our high schools are in the form of a domestic Chinese high school and we do not hold any direct equity interest in, but rather control by way of the Contractual Arrangements with, such schools.

As at the Latest Practicable Date, we have not encountered any interference or encumbrance from any governing bodies in relation to the Contractual Arrangements. The consolidated financial results of our Consolidated Affiliated Entities, which engage in education service, are consolidated to those of our Group. Our PRC Legal Adviser has opined that each of our Consolidated Affiliated Entities has been legally established and the Contractual Arrangements in relation to the operation of schools are valid, legal and binding and do not contravene PRC laws and regulations. According to our PRC Legal Adviser, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Contractual Arrangements to operate our schools do not render our education business as illegal operations in the PRC.

Circumstances in which we will unwind the Contractual Arrangements

Under the Sino-Foreign Regulation, foreign investment in high schools in the PRC is required to be in the form of cooperation between Chinese educational institutions and foreign educational institutions and subject to the Foreign Ownership Restriction and the Foreign Control Restriction, foreign investors can only hold less than 50% interest in a Sino-Foreign Cooperative Private School and not less than 50% of the governing body of the high school or institute offering higher education must be appointed by the Chinese school sponsors.

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Provided that the PRC government allows the separate operation of middle school and high school in an established full secondary school, irrespective of the Qualification Requirement given that we have adopted a specific plan and begun to take concrete steps which we reasonably believe are meaningful endeavours to demonstrate compliance with the Qualification Requirement, in the event that (a) the Foreign Ownership Restriction and the Foreign Control Restriction remain, (b) the Foreign Ownership Restriction remains and the Foreign Control Restriction is removed, or (c) the Foreign Ownership Restriction is removed and the Foreign Control Restriction remains, or (d) both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed, to the extent permitted by the applicable PRC laws and regulations at the relevant time, we intend that:

1. in circumstance (a), we will partially unwind the Contractual Arrangements and directly hold equity interest of less than 50% in the relevant school (such as 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Cooperative Private School up to no more than 50%. However, our Company will not be able to control such school without the Contractual Arrangements in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction and the Foreign Control Restriction remain, regardless of whether the Qualification Requirement is removed, our Company will still rely on the Contractual Arrangements to establish control over the schools. Our Company will also acquire rights to appoint members to the board of directors who together shall constitute less than 50% of board of directors of the relevant school. We will then control the voting power of the other members to the board of directors appointed by the domestic interest holder(s) by way of Contractual Arrangements;
2. in circumstance (b), we will partially unwind the Contractual Arrangements and directly hold equity interest of less than 50% in the relevant school (such as 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Cooperative Private School up to no more than 50%. However, our Company will not be able to control such school without the Contractual Arrangements in place with respect to the domestic interests. Our Company will also acquire rights to appoint all members to the board of directors of the school;
3. in circumstance (c), notwithstanding we will be able to hold majority interests in Sino-Foreign Cooperative Private Schools, the Sino-Foreign Regulation still dictates that there be a domestic interest in the school and we are not eligible to operate the schools by ourselves. Under such circumstances, we will acquire rights to appoint members to the board of directors who together shall constitute less than 50% of board of directors of the relevant school. We will then control the voting power of such members appointed by the domestic interest holder(s) by way of the Contractual Arrangements. We also plan to hold the maximum percentage of equity interests permissible by the relevant laws and regulations in the relevant schools directly, subject to the approval of relevant government authorities. As for the remaining minority domestic interests which our Company intends to consolidate, we will then control them pursuant to the Contractual Arrangements; and
4. in circumstance (d), we would be allowed to directly hold 100% of the interests in the schools and our Company will fully unwind the Contractual Arrangements and directly hold all equity interest in the schools. Our Company will also acquire rights to appoint all members to the board of directors of the school. If, subject to applicable government approvals, we hold interests in any for-profit schools in the future, we will receive profit distributions as equity holder of such schools. For our schools which are not-for-profit schools, we will (through our wholly-owned subsidiaries established in the PRC) enter into exclusive management consultancy and business cooperation agreements (similar to that under the Contractual Arrangements) with such schools pursuant to which such subsidiaries established in the PRC will provide corporate management and education management consultancy services, intellectual property licensing services as well as technical and business support service in return for service fees.

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In addition, we have decided that, if the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Dongguan Ruixing will exercise the call option under the Exclusive Call Option Agreement in full to unwind the Contractual Arrangements so that we are able to directly operate our schools without using the Contractual Arrangements or include only the domestic interests under the Contractual Arrangements.

Plan to comply with the Qualification Requirement

We have adopted a specific plan and begun to take concrete steps which we reasonably believe are meaningful endeavours to demonstrate compliance with the Qualification Requirement.

As of the Latest Practicable Date, we had taken the following concrete steps to implement our plan. In February 2016, we entered into a memorandum of understanding (the “MOU”) with Dewey College, an independent high school subject to inspection by the Ontario Ministry of Education, Canada, with respect to the parties’ proposed cooperation in setting up a private school in Canada, offering secondary and pre-university education, as well as other proposed cooperations in international education. According to the MOU, we will provide funding for the new school, the amount of which will be determined at a later date; Dewey College will provide school management services and utilize its partnership relations with certain Canadian universities to provide assistance to our graduates who wish to pursue further studies in Canada. As of the Latest Practicable Date, we had established a subsidiary in Canada, which is a joint venture company with Dewey International Holdings Limited to act the investor and business developer for the development of the new school in Canada. As of the Latest Practicable Date, we have incurred expenses of approximately USD41,000 in connection with legal services regarding the joint venture company and invested CAD150,000 in the joint venture company, which was held as to 55% and 45% by our Group and Dewey International Holdings Limited, respectively. Please refer to the section headed “Business – Development of New Schools – Dewey College (high school)” in this document for further details of the MOU and our international development plan. Under the current proposed cooperation proposal by our Group, we will be responsible for, among other matters, (i) selecting and recruiting suitable students in the PRC in accordance with the entrance requirements of the new school in Canada; (ii) providing preparatory courses for students at our schools in the PRC who plan to pursue further studies in the new school in Canada; (iii) participating in the design of the high school programmes in the new school in Canada, especially for students who received fundamental education in the PRC; and (iv) providing assistance in the design of Chinese courses as electives for high school students in the new school in Canada.

In the opinion of our PRC Legal Adviser, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming we gain a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtain the approval of the relevant education authorities for the establishment of a Sino-Foreign Cooperative Private School in the future (provided that the PRC laws and regulations do not impose new requirements, restrictions or prohibitions in relation to the establishment of a Sino-Foreign Cooperative Private School), we will be able to operate our schools in the PRC directly through our new school overseas or such other entity subject to the approval from the competent educational authorities.

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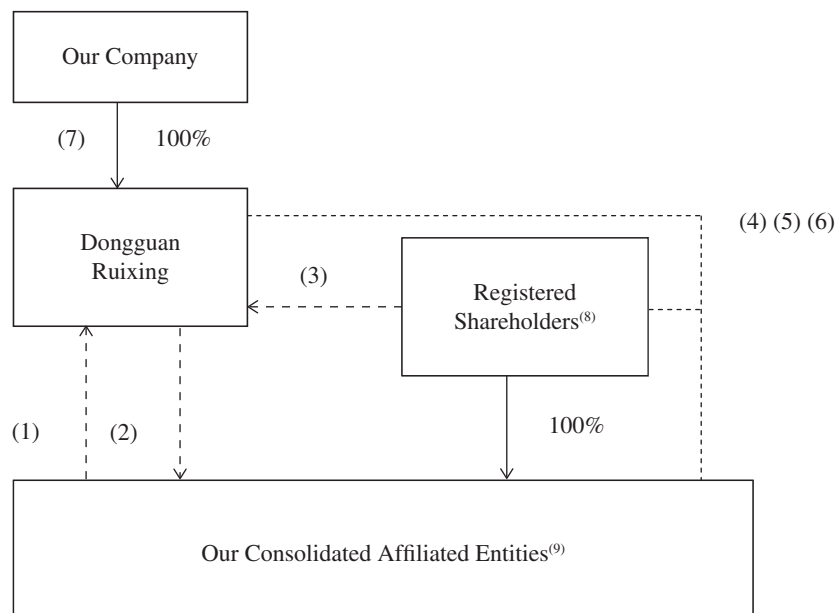
Furthermore, we have undertaken to the Stock Exchange that we will:

- (a) under the guidance of a PRC legal adviser, continue to keep ourselves updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirement; and
- (b) provide periodic updates in our annual and interim reports after [REDACTED] to inform our Shareholders of our efforts and actions undertaken with the Qualification Requirement.

OPERATION OF THE CONTRACTUAL ARRANGEMENTS

In order to comply with the PRC laws and regulations as set out above while availing ourselves to international capital markets and maintaining effective control over all of our operations, on 1 July 2016, our wholly-owned subsidiary, Dongguan Ruixing entered into various agreements that constitute the Contractual Arrangements with, among others, our Consolidated Affiliated Entities, under which all economic benefits arising from the business of our Consolidated Affiliated Entities are transferred to Dongguan Ruixing to the extent permitted under the PRC laws and regulations by means of services fees payable by our Consolidated Affiliated Entities to Dongguan Ruixing.

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



Notes:

- (1) Payment of service fees. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Exclusive Management Consultancy and Business Cooperation Agreement” of this document for further details.
- (2) Provision of services. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Exclusive Management Consultancy and Business Cooperation Agreement” of this document for further details.
- (3) Powers of attorney to exercise all shareholders’ rights in our Consolidated Affiliated Entities. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Powers of attorney” of this document for further details.
- (4) Exclusive call option to acquire all or part of the equity interest in our Consolidated Affiliated Entities. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Exclusive Call Option Agreement” of this document for further details.

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- (5) Pledge of all the equity interest in Guangdong Guangzheng. Please refer to “Contractual Arrangements – Summary of the material terms of the Contractual Arrangements – Equity Pledge Agreement” of this document for further details.
- (6) Provision of loans. Please refer to “Contractual Arrangements – Summary of material terms of the Contractual Arrangements – Loan Agreement” of this document for further details.
- (7) Dongguan Ruixing is an indirect wholly-owned subsidiary of our Company.
- (8) Registered Shareholders refer to the registered shareholders of Guangdong Guangzheng, i.e. Ms. Li and Mr. SP Liu. Guangdong Guangzheng is legally held as to 98.8% by Ms. Li and 1.2% by Mr. SP Liu. Out of the 98.8% equity interest in Guangdong Guangzheng held by Ms. Li, 60.8% equity interest is held on trust by Ms. Li for Mr. Liu. The 1.2% equity interest in Guangdong Guangzheng is held on trust by Mr. SP Liu for Mr. Liu.
- (9) Our Consolidated Affiliated Entities comprised Guangdong Guangzheng, Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Dongguan Wenhui, Guang'an Guangzheng, Huizhou Guangzheng, Huizhou Guangzheng Preparatory School, Panjin Guangzheng, Panjin Guangzheng Preparatory School, Weifang Guangzheng and Yunfu Guangzheng as at the Latest Practicable Date.
- (10) “___” denotes direct legal and beneficial ownership in the equity interest.
- (11) “-----” denotes Contractual Arrangements.

Guangdong Guangzheng is a special purpose vehicle established as a holding company to hold interests in our other Consolidated Affiliated Entities. It is engaged in investment in both compulsory education and high school education as the school sponsor or the holding company thereof. Guangdong Guangzheng is not engaged in any other business other than the aforesaid. Under the Contractual Arrangements, each of our Consolidated Affiliated Entities (including Guangdong Guangzheng and our schools) entered into the Exclusive Management Consultancy and Business Cooperation Agreement and Loan Agreement with, among others, Dongguan Ruixing pursuant to which each of Guangdong Guangzheng and our schools will be directly bound by and subject to the terms and conditions thereof. Accordingly, for any services provided by Dongguan Ruixing to any of our schools, the respective service fee will be paid by such school to Dongguan Ruixing directly. As advised by our PRC Legal Adviser, our ability to enforce our interest over our schools is no less effective than in the case where all of the Contractual Arrangements were entered into directly between Dongguan Ruixing and each of our schools only. Instead, it offers further protection in our favour by virtue of the existence of Guangdong Guangzheng and the pledge over the equity interests in Guangdong Guangzheng pursuant to the Equity Pledge Agreement as part of the Contractual Arrangements. This is because, as a matter of PRC law, the school sponsors cannot pledge their interests in the schools (which are, by nature, not equity interests) and any such pledge (if any) would be unenforceable under the PRC laws and regulations. With the existence of Guangdong Guangzheng as the holding company, the equity interests thereof are able to be pledged in our favour as part of the protective and control mechanism under the Contractual Arrangements, thereby substantially reduces the uncertainties arising from the inability to obtain any direct pledge over the interests in the schools. Accordingly, it is necessary and in our benefit for Guangdong Guangzheng to directly enter into the Contractual Arrangements with the relevant parties to maintain our control over our Consolidated Affiliated Entities.

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Summary of the Material Terms of the Contractual Arrangements

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Exclusive Management Consultancy and Business Cooperation Agreement

Pursuant to the exclusive management consultancy and business cooperation agreement entered into by and among Dongguan Ruixing, Guangdong Guangzheng and its subsidiary entities as described therein which are our Consolidated Affiliated Entities, and the Registered Shareholders on 1 July 2016 (the “**Exclusive Management Consultancy and Business Cooperation Agreement**”), Dongguan Ruixing has the exclusive right to provide, or designate any third party to provide comprehensive corporate management consultancy and educational management consultancy services, intellectual property licensing services and technical and business support services. Such services to our Consolidated Affiliated Entities include advisory services on asset and business operation, debt disposal, material contracts or mergers and acquisitions, educational software and course materials research and development, employee training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resources and internal information management, network development, upgrade and ordinary maintenance services, sales of proprietary products, and software and trademark and know-how licensing and other additional services as the parties may mutually agree from time to time. Among such services, during the Track Record Period, Guangdong Guangzheng provided our schools with advisory services on asset and business operation, loan restructuring, employee training, market survey, research and consulting and market development and planning at a management fee. As at 31 August 2016, Guangdong Guangzheng had over 50 personnel (including legal and accounting professionals) responsible for providing such services. We are in the course of transferring the relevant staff to continue providing such services to our schools from time to time pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement. Dongguan Ruixing also plans to recruit additional personnel prior to [REDACTED] to provide such services which include two in-house certified lawyers to advise our schools on the legal matters from time to time including contractual matters, mergers and acquisitions and joint ventures. In addition, Bright Education HK will assign the trademarks set out in the paragraph headed “B. Further information about our business – 2. Intellectual Property Rights” to Dongguan Ruixing, with a view to enabling Dongguan Ruixing to license the trademarks to our schools. Dongguan Ruixing also intends to develop an integrated website for, and to provide public relations services to, our schools. We consider that, based on the relevant personnel’s experience in providing a variety of services and our proposed arrangements set out above, Dongguan Ruixing will have sufficient resources for providing our schools with the services contemplated under the Exclusive Management Consultancy and Business Cooperation Agreement. Without Dongguan Ruixing’s prior written consent, none of our Consolidated Affiliated Entities may accept services covered by the Exclusive Management Consultancy and Business Cooperation Agreement from any third party. Dongguan Ruixing owns all intellectual property rights arising out of the performance of this agreement.

Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement, Guangdong Guangzheng and the Registered Shareholders have undertaken to procure any subsidiary entity to be established after the date of such agreement invested and controlled (including via contractual arrangements) by Guangdong Guangzheng to acknowledge that it will assume rights and obligations as a subsidiary entity of Guangdong Guangzheng under the agreement. Accordingly, as at the Latest Practicable Date, Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School and Yunfu Guangzheng had acknowledged so.

In consideration of the services provided by Dongguan Ruixing or its designated third party, our Consolidated Affiliated Entities agree to pay service fees equal to 100% of their net income after deducting the relevant costs, tax payment and reserved funds as required by applicable PRC laws and regulations to Dongguan Ruixing or its designated third party who provided the services and they will agree with Dongguan Ruixing or its designated third party who provided the services on the actual amount of the service fees to be paid after good faith negotiations.

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As advised by our PRC Legal Adviser, the service fees payable to Dongguan Ruixing under the Exclusive Management Consultancy and Business Cooperation Agreement do not constitute returns to the school sponsor that are subject to the requirements relating to “reasonable returns” based on the following factors:

- (a) the Contractual Arrangements were entered into between the relevant parties based on their actual intentions. The services provided by Dongguan Ruixing under the Exclusive Management Consultancy and Business Cooperation Agreement and the service fee charged thereunder are based on actual transactions. Under such agreement, Dongguan Ruixing is required to provide each of our Consolidated Affiliated Entities with corporate management and educational management consultancy services, intellectual property licensing services as well as technical and business support services, and in consideration of the services provided by Dongguan Ruixing, a service fee will be payable by our Consolidated Affiliated Entities to Dongguan Ruixing, and they will agree with Dongguan Ruixing on the actual amount of the service fees to be paid after good faith negotiations;
- (b) the source of the reasonable returns to school sponsors differs from the source of the service fees. Such returns are generated from the operation of our schools and are considered to be rewards to the school sponsors through the laws and regulations of the PRC, which are different in nature from dividends payable to shareholders of a company; whereas the service fees are generated from the provision of services by Dongguan Ruixing to our Consolidated Affiliated Entities under the Exclusive Management Consultancy and Business Cooperation Agreement. The service fee constitutes revenue for Dongguan Ruixing and costs of our Consolidated Affiliated Entities for their business operation, and such fees form part of the commercial arrangements agreed among the relevant parties to the Contractual Arrangements. Accordingly, the income of Dongguan Ruixing is generated from the provision of services under the Contractual Arrangements, rather than receiving reasonable returns indirectly from our schools; and
- (c) school sponsors of our schools (which includes, among other entities, Guangdong Guangzheng, Huizhou Guangzheng and Panjin Guangzheng) are not the recipient of the service fee under the Exclusive Management Consultancy and Business Cooperation Agreement (i.e. Dongguan Ruixing). These school sponsors and Dongguan Ruixing are separate legal entities from each other. Accordingly, these school sponsors and their respective shareholders are not able to charge any fees and thereby indirectly receive returns through the Contractual Arrangements by way of charging our schools fees for the services provided by Dongguan Ruixing, or requiring Dongguan Ruixing to transfer the service fee to the school sponsors.

The Exclusive Management Consultancy and Business Cooperation Agreement will not expire unless the parties mutually agree to terminate or the term of operation of each of the parties to the agreement expire.

Furthermore, in order to prevent the leakage of assets and values of our Consolidated Affiliated Entities to their respective shareholders, under the Exclusive Management Consultancy and Business Cooperation Agreement, without the prior written approval from Dongguan Ruixing, our Consolidated Affiliated Entities shall not enter into any transaction (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation, including but not limited to (i) the provision of any guarantee to any third party or the creation of any encumbrances in relation to its assets; (ii) the entering into of any loan or debt obligations owing to any third party; and (iii) the disposal or acquisition of any assets (including intellectual properties) with a value higher than RMB3 million.

In addition, under the Exclusive Management Consultancy and Business Cooperation Agreement, without the prior written consent of Dongguan Ruixing, none of the Consolidated Affiliated Entities shall change or remove the members of its board of directors who are appointed

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by Dongguan Ruixing in accordance with the articles of association of each of our Consolidated Affiliated Entities. Dongguan Ruixing also has the right to appoint the school principals, financial controllers and other senior managers of our Consolidated Affiliated Entities. Dongguan Ruixing has absolute control over the distribution of dividends or any other amounts to the shareholders of our Consolidated Affiliated Entities as our Consolidated Affiliated Entities and their shareholders have undertaken not to make any distribution without Dongguan Ruixing’s prior written consent. Dongguan Ruixing also has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities and the financial results of the Consolidated Affiliated Entities can be consolidated into our Group’s financial information as if they were our Company’s subsidiaries.

As at the Latest Practicable Date, Bright Education HK was in the process of setting up a wholly foreign-owned enterprise in Tibet, which we may designate as the service provider under the Exclusive Management Consultancy and Business Cooperation Agreement for the purpose of the Contractual Arrangements, in replacement of Dongguan Ruixing in the future where appropriate. We may make such arrangement in view of the preferential tax policies under the Regulations on the Implementation of Enterprise Income Tax Policy of Tibet Autonomous Region (《西藏自治區企業所得稅政策實施辦法》) promulgated on 1 May 2014, pursuant to which Tibet local government has exempted 40% enterprise income tax payable by enterprises in Tibet Autonomous Region for a period of two years commencing from 1 January 2015 to 31 December 2017. As at the Latest Practicable Date, we were not entitled to any such preferential tax treatments. Please see “Risk Factors – The preferential tax and other treatments contemplated by us may change or may become unavailable”.

Exclusive Call Option Agreement

Under the exclusive call option agreement entered into by and among Dongguan Ruixing, the Registered Shareholders and Guangdong Guangzheng on 1 July 2016 (the “**Exclusive Call Option Agreement**”), the Registered Shareholders unconditionally and irrevocably agreed to grant Dongguan Ruixing an exclusive, unconditional and irrevocable option for Dongguan Ruixing or its designated third party to purchase all or part of the equity interests of the Registered Shareholders in Guangdong Guangzheng at nil consideration or at the lowest price permitted under the PRC laws and regulations, under circumstances in which Dongguan Ruixing or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of Guangdong Guangzheng.

Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, the Registered Shareholders shall return the amount of purchase price they have received to each of Guangdong Guangzheng, Dongguan Ruixing or its designated third party. We have the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the current regulatory restrictions on foreign investment in the educational business will be removed in the future, the likelihood of which we were not in a position to know or comment on at the Latest Practicable Date.

In order to prevent the flow of the assets and value of our Consolidated Affiliated Entities to their respective shareholders, pursuant to the Exclusive Call Option Agreement, none of the assets of our Consolidated Affiliated Entities are to be sold, transferred or otherwise disposed of without the written consent of Dongguan Ruixing. In addition, under the Exclusive Call Option Agreement, none of the shareholders of our Consolidated Affiliated Entities may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of his or her equity interests in our Consolidated Affiliated Entities without Dongguan Ruixing’s prior written consent.

In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to Dongguan Ruixing or its designated third party. If Dongguan Ruixing exercises this option, all or any part of the equity interests of our Consolidated Affiliated Entities acquired would be transferred to Dongguan Ruixing and the benefits of equity ownership would flow to Dongguan Ruixing and its shareholders.

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Equity Pledge Agreement

Pursuant to the equity pledge agreement entered into by and among Dongguan Ruixing, the Registered Shareholders and Guangdong Guangzheng on 1 July 2016 (the “**Equity Pledge Agreement**”), the Registered Shareholders unconditionally and irrevocably pledged all of their equity interests in Guangdong Guangzheng to Dongguan Ruixing to guarantee performance of the obligations of Guangdong Guangzheng and its subsidiaries and schools under the Exclusive Management Consultancy and Business Cooperation Agreement and performance of their obligations under the Exclusive Call Option Agreement, the Powers of Attorney and the Loan Agreement. Under the Equity Pledge Agreement, the Registered Shareholders have agreed that, without the prior written consent of Dongguan Ruixing, they will not transfer or dispose the pledged equity interests or create or allow any encumbrance on the pledged equity interests that would prejudice Dongguan Ruixing’s interest.

The equity pledge is required to be registered under the relevant laws and regulations. The equity pledge registration of Guangdong Guangzheng with the Dongguan City Administration Bureau for Industry and Commerce has been completed on 13 September 2016. The Equity Pledge Agreement shall remain valid until (i) all the contractual obligations of Guangdong Guangzheng, its subsidiaries and schools, the Registered Shareholders are satisfied in full under the Exclusive Management Consultancy and Business Cooperation Agreement, the Exclusive Call Option Agreement, Powers of Attorney and the Loan Agreement, or (ii) the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreement, the Exclusive Call Option Agreement, Powers of Attorney and the Loan Agreement, whichever is later.

There is no equity pledge arrangement regarding any equity pledges of our schools. As advised by our PRC Legal Adviser, even if we were to make an equity pledge arrangement regarding any equity pledges of our schools, given that the school sponsors’ interests over the schools are not, by nature, equity interests, any such pledge would be unenforceable under PRC laws and regulations.

To further enhance our Company’s security over our schools, our Company has taken measures to ensure that the seals of the schools are properly secured, are within the full control of our Company and cannot be used by the Registered Shareholders without its permission. Such measures include arranging for the company seals of the schools to be kept in the safe custody of the finance department of our Group and setting up lines of authority for using the company seals, financial chops and business registration certificates such that the company seals, financial chops and business registration certificates can only be used under direct authorisation of our Company.

Powers of Attorney

Each of the Registered Shareholders has executed an irrevocable power of attorney dated 1 July 2016 (the “**Powers of Attorney**”) appointing Dongguan Ruixing, or any person designated by Dongguan Ruixing, as his or her attorney-in-fact to appoint directors and vote on his or her behalf on all matters of Guangdong Guangzheng requiring shareholders’ approval under its articles of associations and under the relevant PRC laws and regulations. These powers of attorney remain effective as long as the Registered Shareholders remain a shareholder of Guangdong Guangzheng, unless Dongguan Ruixing requests to replace the appointed designee under the Powers of Attorney.

The articles of association of Guangdong Guangzheng state that the shareholders, in a shareholders’ meeting, have the power to approve its operating strategy and investment plan, elect the members of the board of directors and approve their compensation, and review and approve the annual budget and earning distribution plan. Therefore, through the irrevocable power of attorney arrangement, we and our wholly-owned PRC subsidiary, Dongguan Ruixing, have the ability to exercise effective control over Guangdong Guangzheng through shareholder votes and, through such votes, to also control the composition of the board of directors for Guangdong Guangzheng.

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In addition, the Powers of Attorney specifically provide that (i) the attorney-in-fact is entitled to sign minutes, file documents with the relevant companies registries, and (ii) in the event of a winding-up of any of our Consolidated Affiliated Entities, the attorney-in-fact has the right to appoint a liquidator to deal or manage the assets obtained after such winding-up for the benefit of our Company and its shareholders.

Those of our powers to direct the activities of our Consolidated Affiliated Entities that most significantly impact these entities’ economic performance include:

- (a) as the attorney-in-fact of shareholders, we elect all members of the board of directors for each of our Consolidated Affiliated Entities, approve the director compensation, review and approve annual budget and vote on all matters that requiring approval from shareholders;
- (b) through the control over the Consolidated Affiliated Entities’ boards, we appoint all senior management, approve executive compensation and review and approve operating, investing, and financing plans; and
- (c) through control over the management team, we effectively control the daily operations of our Consolidated Affiliated Entities.

Loan Agreement

Pursuant to the loan agreement entered into by and among, Dongguan Ruixing, Guangdong Guangzheng and its subsidiary entities as described therein which are our Consolidated Affiliated Entities, and the Registered Shareholders (the “**Loan Agreement**”), Dongguan Ruixing (or its designated related party) is entitled to provide interest-free loans to Guangdong Guangzheng or the Registered Shareholders from time to time in accordance with the PRC laws and regulations. All proceeds of such loans shall be utilised in the operation of Guangdong Guangzheng or its subsidiaries and loans may be injected as capital. The Loan Agreement will not expire unless the parties mutually agree to terminate or the term of operation of each of the parties to the agreement expire. Each loan to be granted under the Loan Agreement will be for an infinite term until termination at the sole discretion of Dongguan Ruixing. The loan will become due and payable upon Dongguan Ruixing’s demand under any of the following circumstances: (i) the winding-up or liquidation of Guangdong Guangzheng; (ii) Guangdong Guangzheng or the Registered Shareholders becoming insolvent or incurring any other significant personal debt which may affect the ability of Guangdong Guangzheng to repay the loan under the Loan Agreement, or (iii) Dongguan Ruixing exercising in full its option to purchase all school sponsor’s interests to the extent permitted by PRC laws and regulations. As advised by our PRC Legal Adviser, interest-free loans granted by Dongguan Ruixing to Guangdong Guangzheng or its subsidiaries or the Registered Shareholders are not in violation of the applicable PRC laws and regulations.

Dispute Resolution

In the event of any dispute with respect to the construction and performance of the provisions, each of the Exclusive Management Consultancy and Business Cooperation Agreement, Exclusive Call Option Agreement, Equity Pledge Agreement and Loan Agreement stipulates that the parties shall negotiate in good faith to resolve the dispute. In the event the parties fail to reach an agreement on the resolution of such a dispute, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties.

The dispute resolution clause of each of the Contractual Arrangements also provide that the arbitral tribunal may award remedies over the shares or land assets of our Consolidated Affiliated Entities, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order

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the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of our Consolidated Affiliated Entities) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of our Consolidated Affiliated Entities.

However, our PRC Legal Adviser has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable or enforceable under the current PRC laws.

Our PRC Legal Adviser has advised us that the practical consequences for the Group arising from the possible non-enforceability of provisions in the agreements underlying the Contractual Arrangements are as follows:

- (a) Should Dongguan Ruixing intend to seek interim remedies in support of the arbitration when formation of the arbitral tribunal is pending or under appropriate circumstances, Dongguan Ruixing may either seek (i) the interim remedies available from a PRC arbitral tribunal described below, or (ii) the interim remedies before a PRC court pursuant to Articles 100 and 101 of the PRC Civil Procedure Law and Article 28 of the PRC Arbitration Law, rather than before any courts in Hong Kong or the Cayman Islands.
- (b) Under the current PRC law, the remedies that arbitral tribunals, including the China International Economic and Trade Arbitration Commission, are empowered to award are limited to the following:
 - cessation of infringements;
 - removal of obstacles;
 - elimination of dangers;
 - return of property;
 - restoration of original condition;
 - repair, reworking or replacement;
 - compensation for losses;
 - payment of breach of contract damages;
 - elimination of ill effects and rehabilitation of reputation; and
 - extension of apology.

Because the remedies that the China International Economic and Trade Arbitration Commission is empowered to award do not include injunctive relief or winding up orders, under PRC law, Dongguan Ruixing can only seek similar but not identical remedies, such as cessation of infringements or return of property, from the China International Economic and Trade Arbitration Commission. Alternatively, Dongguan Ruixing may seek similar remedies from a competent court, such as interim measures (e.g., asset preservation) over the assets or shares of our Consolidated Affiliated Entities and winding up orders against the Consolidated Affiliated Entities under appropriate circumstances.

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- (c) Even if the abovementioned provisions may not be enforceable under the current PRC laws, our PRC Legal Adviser has confirmed that the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreements under the Contractual Arrangements.

Succession and assignments

The provisions set out in the Contractual Arrangements are also binding on the successors or assignees of Dongguan Ruixing or shareholders of our Consolidated Affiliated Entities, as if such successor or assignee was a signing party to the Contractual Arrangements notwithstanding how the successors or assignees acquire the rights and obligations under the Contractual Arrangements. In particular, pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement, Exclusive Call Option Agreement and Loan Agreement, unless otherwise agreed, the rights and obligations under these agreements shall be binding on the successors or assignees (whether such rights and obligations is acquired, restructured, inherited, transferred or otherwise caused) of the parties to the agreements. Although our Contractual Arrangements do not specify the identity of successors to such shareholders, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Dongguan Ruixing or our Company can enforce its right against the successors. Further, pursuant to the Powers of Attorney, in the event of death or any other event which causes the inability of any of the Registered Shareholders to perform their day-to-day obligations, the successor guardian or manager of such Registered Shareholder shall inherit any of the rights and obligations of any of the Registered Shareholders under the Contractual Arrangements subject to him or her being bound by the provisions of the Powers of Attorney. In addition, Dongguan Ruixing's rights to the equity interest pledged under the Equity Pledge Agreement shall not be affected by legal proceedings brought by any of the Registered Shareholders, their successors, assignees or any other person.

Therefore, our PRC Legal Adviser is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of death of the shareholders of our Consolidated Affiliated Entities or the assignment of their rights and obligations under the Contractual Arrangements; and (ii) the death of such shareholders or such assignment would not affect the validity of the Contractual Arrangements, and Dongguan Ruixing or our Company can enforce its right under the Contractual Arrangements against the successors or assignees of such shareholders.

As advised by our PRC Legal Adviser, in the event that the trust arrangement among Ms. Li, Mr. SP Liu and Mr. Liu regarding the equity interest in Guangdong Guangzheng (as detailed in the section headed “History and development” of this document) is terminated, the provisions of the Contractual Arrangements will also be binding on Mr. Liu based on the following reasons:

- (a) under the trust arrangement, in the event that the trust arrangement is terminated, Mr. Liu or his designated third person shall be registered as the shareholder of Guangdong Guangzheng and thus Mr. Liu (and any person designated by him) will be the successor or assignee of the Registered Shareholders after the termination of the trust arrangement;
- (b) pursuant to the provisions on succession and assignments as set out above, the Contractual Arrangements are binding on the successors or assignees of the Registered Shareholders. Mr. Liu shall be bound by the Contractual Arrangements as he (and any person designated by him) shall be regarded as a successor or assignee of the Registered Shareholders; and

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- (c) Mr. Liu has undertaken (i) to comply with the terms of the Contractual Arrangements (including all amendments thereto); (ii) not to seek a court order to invalidate or nullify the Contractual Arrangements; (iii) to recognise all the declarations of intention made and the documents signed by the Registered Shareholders in respect of the Contractual Arrangements and to comply with the relevant legal obligations thereunder; and (iv) to comply with the Contractual Arrangements if the trust arrangement is terminated and Mr. Liu or a person designated by him is registered as a shareholder of Guangdong Guangzheng, Mr. Liu will still comply with the Contractual Arrangements.

Conflicts of Interests

To ensure our effective control over our Consolidated Affiliated Entities, we have implemented measures to protect against the potential conflicts of interest between our Company and the Registered Shareholders, the shareholders of Guangdong Guangzheng. Pursuant to the Exclusive Call Option Agreement, the Registered Shareholders agreed to grant us or our designated third party an exclusive option to purchase part or all of the equity interests in Guangdong Guangzheng, under circumstances in which our company or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of Guangdong Guangzheng. Under the irrevocable Powers of Attorney executed by each of Registered Shareholders, they appointed Dongguan Ruixing, or any person designated by Dongguan Ruixing, as their respective attorney-in-fact to appoint directors and vote on her behalf on all matters of Guangdong Guangzheng requiring shareholders' approval under its articles of associations and under the relevant PRC laws and regulations.

Furthermore, there are mechanisms in place to protect against the spouse of Mr. SP Liu from exercising any control or influence over the Consolidated Affiliated Entities. Ms. Huang Ailing (黃愛領), the spouse of Mr. SP Liu, executed an irrevocable undertaking on 1 July 2016 (the “**SP Liu Spouse’s Undertaking**”) whereby she expressly and irrevocably (i) acknowledged the entry into of the Contractual Arrangements by Mr. SP Liu; (ii) undertook that she shall not take any actions that are in conflict with purpose and intention of the Contractual Arrangements, including acknowledging that any equity interests held by the shareholders do not fall within the scope of their community properties; and (iii) confirmed that her consent and approval is not required for the implementation of the Contractual Arrangements, any amendments thereto or the termination thereof.

The Registered Shareholders have undertaken that during the period that the Contractual Arrangements remain effective, (i) unless otherwise agreed to by Dongguan Ruixing in writing, they would not, directly or indirectly (either on their own account or through any natural person or legal entity) participate, engage in, acquire or hold (in any case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of Guangdong Guangzheng and its subsidiaries (including any entities which interests are controlled by Dongguan Ruixing via contractual arrangements) or be interested therein; and (ii) any of their actions or omissions would not lead to any conflict of interest between them and Dongguan Ruixing (including its shareholders). Furthermore, in the event of the occurrence of a conflict of interests (where Dongguan Ruixing has the sole absolute discretion to determine whether such conflict arises), they agree to take any appropriate actions as instructed by Dongguan Ruixing or its designee.

Based on the above, our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between our Group and the Registered Shareholders and such measures are sufficient to protect our Group’s interest in Guangdong Guangzheng.

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Loss Sharing

None of the agreements constituting the Contractual Arrangements expressly provide that the Company or Dongguan Ruixing is obligated to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Further, Guangdong Guangzheng is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or Dongguan Ruixing, as the primary beneficiary of our Consolidated Affiliated Entities, is not expressly required to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Despite the foregoing, given that our Group conducts its businesses in the PRC through our Consolidated Affiliated Entities which hold the requisite PRC licenses and approvals, and that our Consolidated Affiliated Entities’ financial condition and results of operations are consolidated into our Company’s financial statements and results of operations under the applicable accounting principles, our Company’s business, financial condition and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses. Therefore, the provisions in the contractual arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on Dongguan Ruixing and our Company resulting from any loss suffered by our Consolidated Affiliated Entities.

For instance, as provided in the Exclusive Call Option Agreement, none of the assets of our Consolidated Affiliated Entities are to be sold, transferred or otherwise disposed of without the written consent of our Company. In addition, under the Exclusive Call Option Agreement, none of the shareholders of our Consolidated Affiliated Entities may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of his or her equity interests in our Consolidated Affiliated Entities without our Company’s prior written consent.

In addition, under the Exclusive Management Consultancy and Business Cooperation Agreement, without the prior written consent of Dongguan Ruixing, our Consolidated Affiliated Entities shall not change or remove the members of the boards of directors who are appointed by Dongguan Ruixing in accordance with the memorandum and articles of association of each of our Consolidated Affiliated Entities. Dongguan Ruixing also has the right to appoint the school principals, financial controllers and other senior managers of our Consolidated Affiliated Entities. Dongguan Ruixing has absolute control over the distribution of dividends or any other amounts to the shareholders of our Consolidated Affiliated Entities as our Consolidated Affiliated Entities and their shareholders have undertaken not to make any distribution without the prior written consent of Dongguan Ruixing. Dongguan Ruixing also has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities and the financial results of our Consolidated Affiliated Entities can be consolidated into our Group’s financial information as if they were our Group’s subsidiaries.

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Liquidation

According to the Exclusive Management Consultancy and Business Cooperation Agreement and the Exclusive Call Option Agreement, the shareholders of our Consolidated Affiliated Entities undertake to appoint a committee designated by Dongguan Ruixing as the liquidation committee upon the winding up of our Consolidated Affiliated Entities to manage their assets subject to the applicable PRC laws and regulations. In the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, subject to the applicable PRC laws and regulations, all of the remaining assets and residual interests of Consolidated Affiliated Entities shall be transferred to Dongguan Ruixing after such liquidation (the “**Liquidation Arrangements**”). On 7 December 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改〈中華人民共和國民辦教育促進法〉的決定》) was approved by the Standing Committee of the National People’s Congress (the “**Decision**”), which will become effective on 1 September 2017. The Decision clarifies the treatment of remaining assets upon liquidation of private schools. According to the Decision, upon liquidation of private schools, school sponsors of for-profit schools can obtain the schools’ remaining assets after settlement of the schools’ indebtedness. Pursuant to the Liquidation Arrangements, such remaining assets shall be transferred to Dongguan Ruixing. The Decision also states that upon liquidation of private not-for-profit schools which are established before the promulgation of the Decision (such as our existing schools), the school sponsors of which can apply for compensation or awards from the school’s remaining assets after the settlement of the school’s indebtedness and the rest of the school’s remaining assets shall be used for the operation of other non-for-profit schools. Pursuant to the Liquidation Arrangements, the aforesaid compensation or awards shall be transferred to Dongguan Ruixing. The Decision is silent on how or by whom the aforesaid rest of the remaining assets of a liquidated not-for-profit schools shall be dominated or disposed of. Moreover, as advised by our PRC Legal Adviser, as government-allocated land does not constitute assets of an entity in the event of liquidation under the applicable PRC laws and regulations, the land held by Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School, all being government-allocated land, and the buildings attached thereto cannot be transferred to Dongguan Ruixing upon liquidation of our Consolidated Affiliated Entities. Instead, upon liquidation, such schools will be entitled to compensation in relation to the buildings on such government-allocated land according to the applicable PRC laws and regulations, and such compensation will form part of the assets of the relevant Consolidated Affiliated Entities upon liquidation.

Taking into account that (a) the Contractual Arrangements will remain valid and enforceable upon the Decision becomes effective; and (b) rather than amending other regulations on liquidation, the Decision only clarifies that (i) the remaining assets of a not-for profit school upon liquidation may only be used for the operation of other not-for-profit schools; and (ii) the remaining assets of a for-profit school upon liquidation shall be distributed to the school sponsors in accordance with the PRC Company Law, provided that upon liquidation the remaining assets of our schools, which are not-for-profit schools, are to be used in accordance with the requirements above, the Liquidation Arrangements will not be in conflict with the relevant stipulations under the Decision, and the Decision will not result in any material adverse effect to the Liquidation Arrangements.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our Confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

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LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Adviser is of the opinion that the Contractual Arrangements are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations and that:

- (a) each of Dongguan Ruixing and our Consolidated Affiliated Entities is a duly incorporated and validly existing company or school, and their respective establishment is valid, effective and complies with the relevant PRC laws; each of the Registered Shareholders is a natural person with full civil and legal capacity. Each of Dongguan Ruixing, our Consolidated Affiliated Entities and the Registered Shareholders has obtained all necessary approvals and authorisations to execute and perform the Contractual Arrangements;
- (b) as at the date of issuing their PRC opinion, no PRC laws explicitly prohibit contractual arrangements in the private education industry in China and none of the content or the execution of the Contractual Arrangements violates any provisions of PRC laws. Parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law;
- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Consolidated Affiliated Entities and Dongguan Ruixing;
- (d) each of the Contractual Arrangements is binding on the assignees or successors of the parties thereto. In the event of bankruptcy of any of our Consolidated Affiliated Entities, Dongguan Ruixing is entitled to enforce its rights against the assignees or successors of any of the shareholder of our Consolidated Affiliated Entities;
- (e) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, except that the Exclusive Call Option Agreement is subject to approval by MOFCOM or its branch, and registration with the local administration bureau for industry and commerce upon the exercise by the Company of its rights under the Exclusive Call Option Agreement to acquire all or part of the equity interests in our Consolidated Affiliated Entities. On 8 August 2006, six PRC governmental and regulatory agencies, including MOFCOM and the CSRC, promulgated the M&A Rules, a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and revised on 22 June 2009. Pursuant to the M&A Rules, the acquisition of a PRC domestic enterprise by a Foreign Investor (as defined in the M&A Rules) is subject to approval by, and registration with the relevant PRC regulatory authorities. In the event that our Company exercises of its rights under the Exclusive Call Option Agreement to acquire all or part of the equity interests in our Consolidated Affiliated Entities, it will need to obtain the approval of relevant PRC regulatory authorities pursuant to the M&A Rules;
- (f) each of the Contractual Arrangements is enforceable under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
 - (i) the Contractual Arrangements provide that any dispute shall be submitted to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing. They also provide that the arbitrator may award interim remedies over the shares or land assets of our Consolidated Affiliated Entities or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets)

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or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and the PRC (being the place of incorporation of our Consolidated Affiliated Entities) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of our Consolidated Affiliated Entities. However, our PRC Legal Adviser has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and

- (ii) the Contractual Arrangements provide that the shareholders of our Consolidated Affiliated Entities undertake to appoint a committee designated by Dongguan Ruixing as the liquidation committee upon the winding up of our Consolidated Affiliated Entities to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC laws.

Our Directors are of the view that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable our Group to consolidate the financial results of our Consolidated Affiliated Entities which engage in the operation of primary, middle schools and high schools where the PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict operation of high schools to Sino-foreign cooperation, in addition to imposing Qualification Requirements on the foreign owners and withholding government approval in respect of Sino-foreign cooperation.

Our PRC Legal Adviser is of the view the Contractual Arrangements would not be deemed as “concealing illegal intentions within a lawful form” and void under the PRC Contract Law or other PRC laws and regulations based on the following factors:

- (a) the Contractual Arrangements were entered into between the relevant parties based on their actual business intentions. As disclosed in the paragraph headed “Summary of the Material Terms of the Contractual Arrangements” above, under the Contractual Arrangements, Dongguan Ruixing provides management consultancy services and other services to our Consolidated Affiliated Entities in consideration for a service fee. With a view to preventing the Registered Shareholders from controlling our Consolidated Affiliated Entities as the shareholder of Guangdong Guangzheng and to minimizing the default risk of the Contractual Arrangements, Dongguan Ruixing, the Registered Shareholders and our Consolidated Affiliated Entities entered into the Contractual Arrangements, including but not limited to the Exclusive Call Option Agreement, the Equity Pledge Agreement and the Power of Attorney, so that Dongguan Ruixing would have effective control over our Consolidated Affiliated Entities. Accordingly, the intentions for entering into the Contractual Arrangements as set out above did not constitute illegal intentions.
- (b) the exclusive management consultancy services provided under the Contractual Arrangements and the relevant service fees charged thereunder are based on actual transactions. Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement, such services include, among other things, advisory services on asset and business operation and technology development, transfer and consulting services. The actual amount of service fees to be paid is to be agreed after good faith negotiations between the relevant parties.
- (c) under the Contractual Arrangements, the Company has not invested, directly or indirectly, in our schools through Dongguan Ruixing, and the Company is not, and has no intention to become, directly or indirectly, the school sponsor of our schools. Accordingly, our Group had no intention to violate the restrictions under the Foreign Investment Catalog through entering into the Contractual Arrangements.

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- (d) the current laws and regulations do not prohibit contractual arrangements in relation to schools operating in the PRC. Based on the principles of the Draft Foreign Investment Law, where a foreign invested enterprise in the PRC with a contractual arrangement is deemed to be ultimately controlled by PRC domestic investors, the contractual arrangements and the business activities of the relevant enterprise can be maintained. Considering that (i) the ultimate controlling persons of our Company are of Chinese nationality; (ii) the ultimate shareholders of our Consolidated Affiliated Entities are also of Chinese nationality; and (iii) our Consolidated Affiliated Entities are controlled by PRC domestic investors, the Contractual Arrangements do not violate the principles set out in the Draft Foreign Investment Law.

On 7 November 2016, the Decision was approved by the Standing Committee of the National People’s Congress, and will become effective on 1 September 2017. Our PRC Legal Adviser has advised us that, the Decision has no material impact on the Contractual Arrangements and that the Contractual Arrangements will remain legal and effective after the Decision becomes effective, if the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》) (the “**Sino-foreign Schools Regulation**”), the Foreign Investment Industries Guidance Catalog (Amended in 2015) (《外商投資產業指導目錄》(2015年修訂)) (the “**Guidance Catalog**”) and other relevant PRC laws remain unchanged by then, because (i) the Sino-foreign Schools Regulation and the Guidance Catalog still prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of high schools to Sino-foreign cooperation; and (ii) the Decision does not prohibit the Contractual Arrangements in relation to schools operating in the PRC, and does not prohibit the payment of service fees by private schools operating in the PRC to their service providers, including the payment of fees pursuant to the Contractual Arrangements.

We have been advised by our PRC Legal Adviser, however, that there are substantial uncertainties regarding the interpretation and application of the Decision. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC Legal Adviser.

The imposition of any of these penalties could have a material adverse effect on our ability to conduct our business. Please refer to the section headed “Risk Factors – Risks Relating to the Contractual Arrangements” in this document.

The equity interest of Guangdong Guangzheng is held as to 98.8% and 1.2% by Ms. Li and Mr. SP Liu, respectively. Pursuant to a trust arrangement (the “**Trust Arrangement**”) as set out in the section headed “History and Development” in this document, a total of 62% equity interest of Guangdong Guangzheng is held on trust by Ms. Li and Mr. SP Liu for Mr. Liu. As advised by our PRC Legal Adviser, Ms. Li and Mr. SP Liu were duly authorised by Mr. Liu to enter into the Contractual Arrangements and Mr. Liu may not seek a court order to nullify or invalidate the Contractual Arrangements in the capacity of the beneficial owner of 62% equity interest in Guangdong Guangzheng, taking into account that:

- (a) pursuant to the Trust Arrangement, Ms. Li and Mr. SP Liu were required to transfer, pledge or otherwise deal in the equity interest in Guangdong Guangzheng held on behalf of Mr. Liu according to the instructions of Mr. Liu, and Mr. Liu agreed to undertake the legal obligations in relation to any actions undertaken by Ms. Li and Mr. SP Liu in exercise of their shareholders’ rights attached to such equity interest according to the instructions of Mr. Liu. As confirmed by Mr. Liu, prior to entering into the Contractual Arrangements, Mr. Liu has communicated with Ms. Li and Mr. SP Liu of his instructions in relation to the Contractual Arrangements and has authorised them to enter into the Contractual Arrangements. Mr. Liu and Ms. Li have also undertaken to comply with the Contractual Arrangements. Further, Mr. Liu has not objected to the entering into of the Contractual Arrangements as he signed the relevant agreements as the legal representative of certain of our Consolidated Affiliated Entities;

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- (b) Mr. Liu has confirmed that, as the beneficial owner of 62% equity interest in Guangdong Guangzheng, he agreed to the entering into of the Contractual Arrangements and all the documents executed in relation thereto. He has also undertaken to comply with the Contractual Arrangements during their respective effective periods and agreed to undertake any applicable legal obligations under the Contractual Arrangements and not to seek any court order to invalidate the Contractual Arrangements; and
- (c) pursuant to the Trust Arrangement, in the event that the Trust Arrangement is terminated, 62% of the equity interest in Guangdong Guangzheng held by Ms. Li and Mr. SP Liu will be transferred to Mr. Liu. Pursuant to the Contractual Arrangements, save as otherwise agreed, the rights and obligations thereunder will be legally binding upon the successors or assigns of such rights and obligations pertaining to the equity interest in our Consolidated Affiliated Entities. Accordingly, if the Trust Arrangement has been terminated, the legal obligations under the Contractual Arrangements will be binding on Mr. Liu as the registered owner of Guangdong Guangzheng at the relevant time.

Accordingly, our PRC Legal Adviser is of the view that the effect (if any) of possible termination of the trust arrangement among Ms. Li, Mr. SP Liu and Mr. Liu on the Contractual Arrangements will be minimal.

Accounting Aspects of the Contractual Arrangements

Consolidation of Financial Results of our Consolidated Affiliated Entities

According to IFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own our Consolidated Affiliated Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over our Consolidated Affiliated Entities.

Under the Exclusive Management Consultancy and Business Cooperation Agreement, it was agreed that, in consideration of the services provided by Dongguan Ruixing, each of our Consolidated Affiliated Entities will pay service fees to Dongguan Ruixing or its designated third party. The service fees are equal to 100% of the net income after deducting the relevant costs, tax payments and reserved funds as required by relevant laws and regulations of our Consolidated Affiliated Entities and our Consolidated Affiliated Entities will agree with Dongguan Ruixing or its designated third party who provided the services on the actual amount of service fees to be paid after good faith negotiations. This arrangement allows the Consolidated Affiliated Entities to retain sufficient working capital to carry out any growth plans. Dongguan Ruixing also has the right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities. Accordingly, Dongguan Ruixing has the ability, at its sole discretion, to extract substantially all of the economic benefit of our Consolidated Affiliated Entities through the Exclusive Management Consultancy and Business Cooperation Agreement. In addition, under the Exclusive Management Consultancy and Business Cooperation Agreements, Dongguan Ruixing has absolute contractual control over the distribution of dividends or any other amounts to the shareholders of our Consolidated Affiliated Entities as Dongguan Ruixing’s prior written consent is required before any distribution can be made. In the event that the registered shareholders of our Consolidated Affiliated Entities receive any profit distribution or dividend from the Consolidated Affiliated Entities, the registered shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company. As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through Dongguan Ruixing or its designated third party and, at our Company’s sole discretion, can receive substantially all of the economic interest returns generated by our Consolidated Affiliated Entities.

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Accordingly, our Consolidated Affiliated Entities’ results of operations, assets and liabilities, and cash flows are consolidated into our Company’s financial statements. In this regard, our Directors consider that the Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group’s financial information as if they were our Group’s subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 3 to the Accountant’s Report set out in Appendix I to this document.

Tax implications

Under the Contractual Arrangements, Dongguan Ruixing will receive service fee from our Consolidated Affiliated Entities and the service fee will be subject to EIT at 25% and VAT at 6%, and our Consolidated Affiliated Entities should be able to claim EIT deduction and VAT credit on the same amount, resulting in nil or minimal overall tax effect. Any dividend payment from Dongguan Ruixing to our Company should be subject to withholding tax in the PRC at 10%; the same withholding tax rate would have applied even if the Contractual Arrangements were not in place and if the dividends were remitted directly from our Consolidated Affiliated Entities to the Company. Preferential withholding tax rates on dividends of 5% may be available if the relevant members of our Group satisfy certain conditions pursuant to the double tax arrangement between Hong Kong and the PRC and the relevant tax rules. During the Track Record Period, we did not declare any dividend and therefore there was no PRC withholding tax obligation and no accrual of deferred tax. If a company in the PRC declares dividend to another resident company in the PRC, the dividend payment is not subject to any PRC withholding tax. If a company in the PRC declares dividend to a company in Hong Kong, the dividend payment is subject to PRC withholding tax rate of 10%, or 5% if certain conditions pursuant to the double tax arrangement between Hong Kong and the PRC and the relevant tax rules are satisfied.

Under the applicable PRC laws and regulations, if the relevant PRC tax authorities determine that the transactions between Dongguan Ruixing and our Consolidated Affiliated Entities are not conducted on an arm’s length basis, such PRC tax authorities may adjust the taxable income of the relevant entities, which could increase our tax liabilities. Please refer to the section headed “Risk factors – Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, which may impose late payment fees and other penalties on us” for further details.

It is not the purpose or aim of our Group to transfer the profits of our Consolidated Affiliated Entities to Dongguan Ruixing through the Contractual Arrangements without actual transactions or services. Pursuant to the terms of the Contractual Arrangements, actual transactions will be conducted between Dongguan Ruixing and our Consolidated Affiliated Entities, with Dongguan Ruixing rendering actual services to our Consolidated Affiliated Entities, and the service fees thereunder shall be determined after arms’ length negotiations based on, among other factors, the relevant prevailing market prices of such transactions. In light of the above, our PRC Legal Adviser is of view that, the likelihood of such actual transactions and services contemplated under the Contractual Arrangements being challenged successfully by the PRC tax authorities as not conducted on an arm’s length basis is remote.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Draft Foreign Investment Law

The MOFCOM published a discussion draft of the proposed Foreign Investment Law (中華人民共和國外國投資法) in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. While the MOFCOM solicited comments on this draft in 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

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Among other things, the Draft Foreign Investment Law purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise, or an foreign invested entity (“**FIE**”). The Draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the draft law to cover any of the following summarised categories:

- holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders’ meeting or the board; or
- having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

In respect of “actual control”, the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defined “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a “negative list” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of our Consolidated Affiliated Entities by Dongguan Ruixing, through which we operate our education business in PRC. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. For companies with a VIE structure in an industry category that is in the “restricted category” on the “negative list” it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

Pursuant to the Draft Foreign Investment Law, as far as the new VIE structures are concerned, if a domestic enterprise under the VIE structure is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may be regarded as legal. On the contrary, if the domestic enterprise is controlled by foreign investors, such domestic enterprise may be treated as a foreign-investor or foreign-invested enterprise, and therefore the operation of such domestic enterprise through VIE structures may be regarded as illegal if the domestic enterprise operates in a sector which is on the “negative list” and the domestic enterprise does not apply for and obtain the necessary permission.

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The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The “negative list” set out in the Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalogue of Prohibitions and the Catalogue of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfil certain conditions and apply for permission before making such investment.

Pursuant to the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws including the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (全國人民代表大會關於修改〈中華人民共和國外資企業法〉等四部法律的決定), which was promulgated by the Standing Committee of the National People’s Congress on 3 September 2016 and became effective on 1 October 2016, the establishment, demerger, merger or other major corporate changes for a wholly foreign-owned enterprise whose establishment does not involve the special entry administrative measures will only be subject to record-filing requirements. Furthermore, pursuant to the Announcement of the National Development and Reform Commission and the Ministry of Commerce [2016] No. 22 (中華人民共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號), the scope of the special entry administrative measures for the foreign investments shall be implemented in accordance with the relevant requirements under the Foreign Investment Catalog for the restricted and prohibited categories and the relevant shareholding and senior management requirements for the encouraged categories. Accordingly, as advised by our PRC Legal Adviser, as the Group’s offering of compulsory education and high school education are in the prohibited category and restricted category, respectively, and are thus subject to the special entry administrative measures, the above documents are not expected to have any material impact on the Group.

Notwithstanding that the accompanying explanatory notes to the Draft Foreign Investment Law (the “**Explanatory Notes**”) do not provide a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective, which is still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the “negative list”:

- (i) to make a declaration to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;
- (ii) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by the competent authority, the VIE structures may be retained for its operation; and
- (iii) to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

Where foreign investors and foreign-invested enterprises circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in

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Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorization, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

Potential impact to our Company if the Contractual Arrangements are not treated as domestic investment

If the operation of our schools is no longer in the “negative list” and our Group can legally operate the education business under PRC Laws, Dongguan Ruixing will exercise the call option under the Exclusive Call Option Agreement to acquire the equity interest of Guangdong Guangzheng and unwind the Contractual Arrangements subject to reapproval by the relevant authorities.

If the operation of our schools is in the “negative list”, the Contractual Arrangements may be viewed as prohibited or restricted foreign investment. If the Draft Foreign Investment Law is refined and deviates from the current draft, depending on the treatment of existing VIE structures, the Contractual Arrangements may be regarded as invalid and illegal. As a result, our Group would not be able to operate our schools through the Contractual Arrangements and we would lose our rights to receive the economic benefits of our PRC Operating Entities. As a result, the financial results of our Consolidated Affiliated Entities would no longer be consolidated into our Group’s financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition.

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Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

However, there are uncertainties as to what the definition of control may be under the finally enacted version of the Foreign Investment Law in the future, and the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Adviser’s understanding. Please refer to the section headed “Risk Factors – Risks relating to our Contractual Arrangements” of this document for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the Foreign Investment Law, if and when it comes into force.

If the Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Liu and Ms. Li, the co-founders of our Group who are parties acting in concert and are of Chinese nationality, will indirectly hold an aggregate of [REDACTED] (assuming the [REDACTED] will not be exercised at all and without taking into account any Shares which may be issued upon the exercise of any options granted under the [REDACTED] Share Option Scheme and options which may be granted under the Share Option Scheme) or [REDACTED] (assuming the [REDACTED] will be exercised in full and without taking into account any Shares which may be issued upon the exercise of any options granted under the [REDACTED] Share Option Scheme and options which may be granted under the Share Option Scheme) of the issued share capital of our Company upon completion of the Capitalisation Issue and the [REDACTED]; (ii) our Company through Dongguan Ruixing exercises effective control over our Consolidated Affiliated Entities pursuant to the Contractual Arrangements and each of Mr. Liu and Ms. Li is of Chinese nationality, our PRC Legal Adviser is of the view that we can apply for the recognition of the Contractual Arrangements as domestic investment and it is likely that the Contractual Arrangements will be considered as legal.

Measures to maintain control over and receive economic benefits from our Consolidated Affiliated Entities

To ensure the Contractual Arrangements to remain a domestic investment so that our Group can maintain control over our Consolidated Affiliated Entities and receive all economic benefits derived from our Consolidated Affiliated Entities, Mr. Liu and Ms. Li entered into a deed of undertaking dated 3 January 2017 (the “**Deed of Undertaking**”) in favour of our Company, pursuant to which during the subsistence of the Contractual Arrangements, each of Mr. Liu and Ms. Li will use his/her best efforts to do and procure our Company to do all such possible acts which are necessary to give effect to the Contractual Arrangements and/or to enable the continuation of business operations of our Consolidated Affiliated Entities as a result of any impact due to the promulgation and implementation of the Draft Foreign Investment Law and other future laws and regulations, including without limitation:

- (i) Mr. Liu and Ms. Li will continue to maintain their Chinese nationality and citizenship;
- (ii) Mr. Liu and Ms. Li will remain as beneficial owners of an aggregate of not less than 50% voting rights of our Company and otherwise maintain control for the purposes of the relevant foreign investment laws and related laws applicable to our Group in relation to domestic investment when they become effective; and
- (iii) Mr. Liu and Ms. Li will obtain prior written consent of our Company as to the identity of the transferee(s) before he/she disposes of or transfers any of the interest in our Company that he/she beneficially owns. The transferee(s) (the “**Transferee(s)**”) shall be PRC entity(ies) and/or citizen(s), who alone or together as parties acting in concert (where applicable) will be “ultimate controlling person(s)” as defined under the Draft Foreign

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Investment Law and hold not less than 50% voting rights of our Company, and the Transferee(s) shall give an undertaking to our Company with similar effect to the undertaking. Prior to any such disposal, transfer or other transactions which may result in Mr. Liu and Ms. Li together ceasing to have control of our Company for the purposes of the relevant foreign investment laws, either Mr. Liu or Ms. Li (as the case may be) shall demonstrate to the satisfaction of our Company and the Stock Exchange that the Contractual Arrangements will remain a domestic investment for the purpose of the relevant foreign investment laws and related laws applicable to our Group in relation to domestic investment.

The Deed of Undertaking shall become effective from the date of the [REDACTED] and shall remain effective until (i) Mr. Liu and Ms. Li together ceasing to have control of our Company for the purposes of the relevant foreign investment laws and related laws applicable to our Group in relation to domestic investment when they become effective; (ii) compliance with the relevant requirements under the new Foreign Investment Law or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required and the Stock Exchange has consented to this; (iii) compliance with the undertaking is no longer required, as advised by the Stock Exchange, or (iv) the Stock Exchange and any applicable Chinese regulatory departments have consented to such termination. To the extent that only part of the undertaking is no longer required as a result of any of the events in (ii), (iii) or (iv) above occurring, only such part of the undertaking that is no longer required shall cease to be effective.

To the extent that the Deed of Undertaking (or any part thereof) is no longer effective, our Company will issue an announcement as soon as practicable. Our Company has agreed with the Stock Exchange to enforce the Deed of Undertaking.

Taking into account that Mr. Liu and Ms. Li can only transfer his/her interests in our Company to PRC entity(ies) and/or citizen(s) and any subsequent transferees of Mr. Liu and Ms. Li (as well as their respective transferees) will be required to give an undertaking to our Company with similar effect to the Undertaking, our Directors believe that such arrangement will ensure that not less than 50% voting rights of our Company will at all times be held by PRC entity(ies) and/or citizen(s). Furthermore, as mentioned in the paragraph headed “– Draft Foreign Investment Law” above, based on the definition of the term “control”, although 50% or more of the equity or other forms of interests is not the only circumstance where a person will be deemed as the ultimate control person, it will significantly reduce the uncertainty when carrying out the “control” test under the Draft Foreign Investment Law.

Furthermore, the following control arrangements will be in place to ensure the compliance of the Deed of Undertaking after [REDACTED]:

- (a) the Shares held by the ultimate control persons who are PRC entity(ies) and/or citizen(s) which shall account for not less than 50% of the issued share capital of our Company, namely, the Shares held by Mr. Liu (through Bright Education Holdings) and Ms. Li (through Bright Education Investment) upon [REDACTED] and the Shares held by the subsequent Transferee(s) will not be deposited into [REDACTED] but will be held in the form of physical certificates; and
- (b) we have instructed our [REDACTED], not to register any subscription, purchase and transfer of Shares unless and until our Company is satisfied that the same will not result in any breach of the Deed of Undertaking.

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We consider that with the assistance of our [REDACTED], it is unlikely that the Deed of Undertaking will be breached resulting in the shareholding ultimately controlled by PRC entity(ies) and/or citizen(s) to fall below 50%. If for whatever reason that the Deed of Undertaking is breached, our Company as well as other interested parties such as public shareholders through our Company can claim against the defaulting entities for remedies including, without limitation, injunctive actions for rescission of the transfers in breach of the Deed of Undertaking to the extent available. We are therefore of the view that the Deed of Undertaking together with the abovementioned arrangements are sufficient to ensure that the ultimate control by PRC entity(ies) and/or citizen(s) is maintained.

Based on the view of our PRC Legal Adviser and the Deed of Undertaking given by Mr. Liu and Ms. Li, our Directors are of the view that (i) the Contractual Arrangements are likely to be deemed as a domestic investment and to be permitted to continue; and (ii) our Group can continue to maintain control over our Consolidated Affiliated Entities and receive all economic benefits derived from our Consolidated Affiliated Entities, through the provision of services by Dongguan Ruixing to our Consolidated Affiliated Entities.

Notwithstanding the above, there may be uncertainties that the above measures to maintain control over and receive the economic benefit from our Consolidated Affiliated Entities alone may not be effective in ensuring compliance with the new Foreign Investment Law together with, if any, all its subsequent amendments or updates, as promulgated (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. Please refer to the section headed “Risk Factors – Risks Relating to our Contractual Arrangements” in this document.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual report to update the Shareholders and potential investors;
- (iv) our Directors undertake to provide periodic updates in our annual reports regarding the qualification requirement as stipulated under the section headed “Contractual Arrangements – Background of the Contractual Arrangements” and the latest development of the Draft Foreign Investment Law as disclosed under the section headed “Contractual Arrangements – Development in the PRC Legislation on Foreign Investment”, including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet these qualification requirement; and
- (v) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Dongguan Ruixing and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

In addition, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the [REDACTED] under the following measures:

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- (i) the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (ii) each of our Directors is aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefits and in the best interests of our Group;
- (iii) we have appointed three independent non-executive Directors, comprising over one’ third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
- (iv) we will disclose in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.