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OVERVIEW

We are a leading large scale private higher education group in China, operating a list of well-recognised private higher education institutions. We focus on offering high quality education through innovation. Our founders, Mr. Yu and Mr. Xie, are highly recognised in the PRC private education industry. Mr. Yu was the only representative from the PRC private education industry who attended the 9th National People's Congress in the late 1990s and promoted the promulgation of the Law for Promoting Private Education of the PRC, which laid down a foundation for the rapid development of the private education industry in China. Our founders were also each appointed as a vice chairman of the Chinese Association for Non-Government Education (中國民辦教育協會) and both have extensive experience in private education as well as profound insight into the future development of private higher education institutions.

During the Track Record Period, we operated two private universities, namely Jiangxi University of Technology and Guangdong Baiyun University. On 14 August 2017, we obtained control of Baiyun Technician College, a technical school established by Mr. Xie. As of 31 August 2017, the end of the 2016/2017 school year, the aggregate number of students enrolled at our three schools amounted to 75,255. We completed our student enrolment for the 2017/2018 school year in October 2017 and enrolled a total of 76,204 students in our three schools. According to the Frost & Sullivan Report, our Group is recognised as one of the leading players in private higher education market in China in terms of student enrolment in 2016. Each of our three schools has been recognised for its top rankings in terms of competitive strengths. The following table sets forth certain details of our schools.

School / Location	Student Enrolment⁽¹⁾	Description
Jiangxi University of Technology located in Nanchang, Jiangxi province	35,982 ⁽²⁾	<ul style="list-style-type: none">Ranked No. 1 in terms of overall competitive strengths in the Private University and College Ranking of China (中國民辦院校綜合競爭力排行榜) since 2009⁽⁴⁾The largest private university in China in terms of student enrolment according to the Frost & Sullivan Report; and one of the first few private universities in Jiangxi province approved by the MOE
Guangdong Baiyun University located in Guangzhou, Guangdong province	25,741 ⁽³⁾	<ul style="list-style-type: none">Ranked No. 1 in terms of overall competitive strengths among top 10 private universities and colleges in Guangdong province for ten consecutive years from 2005 to 2014⁽⁵⁾One of the first few private universities in Guangdong province approved by the MOE
Baiyun Technician College located in Guangzhou, Guangdong province	13,532	<ul style="list-style-type: none">Ranked No. 1 in terms of educational competitive strengths among technical schools in Guangdong province for seven consecutive years from 2008 to 2014⁽⁵⁾The largest private technical school in China in terms of student enrolment according to the Frost & Sullivan Report

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Notes:

- (1) Despite the fact that our financial year ends on 31 December, our school year ends on 31 August. For the purpose of this document, we used 31 August as the cut-off date to present our business operating data for each school year. Our business operating data presented in this table is based on the internal records of our schools.
- (2) Includes 1,297 students enrolled in our continuing education programmes.
- (3) Includes 8,552 students enrolled in our continuing education programmes.
- (4) Ranked by Research Centre for China Science Evaluation and Evaluation Centre for China Education Quality of Wuhan University in association with nseac.com. None of the aforesaid organisations that provided our rankings were commissioned by us.
- (5) Ranked by Guangdong Provincial Academy of Social Sciences and Guangdong General Survey and Research Centre. So far as our Directors are aware, there is no public disclosure of such ranking from 2015 onwards. None of the aforesaid organisations that provided our rankings were commissioned by us.

We operate at a large student size offering a broad range of programmes and curricula. Our three schools enrolled 75,255 students in the 2016/2017 school year, comprising of 51,874 students of bachelor's degree programmes and junior college diploma programmes, 9,849 continuing education students and 13,532 vocational education students. Our universities offer 80 bachelor's degree programmes and 32 junior college diploma programmes, covering nine bachelor's degree disciplines and 11 junior college diploma disciplines categorised by the MOE, respectively. All these programmes have been approved by the MOE. According to statistics published by the MOE, in 2016, these nine disciplines and 11 disciplines cover 97.7% undergraduate students and 91.9% junior college students in China, respectively.

All our schools are strategically located either in the Pan-Yangtze River Delta Economic Zone or the Pan-Pearl River Delta Economic Zone. According to the Frost & Sullivan Report, undergraduate students in these two regions accounted for 33% of the total number of undergraduate students in China in 2016. Consisting of only eight provinces, municipalities, and autonomous regions, these two economically vibrant regions in China accounted for approximately 43% of the total GDP of China in 2016 and have ample employment opportunities for students, according to the Frost & Sullivan Report. In 2016, approximately 46% of all university graduates with a bachelor's degree in China were employed in these two regions, according to the Frost & Sullivan Report. We believe that the geographical advantage of our schools allow our graduates to directly benefit from the availability of rich employment opportunities.

We emphasise the teaching of practical skills and knowledge and the fostering of innovation and entrepreneurial spirit to improve our graduate employment rate. Leveraging our strong relationships with over 400 enterprises and our exemplary innovation and entrepreneurial education, our schools stand out among private universities and colleges in China with high graduate employment rate. In 2014, 2015 and 2016, the Initial Employment Rate of Jiangxi University of Technology was 88.3%, 88.4%, and 88.1%, respectively, and the Initial Employment Rate of Guangdong Baiyun University was 96.2%, 96.6% and 96.1%, respectively, while the Initial Employment Rate of Baiyun Technician College was appropriately 99.3%, 99.4% and 99.4%, respectively. In contrast, China's overall Initial Employment Rate for higher education graduates was approximately 77.5%, 77.7% and 77.9%, respectively, in the same years, according to Frost & Sullivan Report.

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During the Track Record Period, we experienced stable growth in our revenue and net profit from continuing operations. Our revenue increased from RMB821.9 million for the year ended 31 December 2014 to RMB846.0 million for the year ended 31 December 2015, and further to RMB861.3 million for the year ended 31 December 2016. Our revenue amounted to RMB405.4 million for the six months ended 30 June 2017. Our net profit from continuing operations increased from RMB309.4 million for the year ended 31 December 2014 to RMB361.9 million for the year ended 31 December 2015, and further to RMB423.4 million for the year ended 31 December 2016, representing a CAGR of 17.0%. Our net profit from continuing operations amounted to RMB193.0 million for the six months ended 30 June 2017.

Leveraging our leading market position in the private higher education industry in China, our extensive school management experience and our advanced group operating model, we believe that we will be able to capitalise on the future growth and consolidation of the fragmented private higher education industry in China.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

Private higher education group in China operating a list of well-recognised private higher education institutions

We are a leading large scale private higher education group in China, operating a list of well-recognised and time-honoured private higher education institutions. We focus on offering high quality education through innovation. Our two founders, Mr. Yu and Mr. Xie, were among the few pioneers who have been engaged in private education in China since 1993 and 1989, respectively. Mr. Yu was the only representative from the private education industry to attend the 9th National People's Congress in the late 1990s and he promoted the promulgation of the Law for Promoting Private Education of the PRC, which laid down a foundation for the rapid growth of the private education industry in China. In 1999, after accumulating ten years of experience in the private education industry in China, Mr. Xie established Guangdong Baiyun University and has since rapidly amassed a large student base through the cooperation in 2007 with Jiangxi University of Technology, which was established by Mr. Yu in 1999. Our school network was further expanded on 14 August 2017 through the obtaining of control of Baiyun Technician College, which was established by Mr. Xie in 1996. We believe that our founders' rich experience in operating private schools in China has contributed tremendously to our brand awareness and reputation among students, parents and teachers, allowing us to grow over the years.

Jiangxi University of Technology has been ranked No. 1 in terms of the overall competitive strengths in the Private University and College Ranking of China since 2009. Guangdong Baiyun University has been ranked No. 1 in terms of overall competitive strengths among top 10 private universities and colleges in Guangdong province for ten consecutive years from 2005 to 2014. Baiyun Technician College has been ranked No. 1 in terms of educational competitive strength among technical schools in Guangdong province for seven consecutive years from 2008 to 2014. We believe that we are able to stand out among our competitors by virtue of our leading position and extensive experience in the private higher education industry in China.

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Both of Jiangxi University of Technology and Guangdong Baiyun University were among the first few private bachelor's degree level universities approved by the MOE in their respective province. As one of the promoters, Guangdong Baiyun University was behind the historical launch of the Association of Universities (Colleges) of Applied Technology (應用技術大學(學院)聯盟) in China and has been a leading force in promoting the communication and cooperation among the member universities. Our three schools offer, in a broad range of popular disciplines, comprehensive bachelor's degree programmes, junior college diploma programmes, continuing education programmes and vocational education programmes. We believe that our bachelor's degree programmes and our reputable vocational programmes fuelled our continuous growth and enable us to have a diverse student body to lower the market risk. We also believe that our large student body shows our schools' popularity among students and reflect the quality and reputation of our education services, granting us competitive edge over our competitors.

Along with the development of our schools, we plan to further expand our school network. As a leading private higher education services provider in China with a view to developing an Ivy-League-like elite private university network in China and abroad, we plan to acquire suitable private universities and colleges, replicate our management system in them, improve their operation efficiency and capitalise on our established brand recognition and proven operating model to drive our growth.

Large scale higher education group in terms of student enrolment, allowing us to benefit from the synergistic effects

As of 31 August 2017, we had a large student body of 75,255 students. We enrol students across all provinces, municipalities and autonomous regions in China. In particular, our Jiangxi University of Technology enrolled 35,982 students as of 31 August 2017 and was the largest private university in China in terms of student enrolment as of the same date, according to the Frost & Sullivan Report. Our Guangdong Baiyun University enrolled 25,741 students as of 31 August 2017. Baiyun Technician College enrolled 13,532 students as of 31 August 2017 and was the largest private technical school in terms of student enrolment in China as of the same date, according to the Frost & Sullivan Report. Through our technical school and well-recognised universities, we are able to offer a variety of education programmes and cater to different academic or vocational needs of our students. We believe our leading position in the private higher education market reflects the market recognition of the high quality of our education as well as confidence of students, parents and governments in our schools.

Our schools have a long history of inter-school cooperation and sharing arrangements in terms of academic affairs, teaching, student recruitments and employment resources, from which we have acquired the capability to implement a comprehensive, efficient and centralised management. Leveraging our experience accumulated over the years, we believe we will be well-positioned to implement the following centralised management functions through our WFOE and the Contractual Arrangements going forward:

- Curriculum development: a centralised curriculum development to coordinate the development and improvement of curricula to reflect the development trend of the higher education industry both in China and internationally;
- Student recruitment: a unified student recruitment and marketing network to be responsible for our student recruitment and marketing across all provinces, municipalities and autonomous regions in China;

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- Career services: sharing of employment or internship information and resources among our schools to benefit our students with employment or internship opportunities;
- International courses sharing: international courses offered or to be offered at any of our schools, including through an operating entity of our Group established in the State of California, the United States, namely University of Science and Technology, will accept across-registration by students from all our schools; and
- Teacher training: centralising the teacher development with a view to building up a systematic training to our teachers to enhance their teaching ability and skills.

For the purpose of implementing the above management functions, our WFOE was set up initially with over 30 personnel with various professional backgrounds, including education, legal and compliance, business administration and accounting and finance. We believe that, by leveraging the experience of inter-school cooperation and sharing arrangements, we are well-positioned to develop a centralised management system going forward for more efficient utilisation of resources and implementation of consistent strategies with a view to replicating this scalable business model to the new schools that may be included in our Group in the future.

In addition, we have built an extensive alumni network over our long history of operation. We believe the emotional tie between our alumni and our schools is an invaluable asset conducive to the sustainable development of our schools and our students in the pursuit of excellence.

Combination of our education resources to achieve comprehensive coverage in major offerings and extend our educational advantages

According to the Frost & Sullivan report, the private higher education industry has high entry barriers and early movers in this industry with established brand name could better penetrate the market. We believe that, by integrating the force of our well-recognised schools, we are able to extend our programme offerings, amplify our academic strengths and further enhance our reputation and competitive advantages.

We believe our success largely hinges on the quality of education and major offerings that we provide through our school network. The combination of our universities and technical school allows us to provide higher education degrees covering comprehensive major offerings. As of 31 August 2017, our universities offer 80 bachelor's degree programmes and 32 junior college diploma programmes, covering nine bachelor's degree disciplines and 11 junior college diploma disciplines categorised by the MOE, respectively. All these programmes have been approved by the MOE. According to statistics published by the MOE, in 2016, these nine disciplines and 11 disciplines cover 97.7% undergraduate students and 91.9% junior college students in China, respectively. In addition, through Baiyun Technician College, we also offer 108 vocational education programmes comprised of five technician diploma programmes, 81 post-secondary vocational diploma programmes and 22 secondary vocational diploma programmes.

Furthermore, we have partnered with a number of overseas universities and colleges in the United States, the United Kingdom, Australia and South Korea to offer exchange programmes and joint-education programmes, as the case may be, to our students. These programmes are designed to add a global perspective for our students. As of 31 August 2017, our schools have established cooperative relationships with over 30 universities/educational institutions. For example, Jiangxi University of Technology has cooperated with University of Derby in the United Kingdom to offer joint-education programmes in environmental art design and clothing and costume design. Guangdong Baiyun University has cooperated with Western Sydney University in Australia in bachelor and master degree programmes for students in translation major and commerce major. We also admit international students to diversify our student base. For example, Jiangxi University of Technology cooperated with the Free State in South Africa for South African students to learn Chinese language and culture since 2016. We believe, as the implementation of “One Belt, One Road” strategy proceeds, more foreign students will be interested in studying in China.

Apart from comprehensive major offerings and international education programmes, we believe that our team of experienced and dedicated teachers and research capability has further solidified our brand reputation, enabling us to achieve the full integration of application with research. As of 31 August 2017, approximately 59.6% of our teachers have master’s degree or higher, and approximately 9.3% of our teachers have doctoral degrees. A number of our teachers were involved in authoring and publishing text books covering a variety of subjects. For example, in 2015 a textbook on mobile phone programming authored by our teacher was published by Tsinghua University Press, and a guide book on dissertation writing and defence authored by our teacher was published by East China Normal University Press. We believe that our focus on scientific research and innovation differentiates us from other lower ranked private higher education institutions. As of the same date, we had also obtained 1,142 patents in China including 1,110 patents obtained by Jiangxi University of Technology. According to the Frost & Sullivan Report, as of 30 June 2017, Jiangxi University of Technology was the only private higher education institution in Jiangxi that owns the Post-doctoral Innovation Practice Base approved by Jiangxi Provincial Department of Human Resources and Social Security, and was also the only private higher education institution in Jiangxi province that establishes the Provincial Science and Technology Park approved by Jiangxi Provincial Department of Science and Technology.

In order to compete more effectively with public higher education institutions, we have put huge efforts on the innovation of our teaching model. Our teaching activities focus on each student’s mastery of practical skills and knowledge to get them ready for their future career. We adopt student-centred teaching methods and offer a number of practical courses to encourage frequent discussion and interaction. In addition to the teaching of theoretical courses, we budget time for our students to practise and intern. We have also developed a series of workplace simulation training programmes to provide students with a simulated working environment. For instance, as of 31 August 2017, Jiangxi University of Technology had established over ten simulation training centres and numerous laboratories on the campus. In view of our focus on the education of applied technology, we believe that double-qualification teachers are of great importance for the realisation of our educational goals. Double-qualification teacher refers to full-time teachers with title of lecturer or above and certain professional qualification or industry experience. As of 31 August 2017, we had 1,195 double-qualification teachers, representing 33.9% of the total number of our teachers. Our schools also emphasise cooperation with relevant enterprises in terms of research and development. For example, Jiangxi University of Technology has established a Provincial-Level Cooperation and Innovation Centre of Automobile Service Engineering

and Industry, which was led by Mr. Guo Konghui (郭孔輝), an academician of Chinese Academy of Engineering and China's leading authority in automobile engineering, by partnering with Tsinghua University, Jiangling Motors and Science Academy of Jiangxi Province, and Guangdong Baiyun University has also established cooperation with an enterprise in data science/big data area.

Our schools' strategic geographical locations combined with our leading edge practical curriculum, enabling us to deliver outstanding graduate employment outcomes

The locations of our schools were strategically planned. Our schools are either located in the Pan-Yangtze River Delta Economic Zone or the Pan-Pearl River Delta Economic Zone. According to the Frost & Sullivan Report, undergraduate students in these two regions accounted for 33% of the total number of undergraduate students in China in 2016. Consisting of only eight provinces, municipalities and autonomous regions, these two economically vibrant regions in China accounted for approximately 43% of the total GDP of China in 2016, according to the Frost & Sullivan Report. As a result of favourable economic policies, well-developed infrastructure and rapid urbanisation, these two regions continue to attract domestic and foreign enterprises and create job opportunities for the large inflow of the labour force from other regions. According to the Frost & Sullivan Report, approximately 46% of all university graduates with a bachelor's degree in China were employed in these two regions in 2016.

Our Guangdong Baiyun University and Baiyun Technician College are located in Guangzhou, Guangdong province, one of China's most developed provinces, with a GDP of approximately RMB8.0 trillion in 2016. Guangdong province is among the most preferred locations by college graduates in China for post-graduation employment due to its ample employment opportunities and relatively high starting salaries, according to the Frost & Sullivan Report. Guangzhou has also been reviewed as the best city for commercial activities in mainland China for five times by the *Forbes* magazine, due to its ability to achieve rapid economic development and promote innovations. Guangzhou attracts a number of enterprises, including many tech-companies, to establish presence, which offers abundant employment opportunities for our graduates. Our Jiangxi University of Technology is located in Nanchang, Jiangxi province, which is in the vicinity of Zhejiang province and Guangdong province, which are among the most developed provinces in China with high GDP growth rates, according to the Frost & Sullivan Report. Nanchang, being the capital city of Jiangxi province, was named by *Newsweek* magazine as one of the ten most dynamic cities in the world in 2006. In addition, we have been cultivating the private higher education market in Guangdong province and Jiangxi province and we believe that we have fostered positive relationships with local government and employers of our graduates. We believe our deep understanding of the private higher education market in those regions and our position as a market leader are of great value for our new higher achievement in graduate employment.

We have partnered with a number of enterprises to provide our students with internship and training programmes as well as potential employment opportunities as the case maybe. Built upon our strong relationships with over 400 enterprises, we aim to closely cooperate with them to benefit mutually in terms of production, education and research. Specifically, some of our enterprise partners provide us with equipments and facilities needed in our teaching activities so that our students can have opportunities to practise their skills. In return, we provide our enterprise partners with research and development support and high-quality graduates for their operations, as the case maybe.

We take into account employers' need when designing and developing courses to ensure our students are equipped with the knowledge and skills desired by their prospective employers. In this regard, we have also designed various employer-tailored programmes. The curricula of these programmes are designed taking into account the needs of employers, which in turn, provide teaching support and internship opportunities, as the case may be, for the programme. For example, Baiyun Technician College cooperated with BSH Home Appliances Science (Jiangsu) to establish a "Bosch and Siemens" class in electrical information engineering. Also, Jiangxi University of Technology has cooperated with PPG Paintings Trading (Shanghai), a world leading paints manufacturer, to offer PPG-tailored student cultivation programmes for colourist.

With a view to stimulating graduate employment, our schools provide comprehensive career counselling services for our students. We believe that, due to the emphasis on career services, our schools stand out among private universities and colleges in China as a whole with a high graduate employment rate. In 2014, 2015 and 2016, the Initial Employment Rate of Jiangxi University of Technology was 88.3%, 88.4%, and 88.1%, respectively, and the Initial Employment Rate of Guangdong Baiyun University was 96.2%, 96.6% and 96.1%, respectively, while the Initial Employment Rate of Baiyun Technician College was appropriately 99.3%, 99.4% and 99.4%, respectively. In contrast, China's overall Initial Employment Rate for higher education graduates was approximately 77.5%, 77.7% and 77.9%, respectively, in the same years, according to Frost & Sullivan Report.

We have also established start-up incubators in both Jiangxi University of Technology and Guangdong Baiyun University to provide students with a variety of guidance and opportunities in establishing their own businesses. The business incubator in Jiangxi University of Technology is designed to accommodate up to approximately 200 students to work in its office space, while the business incubator in Guangdong Baiyun University, which is of larger scale, could accommodate up to approximately 800 students. Our incubators also organise various activities, such as start-up training, entrepreneur lectures, investor conferences and exhibitions. During the Track Record Period, ten start-up projects participated by our students were recognised by government authorities as national start-up innovative projects. Our entrepreneurial and innovation education has also been recommended by the National Education Reform Leadership Group of the State Council of the PRC (國務院國家教育改革領導小組) to all provincial educational authorities and central higher education institutions as a successful example.

Highly reputable management team comprised of leaders of the higher education sector to drive excellence and innovation in our education business

Our founders were among the pioneers of the private education industry in China. After accumulating years of experience in the private education industry, our founders and executive Directors, Mr. Yu and Mr. Xie, established Jiangxi University of Technology and Guangdong Baiyun University in 1999, respectively, to provide private higher education services, and have since led us to obtain control of Baiyun Technician College to expand our business coverage into vocational education and training. Our executive Director, Dr. Yu, who has extensive academic and consulting experience in education and has received a Ph.D. in education from the University of Oxford, joined our Group in 2013. Our whole management team, including, among others, Mr. Yu, Mr. Xie and Dr. Yu, have served in our Group for years and have extensive knowledge and experience in managing private universities and vocational school and deep understanding of the PRC and international private higher education industry.

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The devotion of our management team to the development of the private education sector in China and our business lies beneath our success, which, in turn, has earned them various recognitions. Both Mr. Yu and Mr. Xie were appointed as the vice chairman of the Chinese Association for Non-Government Education (中國民辦教育協會). Mr. Yu serves as a standing committee member of the People's Congress of Jiangxi Province. Mr. Yu has been awarded the title of National Outstanding Worker (全國先進工作者) by the State Council of the PRC in 2005 and Top Ten Outstanding Youth of China (中國十大傑出青年) by All-China Youth Federation (中華全國青年聯合會), China Youth Development Foundation (中國青少年發展基金會) and ten other media organisations in 2000 and served as a representative of the National People's Congress for 15 years from 1998 to 2013. Mr. Xie has been serving as a representative of People's Congress of Guangdong Province since 2013. Dr. Yu had served as an adviser to the World Bank on various educational matters as well as provided consultations to the Degree Committee of the PRC State Council, the PRC Ministry of Education and Research Office of Government of Jiangxi Province. Dr. Yu has served as a Ph.D. and post-doctorate adviser at Shanghai Jiao Tong University in the field of Economics and Administration of Education since 2014.

We also have a team of seasoned mid-level management, such as school presidents and teachers, who have substantial experience in school management. Some of our mid-level management has joined us since the early stage of their career and were internally promoted to management level. We strive to provide our employees with opportunities to grow with our Company. We have adopted the Share Option Schemes and Share Award Scheme for the purpose of incentivizing high-quality employees and maintaining a stable management team in the long term.

OUR BUSINESS STRATEGIES

Our vision is to become a global leading education group providing high quality education services to a significant size of student bodies. In the short term, we will continue to solidify our position as a renowned large scale private higher education provider by optimising pricing for our school fees and increasing the student base of our existing schools, such as the development of our new campus in Guangzhou. We will also actively seek acquisition and business cooperation opportunities to further expand our existing sizeable school network. In the medium to long term, we will consider diversifying our revenue sources through utilising our large student capacity, such as providing high value-added international programmes, establishing online courses, and expanding our business beyond the PRC. To achieve these goals, we plan to pursue the following business strategies.

Develop new school campus to further increase our capacity and student body

We are currently developing a new school campus for our Guangdong Baiyun University on the Zhongluotan Land. The planned new campus is also located in Baiyun district, Guangzhou. We expect that the construction and commencement of operations of the new campus will take place in phases. We expect that the new campus will be fully developed in or around 2021. Once fully developed, the planned new campus is expected to have a site area of 498,000 sq.m. and accommodate approximately up to 26,000 students. We believe, in the long term, there will be sufficient demand for the planned new campus taking into account: (i) the expected growth in the number of student enrolment in Guangdong Baiyun University in the next five years as we further enhance its competitiveness and course offerings. We believe that our growth strategies, including optimising major offerings, strengthening school-enterprise collaboration and offering diversified international programmes and post-graduate

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education, implemented at Guangdong Baiyun University will enhance its overall competitiveness and in turn stimulate its student enrolment. See “Business – Our Business Strategies – Further enhance the competitiveness of our students and curricula” below for further details of such strategies. In particular, we will continue to tailor and expand the course offerings, such as bachelor degree programmes, of Guangdong Baiyun University in response to market demand. Guangdong Baiyun University has applied to the relevant education authorities for approval to offer two additional bachelor degree programmes in urban underground engineering (城市地下工程) and radio and television editing and directing (廣播電視編導) in the upcoming 2018/2019 school year. In addition, we intend to develop more comprehensive and modern classrooms, practical training facilities and academic platforms at the new campus of Guangdong Baiyun University with a view to strengthening the university’s overall teaching quality and industry reputation and thereby attracting more students; and (ii) according to the Frost & Sullivan Report, from 2012 to 2016, the total student enrolment in the private higher education industry in Guangdong province increased from 515,500 to 658,500 and is estimated to continue to grow to 842,600 in 2021, see the section headed “Industry Overview – The Private Higher Education Industry in Jiangxi Province and Guangdong Province” for further details. Guangdong Baiyun University will also share part of the planned new campus with Baiyun Technician College and provide accommodation for certain students of Baiyun Technician College. We also expect to re-configure the relevant buildings of Guangdong Baiyun University and Baiyun Technician College with a view to improving the living standard of the students by reducing the number of students per room, which will in turn lower the overall student capacity in their existing campuses and generate demand for the new campus.

We have obtained the land use right certificate for the 1st phase of the construction on the Zhongluotan Land with a site area of approximately 188,666 sq.m. and intend to invest up to an aggregate of RMB699.0 million for the construction. We have obtained the construction permit with respect to a construction area of 101,074.6 sq.m. and commenced the 1st phase construction of school buildings and facilities on the Zhongluotan Land. We expect that the 1st phase of the new campus can accommodate approximately up to 10,000 students. Barring unforeseen circumstances, our Directors anticipate the 1st phase of the new campus may commence operations as soon as from the 2018/2019 school year. As of 30 June 2017, we had incurred preliminary costs of RMB92.6 million associated with the development of the new campus, including consultancy fee, design fee, land compensation and the relevant legal fees.

During the Track Record Period, Guangdong Baiyun University had experienced a decreasing growth rate in student enrolment (see “Business – Our Schools – Number of students”). We believe that the growth in student enrolment is in part limited by the capacity and utilisation of the university. Guangdong Baiyun University is able to enrol students with an overall average grade that is generally higher than the provincial average. On this basis, we consider that there is demand for the course offerings at Guangdong Baiyun University. However, primarily due to the limited academic resources and capacity of Guangdong Baiyun University, it is not able to enrol more students that meet its admission criteria for certain of its programmes. We also understand that the admission quota approved by the relevant education authorities is subject to, among other factors, the academic resources (such as classrooms and training facilities) and capacity (such as student dormitories) and utilisation of Guangdong Baiyun University. During the Track Record Period, Guangdong Baiyun University had been operating close to maximum capacity, but its utilisation rate had not reached 100% (see “Business – Our Schools – Capacity and Utilisation”) primarily due to the mix of male and female students, as the dormitory buildings of Guangdong Baiyun University are gender specific. Our Directors consider that the current campus of

Guangdong Baiyun University has limited room for significantly expanding its academic resources and capacity to substantiate a significant increase in student enrolment. As a result, there had not been any material increase in the student enrolment of Guangdong Baiyun University during the Track Record Period. Therefore, we believe that a considerable expansion in academic resources and capacity will be conducive to student enrolment. We intend to apply to the relevant education regulatory authorities to increase our admission quota to ensure a stable increase in the utilisation rate of our new campus. We currently intend to apply for an increase of approximately 1,000 admission quota for the 2018/2019 school year. We expect to make such applications to the relevant education authorities in or around December 2017, and based on our experience and barring unforeseen circumstances, our Directors anticipate we will be able to obtain such approvals in or around May 2018.

With respect to our Jiangxi University of Technology, we plan to further promote our continuing education programmes utilising our brand and reputation. Given the high popularity of our school, we believe this provides us with ample room to further increase our student base and improve the utilisation of our educational resources to achieve lower per-student costs and higher potential profits.

Further enhance the competitiveness of our students and curricula

The quality of our education and image of our brand are crucial to our business growth. We intend to continue to enhance our ability to provide quality higher education and maintain our high employment rate. We plan to further solidify our competitive advantages in the private higher education market and maintain our market leading position so as to upgrade our brand to an international education brand name which reflects top recognition in the domestic market and strong competitiveness in the global market.

- *Optimise major offerings:* We plan to further diversify our course offerings in our schools and offer new majors that follow job market trends and cater to market demands, such as majors in industrial automation, high-tech services as well as cloud computation. In 2016 and 2017, in response to market demand, we added new majors such as the internet and new media, the gem and material technology, the robotics engineering, and the data science and big data technology. We plan to introduce a variety of new courses while improving the quality of our existing courses. We will also continue to maintain a team of high-quality teachers and administrative staff.
- *Strengthen school-enterprise collaboration:* We strive to cultivate well-rounded talents in our schools. We expect graduates of our schools to be not only academically prepared but also equipped with essential practical skills. We plan to collaborate thoroughly with more potential employers in industries with significant growth potential and strong hiring demand, in order to offer more job placement training and workshops to our students and launch more internship programmes. We believe our commitment to career services will help us produce job-ready and highly qualified graduates and maintain our high employment rate.

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- Offer diversified international programmes: In recent years, against the backdrop of globalisation of higher education, Chinese students have shown great interests in overseas learning experience. According to statistics published by the MOE, China has the largest number of students studying abroad and the total number of Chinese students studying abroad reached 544,500 in 2016. We believe this trend offers a valuable opportunity. In response to this trend, we have established cooperations with over 30 universities/educational institutions as of the Latest Practical Date. In addition, we have also established an operating entity in the State of California, the United States, namely University of Science and Technology, through which we plan to offer learner-centred courses to provide life-long learning and employability enhancement opportunities to students and graduates of our schools as well as other schools. Subject to obtaining relevant regulatory approvals, we expect that the operation of University of Science and Technology will commence in early 2019. Going forward, we plan to establish cooperation with more foreign education institutions and expand our international course and degree offerings. More specifically, we look forward to closely cooperating with renowned higher education institutions located in developed countries and regions, such as Western Europe, the United Kingdom, North America and Australia. We also plan to acquire foreign universities or colleges focussing on certain specific fields, such as fashion, engineering, hospitality and business management. By acquiring or collaborating with foreign education institutions, we intend to offer a variety of programmes responding to different needs, from exchange programmes to dual degree. Depending on the number of international courses and/or credits attended by our students, they will be able to obtain certificate, qualification of a specialised field or a dual diploma. We also plan to establish an overseas study counselling office, to provide guidance and counselling services to students who plan to apply for post-graduate programmes at foreign universities. We believe that the offering of international programmes will allow us to upgrade our existing programme offering and provide high value-added learning experience to our students.
- Offer post-graduate education: We have established cooperation with certain universities on post-graduate education. We are also applying for approval from the Degrees Committee of the State Council for the authorisation to grant master's degrees. As of the Latest Practical Date, we have not received such approval. If we obtain such approval, our universities will be able to confer master's degrees, which will further enhance our reputation in the private higher education market.
- Launch online education platform: We have noticed the trend that an increasing number of students are willing to further their education online and we intend to capitalise on this opportunity. For instance, Jiangxi University of Technology has utilised an online platform for MOOC (Massive Open Online Courses) and integrated such platform into its education operation. We plan to further expand our online education by offering online courses through an operating entity established in the State of California, the United States, namely University of Science and Technology as well as other cooperating overseas schools. With our experience in developing and offering online courses to our students and subject to relevant laws and regulations, we plan to obtain the relevant qualifications and expand our online education offerings to capture the significant growth potential and opportunities in online education market.

We will utilise the existing education resources of our schools, including teachers, managers, administrators and other staff with the relevant capability and experience, to implement this growth strategy. In addition, with a view to achieving centralised implementation of this strategy, we expect to recruit approximately 10 additional staff at our Group level, including domestic course developer and manager, international course development and manager, online platform developer and manager, career services manager and international schools counsellor and coordinator. This strategy represents our on-going efforts to improve the competitiveness of our students and curricula. We currently estimate the initial funding requirement will be approximately RMB12 million for the year 2018, and the subsequent on-going maintenance funding requirement per year will range from RMB2 million to RMB3 million. We expect that these initiatives will gradually materialise within the next three years.

Expand our school network through acquisition and business cooperation

We intend to further expand our school network to extend our geographic coverage and increase our market penetration in the private higher education industry. We plan to add suitable universities, junior colleges and/or technical schools to our school network through acquisition, cooperation or other means.

- Expansion in China's higher education industry: Given our extensive experience and recognised reputation in private university management, we intend to acquire suitable private universities or junior colleges and put them on a path of continual improvement and rapid development. We plan to target schools that satisfy one or more of the following criteria:
 - (i) *Well-recognised schools with comprehensive competitiveness based on reliable rankings published by the PRC government or reputable third party research institutions.* These well-recognised schools typically would have devoted substantial commitment in educational resources (such as the types of programmes available, school facilities, quality teachers and teachers to students ratio), developed sophisticated educational processes (such as quality of teaching, school experience and support services to students) and proven a good track record of educational efficacy (such as academic achievements and future prospects of students), as the case may be. In particular, we will preferentially consider education institutions that offer bachelor's degree programmes. We believe that such education institutions would better complement our existing portfolio of schools as (a) such education institutions tend to have stronger brands and more ample education resources and (b) the MOE has only granted a limited number of approvals for such education institutions. We will target schools with 6,000 to 20,000 students, with an annual admission of 1,500 to 5,000 students, particularly schools that demonstrate potential growth in its student admission.
 - (ii) *Schools with unique competitive edge.* We believe that specialised schools with enhanced coverage of certain subjects will continue to be a key focus for the PRC government's future education policy. In line with our strategy to expand, innovate and develop in this area, we will target schools that offer specialised education programmes (including professional qualifications and certification). Non-exhaustive examples include schools with specialised departments focussing on nursing, medicine, architecture and big-data related engineering.

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- (iii) *Schools located in regions with large potential student base and vibrant job markets.* This includes provincial capital cities and other major cities in China with developed economies and high potential demands for graduates and quality education.

Based on our market research and analysis, we estimate there are more than 200 education institutions in the PRC that may potentially be our acquisition target. We will target to acquire 51% to 100% equity interest of such education institutions. In terms of financial performance, we will particularly focus on education institutions with a profit after tax close to RMB50 million. Where appropriate, we will also consider raising bank financing and utilise cash flow from operations to support our acquisition activities. For each of our acquisition target, depending on the terms of bank financing (if any), we targets to achieve an estimated payback period from five to seven years and an internal rate of return exceeding 15%. These parameters are preliminary estimations and are subject to change due to, among other things, availability of acquisition targets, market conditions, our operating conditions and commercial negotiations with the sellers.

We believe our successful operating history and our established premium school brands grant us significant competitive advantages in our school network expansion. Given the dispersed market competitive landscape, we believe a considerable number of schools, to improve their education quality and achieve scale of economies, will be willing to join a school network operated by an education group with strong brand name as well as advanced management system. We plan to optimise the management, operations, curriculum and pricing strategy of the acquired schools, helping them to improve. With our extensive operational experience in private university management, we will also consider the feasibility of converting acquired junior colleges into private universities that qualify to offer bachelor's degree programmes. As of the Latest Practicable Date, we had not identified any definitive acquisition target.

- *Expansion in overseas higher education industry:* With the growing demand for overseas higher education among Chinese students, we will explore the possibility of acquiring renowned foreign universities and colleges. To this end, we intend to establish an offshore structure specifically for the purpose of facilitating our overseas expansion and investment activities and to centralise the management of our overseas operations. We intend to identify potential targets that meet the following criteria: (i) located in developed countries and regions, including, among others, Western Europe, the United Kingdom, North America and Australia, and (ii) focus on certain specific fields, such as fashion, engineering, hospitality and business management. We believe that, with the addition of foreign schools to our portfolio and the internationalisation of our educational services, we will be able to offer high value-added education programmes and recruit quality students and teachers from all over the world, which will further enhance our education quality and brand image.
- *Expansion in China's vocational education industry:* Riding on our established experience in running our technical school, we plan to acquire technical schools with great potential in student enrolment growth and quality future development capabilities. We believe our comprehensive major offerings, job-oriented curriculum and close relationship with employers will help each acquired school improve its teaching quality and graduate employment rate, cultivating more qualified professionals to satisfy the demand in the labour market.

We intend to efficiently integrate the newly acquired or joined schools into our school network and implement our centralised management system to improve their operating efficiency, increase their school size, optimise their pricing strategies and improve the profitability of the Group as a whole. We believe that our schools have sufficient talent reserve, including a number of experienced senior or middle level management as well as teachers and administrative staff who are readily available for immediate dispatch to new schools to help us improve the management and teaching capabilities of the new schools within a brief period. Moreover, we believe that our comprehensive major offerings covering a broad range of disciplines and extensive experiences in education programme design and implementation will enable us to efficiently expand discipline coverage of new schools and effectively enhance their education quality. With respect to student recruitment, newly acquired or joined schools could immediately benefit from our broad student recruitment network covering all provinces, municipalities and autonomous regions in China, which, we believe, will improve their student recruitment both qualitatively and quantitatively. In terms of graduate employment, we will share our employment information and resources with all schools under our network. We believe our close relationship with over 400 enterprises will significantly benefit the new acquired or joined schools. Furthermore, we believe that our teaching management system and administrative information system could also be adopted by new schools and could realise online management of teaching affairs, dormitories, student recruitment and tuition payment, among others. We believe the adoption of such systems will improve the management efficiency and lower the operating costs of newly joined schools.

To support our expansion plan, we have a head office in Hong Kong and offices in Shanghai and Shenzhen to identify, assess and evaluate potential targets and implement our strategic investment plan. We have also established a management department to take charge of the post-acquisition integration and management of any acquired schools with our extensive internal support and resources in terms of teaching, student recruitment, employment, procurement, finance and information technology.

We believe we will be able to substantially increase our student enrolments and improve our profitability by adding new universities, junior colleges and vocational schools to our school portfolio and eventually become a global leading education group.

Optimise our pricing strategies and diversify our income sources

The level of tuition fees and boarding fees we charge is a significant factor that affects our profitability. Given our leading position in the private higher education industry in China, our outstanding reputation, our premium education quality and the strong demand for our services, we believe we will be able to optimise our pricing strategies without compromising our competitive edges.

During the Track Record Period, Jiangxi University of Technology raised its tuition fees from RMB11,000-RMB15,000 per year in the 2014/2015 school year to RMB11,000-RMB16,000 per year for certain bachelor's degree programmes in 2015/16 school year, and further raised it to RMB14,000-RMB18,000 in the 2016/17 school year. In addition, Guangdong Baiyun University raised its tuition fees from RMB18,000-RMB25,000 per year to RMB19,000-RMB26,000 per year for certain bachelor's degree programmes in the 2016/2017 school year. We have also been increasing the tuition fees of certain of our junior college diploma programmes.

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For the upcoming 2017/2018 school year, Guangdong Baiyun University will raise its tuition fees from RMB19,000-26,000 per year in the 2016/2017 school year to RMB22,000-RMB30,000 per year for certain bachelor's degree programmes, and Jiangxi University of Technology will raise its tuition fees from RMB14,000-RMB18,000 per year in the 2016/2017 school year to RMB15,000-RMB20,000 per year for certain bachelor's degree programmes.

We believe, our growing popularity among prospective students will allow us to further increase our tuition fees in the future. Moreover, once our new campus in Guangzhou commence operation, we will be able to further increase our boarding fees given the better living conditions at the new campus. As advised by our PRC Legal Adviser, according to the relevant local regulations in Jiangxi province and Guangdong province, we retain discretion to adjust the tuition fees charged by our schools, and our schools are only required to make a filing with the relevant authorities regarding proposed tuition fee adjustments but are not subject to any approval requirements or pre-set limits on fee.

Historically, we have engaged Independent Third Parties to provide certain value-added services to our students' school life, such as meal catering services and on-campus entertainment services. To improve the quality of such services and to diversify our source of revenue and other income, we may consider enriching our service offering provided by WOFE to include such value-added services. Currently, we offer exam preparation courses to students to help them prepare for professional qualification exams and standardised tests. We plan to continue offering such services to our students and provide more tailored training programmes to cater for their needs. As our student enrolments and geographic coverage further increase, we expect that our revenue related to value-added services will continue to increase.

Leveraging our extensive experience and reputable school brands to provide management services to other schools

We believe that our long history of successful private school operation in China and the market recognition of our brand have significantly contributed to the success of our business. Maintaining and further utilising our rich experience and strong brand is critical to sustaining our competitive advantages. To achieve better return on assets, greater flexibility and higher scale-driven cost savings, other than expanding through acquisitions, we also seek to expand our school network by providing our management services to other schools. To be more specific, we plan to primarily implement entrusted management business model through cooperating with third party partners and leveraging and utilising our experience and brand. We intend to collaborate with third party partners, including, among others, other domestic schools, local governments and property developers, to operate schools or departments of schools utilising an entrusted management model. Through such cooperation, we expect potential third party partners to provide land use rights, necessary school buildings and facilities, relevant licence and human resources, while we will provide management consulting and supports covering teacher and staff training, curriculum design and implementation, student recruitment and internal control. In return for our management services and brand value, we expect to receive management fees paid by third party partners, subject to adjustments based on education results, student enrolment and profit surplus of the entrusted schools. We believe we will be able to expedite our expansion process efficiently and lower our costs with the entrusted management business model.

While we had not entered into any definitive agreements with any third party as of the Latest Practicable Date, we will continue to explore such potential cooperation opportunities.

OUR MISSION AND EDUCATIONAL PHILOSOPHY

Our mission is to pioneer excellence and innovation in education (“引領教育卓越與創新”) and our fundamental educational philosophy is to prepare students for success through excellence and innovation in education (“以卓越和創新教育引領學生走向成功”). As an educational service provider, we are committed to providing industry-leading higher education to students in the PRC through student-centred teaching strategies and methods. We integrate education, research and application to produce practical and workforce-ready graduates from a broad range of academic programmes prepared to excel in a technologically driven world.

OUR SCHOOLS**Overview**

During the Track Record Period, we operated two private universities in the PRC. These two universities offer in aggregate 80 bachelor’s degree programmes and 32 junior college diploma programmes, covering nine bachelor’s degree disciplines and 11 college diploma disciplines categorised by the MOE, respectively. All these programmes have been approved by the MOE. According to statistics published by the MOE, in 2016, these nine disciplines and 11 disciplines cover 97.7% undergraduate students and 91.9% junior college students in China, respectively.

After the Track Record Period, on 14 August 2017, we obtained control of Baiyun Technician College, which was established by Mr. Xie in 1996. Baiyun Technician College offers 108 vocational education programmes, consisting of five technician diploma programmes, 81 post-secondary vocational diploma programmes and 22 secondary vocational diploma programmes. Geographically, our schools are either located within the Pan-Yangtze River Delta Economic Zone or the Pan-Pearl River Delta Economic Zone. According to the Frost & Sullivan Report, undergraduate students in these two regions accounted for 33% of the total number of undergraduate students in China in 2016. Consisting of only eight provinces, municipalities, and autonomous regions, these two economically vibrant regions in China accounted for approximately 43% of the GDP of China in 2016, according to the Frost & Sullivan Report. These two regions have ample employment opportunities for students. In 2016, approximately 46% of all university graduates with a bachelor’s degree in China were employed in the Pan-Yangtze River Delta Economic Zone and the Pearl River Delta Economic Zone, according to the Frost & Sullivan Report.

We set forth below some general information about our schools as of 31 August 2017, the end of the 2016/2017 school year.

School	Programme offerings	Approximate campus size	Academic structure
Universities			
Jiangxi University of Technology	35 bachelor’s degree programmes and 31 junior college diploma programmes, including automobile service engineering, international economic and trade, civil engineering, materials science and engineering, mechanical engineering, and computer science and technology	1.3 million sq.m.	12 colleges and 15 research institutes

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School	Programme offerings	Approximate campus size	Academic structure
Guangdong Baiyun University	45 bachelor's degree programmes and one junior college diploma programme, including mechanical design manufacturing and automation, business administration, electronic information engineering, logistics management, accounting, product design, fashion design and engineering, civil engineering, and Japanese	351.1 thousand sq.m.	16 colleges and six research institutes
Technical school Baiyun Technician College	108 vocational education programmes, including interior design, civil engineering, electromechanical integration, computer programming, computer network applications, accounting, e-commerce, culinary art, automotive testing and maintenance, and fashion design and marketing	61.8 thousand sq.m.	Nine academic departments and one research institute

Number of Students

During the Track Record Period, we operated two universities, namely Jiangxi University of Technology and Guangdong Baiyun University. The total number of our students was 61,981 in the 2013/2014 school year, 63,548 in the 2014/2015 school year and 63,367 in the 2015/2016 school year. After the Track Record Period, on 14 August 2017, we obtained control of Baiyun Technician College, after which the total number of our students increased to 75,255 in the 2016/2017 school year. The following table sets forth detailed information regarding the number of students enrolled in Jiangxi University of Technology, Guangdong Baiyun University and Baiyun Technician College in the 2013/2014, 2014/2015, 2015/2016 and 2016/2017 school years:

	Student enrolment			
	2013/2014*	2014/2015*	2015/2016*	2016/2017*
Group	61,981⁽¹⁾	63,548⁽¹⁾	63,367⁽¹⁾	75,255⁽²⁾
Jiangxi University of Technology⁽³⁾	39,822	38,857	37,702	35,982
Bachelor's degree programmes	18,904	21,242	21,765	20,288
Junior college diploma programmes	15,597	16,957	15,500	14,397
Continuing education programmes	5,321	658	437	1,297
Guangdong Baiyun University	22,159	24,691	25,665	25,741
Bachelor's degree programmes	15,444	17,024	16,918	16,963
Junior college diploma programmes	224	209	195	226
Continuing education programmes	6,491	7,458	8,552	8,552
Baiyun Technician College⁽⁴⁾	12,944	12,820	14,016	13,532
Secondary vocational diploma programmes	3,104	3,042	3,132	2,857
Post-secondary vocational diploma programmes	9,307	9,316	10,422	10,241
Technician diploma programmes	533	462	462	434

Notes:

* Despite the fact that our financial year ends on 31 December, our school year ends on 31 August. For the purpose of this document, we used 31 August as the cut-off date to present certain business operating data for each school year. Our business operating data presented in this table is based on the internal records of our schools.

(1) The total number of our students in the 2013/2014, 2014/2015 and 2015/2016 school years represents the total number of students of Jiangxi University of Technology and Guangdong Baiyun University.

(2) Total number of our students in the 2016/2017 school year is the total number represents students of Jiangxi University of Technology, Guangdong Baiyun University and Baiyun Technician College.

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- (3) The number of students enrolled in Jiangxi University of Technology in the 2014/2015, 2015/2016 and 2016/2017 school years decreased because the school had tightened its admission criteria since the 2014/2015 school year with a view to improving the overall quality of the students. In particular, since the 2014/2015 school year, Jiangxi University of Technology has raised the minimum admission requirement of Gaokao score of various programmes. This resulted in less eligible students (and, in turn, student enrolment) for the relevant programmes. We believe higher quality and better reputation can help us improve the level of fees we can charge per student, which in turn will further increase our profitability and strengthen our reputation in the long term.
- (4) We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017. Baiyun Technician College also offers short-term training education programmes.

Capacity and Utilisation

The programmes we offer can be categorised into regular education programmes and continuing education programmes. Regular education programmes consist of bachelor's degree programmes and junior college diploma programmes offered by Jiangxi University of Technology and Guangdong Baiyun University and three vocational education programmes offered by Baiyun Technician College. In the 2016/2017 school year, 86.9% of our students were regular education programme students, while 13.1% of our students were continuing education programme students. Except during last school year when students do internships outside campus, we generally require our regular education programme students to live in school dormitories. As to continuing education programme students, we do not require them to live in school dormitories.

We believe the number of regular education students our dormitories are designed to accommodate is the most reasonable metric to estimate the capacity for our schools. As to continuing education students, there is no limit for school capacity in general.

We consider that the slight decrease in the overall student enrolment of Jiangxi University of Technology during the relevant school years did not have a significant impact on the utilisation of its teaching facilities, such as classrooms, libraries and laboratories, as most of these resources are utilised by the students on a shared basis.

The following table sets forth the capacity and utilisation rate of each of our schools based on regular education students for the 2013/2014, 2014/2015, 2015/2016 and 2016/2017 school years:

	School capacity ⁽¹⁾				School utilisation rate ⁽²⁾			
	School year				School year			
	2013/2014*	2014/2015*	2015/2016*	2016/2017*	2013/2014*	2014/2015*	2015/2016*	2016/2017*
Jiangxi University of Technology	36,330	38,751	37,821	38,555	95.0%	98.6%	98.5%	90.0%
Guangdong Baiyun University	15,725	17,308	17,534	18,115	99.6%	99.6%	97.6%	94.9%
Total/weighted average	52,055	56,059	55,355	56,670	96.4%	98.9%	98.2%	91.5%
Baiyun Technician College ⁽³⁾	13,256	14,653	14,706	14,507	97.7%	87.5%	95.3%	93.3%

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Notes:

* Despite the fact that our financial year ends on 31 December, our school year ends on 31 August. For the purpose of this document, we used 31 August as the cut-off date to present certain business operating data for each school year. Our business operating data presented in this table is based on the internal records of our schools.

(1) We generally require our regular education programme students to reside in our school dormitories during their study at our schools except the last school year or when special circumstances arise, such as renovation of our school dormitories, that may require certain of our students to seek off-campus accommodation. To facilitate their off-campus internships, we usually do not require our regular education programme students in their last school year to live in school dormitories. The school capacity is calculated by us internally as the number of beds in student dormitories in each school year plus the number of graduating regular education programme students in each corresponding school year. We do not require continuing education programme students to live in school dormitories and therefore students enrolled in such programmes are not included in the school capacity, nor are included in the calculation of school utilisation rate.

The school capacity of Jiangxi University of Technology in the 2015/2016 school year decreased because certain of our student dormitories were being renovated. During the relevant period, certain of our students sought off-campus accommodation.

(2) The school utilisation rate is calculated by us internally as the number of our regular education programme students in each school year divided by the school capacity for each corresponding school year.

The school utilisation rate of Jiangxi University of Technology in the 2016/2017 school year decreased primarily because there was an increase in school capacity as a result of the construction of two new student dormitory buildings. We expect that the utilisation rate will slightly go up because Jiangxi University of Technology will gradually improve the living standard of the students by trying to accommodate less students per room.

(3) We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017.

The school utilisation rate of Baiyun Technician College in the school year 2014/2015 decreased primarily as a result of the relatively large number of students in their final school year; as such final year students were not required to reside in the school dormitories.

Our Directors consider that the capacity growth of our schools is primarily subject to our ability to further increase the number of beds in student dormitories and the availability of academic resources to substantiate an increase in student enrolment. Our Directors do not currently have plans to increase the capacity of the current campuses of our schools. Our Directors consider that the current campuses of our schools have limited potential for capacity growth as their layout, configuration and limited space available render it infeasible for the construction of more student dormitories. In view of this, we are currently developing a new school campus for our Guangdong Baiyun University on the Zhongluotan Land, which is expected to increase the capacity of Guangdong Baiyun University and academic resources to accommodate a further increase in student enrolment. We expect that the new campus will be fully developed in or around 2021. Once fully developed, the planned new campus is expected to have a site area of 498,000 sq.m. and accommodate approximately up to 26,000 students. Guangdong Baiyun University will also share part of the planned new campus with Baiyun Technician College and provide accommodation for certain students of Baiyun Technician College. See also "Business – Our Business Strategies – Develop new school campus to further increase our capacity and student body".

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Tuition Fees and Boarding Fees

For the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, we derived our revenue substantially from the tuition fees and boarding fees from two of our schools, namely Jiangxi University of Technology and Guangdong Baiyun University.

For other fees we charged, see the “Financial Information – Critical Accounting Policies, Judgements and Estimates.” We usually require students to pay tuition fees and boarding fees for each school year at the beginning of that school year.

The following table sets forth the listed tuition fees and boarding fees of Jiangxi University of Technology, Guangdong Baiyun University and Baiyun Technician College (the control of which we obtained on 14 August 2017) for the 2013/2014, 2014/2015, 2015/2016 and 2016/2017 school years:

	Listed tuition fees in each school year ⁽¹⁾				Boarding fees in each school year			
	2013/2014	2014/2015	2015/2016	2016/2017	2013/2014	2014/2015	2015/2016	2016/2017
	(RMB)							
Jiangxi University of Technology								
Bachelor's degree programmes	8,000 ~ 14,000	11,000 ~ 15,000	11,000 ~ 16,000	14,000 ~ 18,000	850 ~ 1,200	1,000 ~ 1,200	1,000 ~ 1,300	1,480 ~ 1,680
Junior college diploma programmes	7,000 ~ 7,800	7,300 ~ 7,800	7,300 ~ 8,500	11,300 ~ 12,500	850 ~ 1,200	1,000 ~ 1,200	1,000 ~ 1,300	1,480 ~ 1,680
Continuing education programmes	6,000 ~ 7,800	7,300 ~ 7,800	7,300 ~ 7,800	7,300 ~ 7,800	N/A	N/A	N/A	N/A
Guangdong Baiyun University								
Bachelor's degree programmes	18,000 ~ 25,000	18,000 ~ 25,000	18,000 ~ 25,000	19,000 ~ 26,000	1,500	1,500	1,500	1,500
Junior college diploma programmes	30,000	30,000	30,000	30,000	1,500	1,500	1,500	1,500
Continuing education programmes	3,000 ~ 4,000	3,000 ~ 4,000	3,000 ~ 6,000	3,000 ~ 6,000	N/A	N/A	N/A	N/A
Baiyun Technician College⁽²⁾								
Post-secondary vocational diploma programmes	9,800 ~ 10,500	11,500 ~ 12,000	11,500 ~ 12,000	11,500 ~ 12,000	1,500	1,500	1,500	1,500
Secondary vocational diploma programmes	9,800 ~ 10,400	11,000 ~ 11,500	11,000 ~ 11,500	11,000 ~ 11,500	1,500	1,500	1,500	1,500
Technician diploma programmes	11,000	12,500	12,500	12,500	1,500	1,500	1,500	1,500

Notes:

(1) The tuition fees information shown above does not cover the tuition fees of short-term training education programmes offered by Baiyun Technician College, which provide trainings on specific skills or knowledge or preparation for professional certification examinations. For the 2014/2015, 2015/2016 and 2016/2017 school years, the tuition fees of our short-term training education programmes were generally RMB200 – RMB15,960, RMB200 – RMB16,240 and RMB200 – RMB18,000.

(2) We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017.

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Our tuition fees and boarding fees had generally increased during the Track Record Period. We believe this is attributable to, among other things, a growing popularity among prospective students in recent years and outstanding employment rates of our graduates. For the upcoming 2017/2018 school year, Guangdong Baiyun University will raise the level of its tuition fees from RMB19,000 – RMB26,000 per year in the 2016/2017 school year to RMB22,000 – RMB30,000 per year for certain bachelor’s degree programmes in the 2017/2018 school year, and Jiangxi University of Technology will raise the level of its tuition fees from RMB14,000 – RMB18,000 per year in the 2016/2017 school year to RMB15,000 – RMB20,000 per year for certain bachelor’s degree programmes in the 2017/2018 school year. The increase in boarding fees or tuition fees only applies to new students in the 2017/2018 school year. We increase our tuition fees and boarding fees primarily because we want to provide our students with better educational services, employment opportunities and living standards, all of which require more capital and resources. At the same time, as mentioned above, our schools have, among other things, a growing popularity among prospective students and outstanding employment rates of our schools, which also leave some room for us to increase our tuition fees and boarding fees. We believe we have adopted fee adjustment policies suitable for the efficient operations and rapid development of our schools, and formed a healthy cycle for the development of our schools.

We have tuition fees and boarding fees refund policies in place with respect to students who leave during a school year. Generally speaking, if a student enrolls and pays tuition fees and boarding fees but leaves the school before the end of that school year, we will refund the tuition fees and boarding fees for any remaining full academic months, calculated on a 10-academic-month basis. The following tables set forth (i) the number of drop out with respect to student enrolment in each school year; and (ii) the amount of refund with respect to tuition fees and boarding fees collected in each school year.

	Number of drop out with respect to student enrolment in each school year			
	2013/2014*	2014/2015*	2015/2016*	2016/2017*
Jiangxi University of Technology	500	506	231	323
Guangdong Baiyun University	12	13	11	22
Total	512	519	242	345
Baiyun Technician College⁽¹⁾	236	306	390	294

Notes:

* Despite the fact that our financial year ends on 31 December, our school year ends on 31 August. For the purpose of this document, we used 31 August as the cut-off date to present certain business operating data for each school year. Our business operating data presented in this table is based on the internal records of our schools.

(1) We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017.

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	Refund with respect to tuition fees collected for each school year				Refund with respect to boarding fees collected for each school year			
	2013/2014*	2014/2015*	2015/2016*	2016/2017*	2013/2014*	2014/2015*	2015/2016*	2016/2017*
	(RMB)							
Jiangxi University of Technology	141,797	143,635	84,960	106,072	81,110	25,500	37,130	30,347
Guangdong Baiyun University	181,200	236,700	160,300	341,800	14,400	16,050	12,900	26,250
Total	322,997	380,335	245,260	447,872	95,510	41,550	50,030	56,597
 Baiyun Technician College ⁽¹⁾	 1,036,992	 1,421,170	 1,544,780	 1,040,755	 225,705	 286,600	 245,250	 187,250

Note:

* Despite the fact that our financial year ends on 31 December, our school year ends on 31 August. For the purpose of this document, we used 31 August as the cut-off date to present certain business operating data for each school year. Our business operating data presented in this table is based on the internal records of our schools.

(1) We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017.

Jiangxi University of Technology

Jiangxi University of Technology obtained approval from the MOE for its establishment in 1999 under the name of Private Blue Sky Vocational and Technical College. In 2005, the school was approved by the MOE to offer bachelor's degree programmes and changed its name to Jiangxi University of Technology in 2012. As approved by the provincial education authorities in 2014, the university was listed as one of the two universities (and the only private university) for the pilot comprehensive education reform in Jiangxi province. The university's fundamental educational objectives are to benefit the nation through education and revitalise China through schooling (“以科教興國為己任，為振興中華而辦學”). After more than 17 years of schooling, the university has cultivated a wide base of graduates for the country. Jiangxi University of Technology has been ranked the first among private universities in China since 2009 by the Research Centre for China Science Evaluation (中國科學評價研究中心) and Evaluation Centre for China Education Quality of Wuhan University in association with nseac.com.

Curriculum and Degrees

Jiangxi University of Technology currently offers 35 bachelor's degree programmes and 31 junior college diploma programmes. All these programmes have been approved by the MOE. It generally takes four years of full-time study for students enrolled in our regular bachelor's degree programmes to complete their degree, while it generally takes three years of full-time study to complete our regular junior college diploma programmes. In addition, Jiangxi University of Technology also offers self-taught bachelor's degree programmes, which are part of our continuing education programmes and have the same duration as bachelor's degree programmes. For the 2016/2017 school year, we had 20,288 students enrolled in our bachelor's degree programmes, 14,397 students enrolled in our junior college diploma programmes, and 1,297 students enrolled in our continuing education programmes.

Jiangxi University of Technology also developed a “two platforms + N modules” talent cultivation system. “Two platforms” refers to public basic education platform and programme-based education platform; “N modules” refers to programme-related core competency modules, i.e. two to three programme-related abilities modules that are compatible with student cultivation plan based on the demands in corresponding industries. The public basic education platform is managed by the university, whereas programme-based education platform and programme-related core competency modules are managed by colleges and can be dynamically adjusted in respond to changes in the market. We believe that this carefully designed talent cultivation system enables us to allocate education resources more efficiently and gives flexibility.

We believe what our students ultimately take away from their education at Jiangxi University of Technology largely depends on the careful planning of our academic programmes. Jiangxi University of Technology takes into account its educational objectives and innovative spirit when designing appropriate course materials. We encourage our teachers to adopt innovative teaching methods and choose the course materials that fit their teaching methods and match the learning potential of the students. While we emphasise theoretical in-class teaching and learning, we also encourage our students to take practical courses or participate in internships to sharpen their practical skills.

Workplace simulation training programmes

We believe that knowledge and skills that can be immediately applied to workplaces after graduation are of great importance for students’ future careers. As such, Jiangxi University of Technology has designed and founded the workplace simulation training programmes on the principle of teaching real-world practices so that graduates will enter workforce with experiences on par with what they would gain from years of on-the-job experience. As of 31 August 2017, the university has established over 10 simulation training centres and numerous laboratories in the campus. Among these simulation training centres, three of them, namely the Automobile Technology Centre (汽車技術中心), the Computer Technology Experimental Centre (電腦技術實驗中心) and the Mechanical Basics Experimental Centre (機械基礎實驗中心) are provincial experimental teaching demonstration centres. To ensure that students have sufficient practical training, the university also sets the minimum amount of credits students have to earn for practical training courses. Such minimum credits threshold varies in different programmes, ranging from approximately 25% to over 50% of the total credits a student has to earn to graduate. We believe that the establishment of the workplace simulation training programmes and the cooperation with enterprises provide students with abundant resources to receive practical trainings and get ready for their future work.

School-enterprise cooperation programme

Jiangxi University of Technology carefully selects enterprises with certain strength in various industries and cooperate with them to realise mutual benefit in terms of production, education and research. In order to promote the cooperation within the ecological circle, the university took into account the economic structure of Jiangxi province and established three corresponding research institutes or innovation centre to cooperate with enterprises in different industries, namely the Provincial-Level Cooperation and Innovation Centre of Automobile Engineering and Industry (省級汽車服務工程及產業升級協同創新中心), which was established by integrating the university’s strength in automobile majors and mechanical engineering majors to cooperate with enterprise in modern manufacturing industries, the Provincial-Level Regional Economic Research Institute (省級區域發展研究院), and the Provincial-Level Natural Scenery

Research Institute (江西省名山文化藝術創作與傳播研究院). The automobile innovation centre is led by Mr. Guo Konghui, an academician of Chinese Academy of Engineering and China's leading authority in automobile engineering. We believe that, through such cooperation, the university is able to make use of the resources provided by the enterprises in the cultivation of students, while the enterprises are also able to recruit well-qualified students who are equipped with necessary skills desired by them, as well as benefit from the university's research and production capability.

A major type of cooperation with enterprises is joint cultivation of students. For example, Jiangxi University of Technology developed and designed the employer-tailored programme. Under this programme, enterprises communicate with the university about their specific requirements on their prospective employees. Students will take specifically tailored courses so that they can be trained to acquire necessary skills desired by such enterprises. The enterprises also designate relevant representatives to teach certain courses at the university. After certain courses are completed, the enterprises may invite students to do internships at those enterprises. For example, the university cooperated with PPG Paintings Trading (Shanghai) in the joint cultivation of automotive coating colourist for PPG. The joint cultivation emphasises on practical skills required in the industry. While teachers from the university instruct basic courses so that students can acquire basic knowledge and skills, PPG also designates representatives to teach some courses specifically related to PPG and provide guidance to students' practical trainings.

Another type of cooperation is the joint establishment of research platforms and doing joint researches. In general, enterprises provide research equipment and devices, while the university provides spaces for the establishment of research platforms. As of 31 August 2017, among the researches projects carried out, two of them were national level research projects. We consider that students involved in the research process not only can acquire practical knowledge and skills, but also get a deeper understanding on how researches are carried out and relevant methodologies, and we believe that this makes them more attractive to prospective employers than graduates without this experience. We believe that the establishment of these research platforms significantly increased the university's research capacity in applied technology. As of 31 August 2017, the university obtained 1,110 patents and jointly obtained copyright to 99 software. In addition, as of the same date, the university teaching staff and students had published over 3,000 academic papers. We believe our students' participation in scientific research and the publishing of academic papers in journals will increase their competency in the job hunting and future career when competing with students without this experience.

International programmes

In order to provide our students with necessary exposure to various cultures and opportunities to seek education overseas, Jiangxi University of Technology has established cooperation with 12 universities/educational organisations abroad as of 31 August 2017. For example, Jiangxi University of Technology features a project in which students may apply to study at an overseas university after completing certain years of study at Jiangxi University of Technology and meeting certain other requirements. After studying overseas for certain years/semesters and meeting certain requirements of the overseas university, students may be eligible to receive a bachelor's degree or master's degree, as the case may be, of that overseas university. As of the Latest Practicable Date, we had cooperation relationships with more than 30 overseas universities/educational institutions, including the Birmingham City University in the United Kingdom, the University of North Alabama in the United States, the ESC Rennes

School of Business in France, the University of Newcastle in Australia and the Ulsan University in South Korea. In the meantime, Jiangxi University of Technology also admit international students. As of the Latest Practicable Date, Jiangxi University of Technology had admitted 25 international students.

Examinations and Grade Assessment

In addition to written examinations, the university also takes into account students' performance in the courses they take in the whole semester, such as attendance, completion of assignments and class participation. Written examinations are not limited to traditional questions testing students' understanding on certain topics, but also include questions without a standard answer and that require a comprehensive set of skills, such as a case analysis, an invention, a creative solution to a real problem or a research report. The purpose of adopting this assessment mode is to implement a more comprehensive, objective assessment of the university's educational objectives by introducing multi-dimensional performance indicators, as opposed to a simple test of memorisation whether students have acquired certain knowledge.

Career Development

The university believes that career development is an integral part of the education services the university provides to students and of great importance both to the school operation and to students' future career. The university places emphasis on promoting graduate employment and endeavours to help students secure a job. The university provides courses that are aimed to provide students with ideas of and skills for career planning and encourage students to plan their future career as early as possible. In addition, the university has also cooperated with different enterprises to provide our students with potential internships and job opportunities. Moreover, the university also provides a wide range of employment-related services to students and organises various employment-related events, such as job fairs and training opportunities to enhance interview skills. When students approach the career planning committee for counselling services, the officers will offer career advice based on the student's personal interests and preference and fine-tune his or her education and career plans.

Student start-ups supporting programme

In addition to the traditional way to help students with their future employment, the university also encourages students to start their own business. To encourage students to establish their own business and as an important part of the university's entrepreneurial and innovation education, Jiangxi University of Technology established the Innovation Incubator to provide students with an array of guidance and support in turning a business idea into a reality. Jiangxi University of Technology was approved by Jiangxi Provincial Department of Science and Technology and Jiangxi Provincial Department of Education to establish the Provincial Science and Technology Park, being, according to the Frost & Sullivan Report, the only private higher education institution in Jiangxi province in doing so as of 30 June 2017. The Innovation Incubator can accommodate up to approximately 200 students to work there. As an important platform for the university's entrepreneurial and innovation education, in addition to hardware facilities, such as workspace, office equipment, computer servers and other hardware, the Innovation Incubator also from time to time invites entrepreneurial mentors to provide trainings and guidance to students who aspire to start their own business. In 2015, our entrepreneurial and innovation education was recommended by the National Education Reform Leadership Group of the State Council of the PRC to all provincial educational authorities and central higher education institutions in China as a successful example.

We believe that the success of our entrepreneurial and innovation education is not only evidenced by government's recognition, but also the successful experience of our own students. For instance, two of the graduates of Jiangxi University of Technology established their own business after graduation and successfully expanded their business through years of development. Both of them were named by certain media to be a leading university graduate entrepreneur. To express their appreciation to the university's education, both of them established scholarships in Jiangxi University of Technology, one of which is to encourage more students to start their own business.

In 2014, 2015 and 2016, the Initial Employment Rate of Jiangxi University of Technology was 88.3%, 88.4% and 88.1%, respectively. In contrast, China's overall Initial Employment Rate for higher education graduates was approximately 77.5%, 77.7% and 77.9%, respectively, in the same years, according to the Frost & Sullivan Report. We believe we were able to achieve a high employment rate for the university's graduating students primarily because of the carefully tailored academic programmes that we offer, the employment-oriented education approach, and the assistance we provide to our students in identifying potential employment opportunities.

School Facilities

The campus of Jiangxi University of Technology encompasses approximately 1.3 million sq.m. The university has a variety of campus facilities, such as classroom buildings, laboratory buildings, libraries, apartment buildings, track and field, gymnasiums, theatres and restaurants. Various campus facilities and school buildings together with natural landscape constitute a pleasant garden landscape style campus that provides our students with a desirable environment for their school life. School dormitories generally have bathrooms and balconies, as well as a variety of furniture and home appliances such as computer desks, wardrobes, air conditioners, water heaters, and drinking fountains. Wireless network is generally available on the campus. Banking services, supermarkets, restaurants and canteens, telecommunication services, healthcare services, among others, are also available on the campus.

Guangdong Baiyun University

Guangdong Baiyun University obtained approval from the MOE for its establishment in 1999 under the name of Private Baiyun Vocational and Technical College. In 2005, Guangdong Baiyun University was established on the basis of Guangdong Baiyun Vocational and Technical College as one of the first two private universities that awarded bachelor's degrees in Guangdong province. Guangdong Baiyun University has positioned itself as a university of applied technology. In 2013, as a founding member, Guangdong Baiyun University established, together with other 34 universities or colleges in China, the Association of Universities (Colleges) of Applied Technology (應用技術大學(學院)聯盟) under the guidance of the MOE to respond to the PRC government's educational strategy to cultivate more talents with higher-level education in applied technology to serve the development of China's economy and society.

By adopting the "student-centred" education approach and with the support of the Guangdong Baiyun University's internationalisation and informatization strategy, it is committed to equip graduates with practical skills and capabilities desired by the development of emerging industries in Guangdong province and the strategic upgrade of Guangdong's economy. The ultimate goal of Guangdong Baiyun University is to establish a high-level university of applied technology and serve the social and economic development of Guangdong province.

Curriculum and Degrees

Guangdong Baiyun University has 16 colleges and offers 45 bachelor's degree programmes and one junior college diploma programme. All these programmes have been approved by the MOE. The programmes offered by Guangdong Baiyun University consist of bachelor's degree programmes, junior college diploma programmes, and continuing education programmes. It generally takes four years of full-time study for students enrolled in our regular bachelor's degree programmes to complete their degree, while it generally takes three years of full-time study to complete our regular junior college diploma programmes. Our continuing education programmes consist of adult bachelor's degree programmes and adult junior college diploma programmes, which have the same duration as bachelor's degree programmes and junior college diploma programmes, respectively. For the 2016/2017 school year, we had 16,963 students enrolled in the bachelor's degree programme, 226 students enrolled in the junior college diploma programme and 8,552 students enrolled in the continuing education programmes.

As a university of applied technology, Guangdong Baiyun University offers a broad range of applied technology programmes, including machinery manufacturing and automation, business administration, and art design, which we believe are in demand in Guangdong province. While requiring that all students take core courses in certain foundational skills that are fundamental to their later studies and helpful to their future endeavours, such as mathematics and English, Guangdong Baiyun University also emphasise teaching students practical skills and knowledge that can be immediately applied after graduation by providing a series of practical training and courses. We believe that carefully designed academic programmes and the education students received at Guangdong Baiyun University play a key role in students' future career and life. With 45 programmes offered across a span of applied technology and other industries, we believe Guangdong Baiyun University equips students with hands-on skills that will launch their careers in traditional and emerging industries.

Workplace simulation training programmes

As a university focussing on applied technologies, Guangdong Baiyun University strives to provide students with a simulated work environment so that they can gain knowledge and skills that can be immediately applied to workplaces after graduation and have a seamless transition between school studies and workplaces. To realise such educational goal, Guangdong Baiyun University has established a workplace simulation training platform on its campus based on the principles of building an enterprise-like simulated training environment by cooperating with enterprises and offering designed workplace simulation training courses.

School-enterprise cooperation programmes

Guangdong Baiyun University emphasises school-enterprise cooperation as we believe this education approach can maximise benefit of the university's education objectives. With a view to enhancing, among other things, the school-enterprise cooperation of Guangdong Baiyun University, Guangdong Baiyun University entered into an exclusive service agreement with Jiangxi University of Technology in December 2007. See the section headed "Business – Inter-School Cooperation." Leveraging the education capability and leading position of Jiangxi University of Technology, Jiangxi University of Technology has, over the years, promoted and facilitated a number of successful school-enterprise cooperation for Guangdong Baiyun University. Guangdong Baiyun University maintains a close relationship with certain enterprises and cooperates with them on areas such as joint student cultivation, joint research and development and internship placement and graduate employment, as the case may be.

Joint cultivation of students is an important part of school-enterprise cooperation. The university invites certain employers to review the university student cultivation plan and curriculum/programme design because we believe that employers are more sensitive in anticipating market trend and know better what type of knowledge and skills employers genuinely desire. In addition to reviewing student cultivation plan, the university also cooperated with enterprises and jointly established the employer-tailored programme. The student cultivation plan of this programme is tailored to each enterprises that participates in the programme based on the university's basic student cultivation plan. The university and the enterprises work together to recruit students and teach the relevant courses. The university's teaching staff usually focus on the development of students' fundamental capabilities and the dissemination of professional knowledge and skills, while representatives from the enterprises teach courses specifically related to the enterprises and the industry so that students can acquire specific knowledge and skills that are desired by the enterprises. In addition to joint teaching of courses, internship opportunities may also be available to students to reinforce what they have learned in class. We believe that the programme gives flexibility to the enterprises and students as either party may decide whether to enter into labour contract with each other after graduation.

This platform also aims to build up a dedicated team teaching and research staff and encourage its teaching staff to participate in various research activities to add an extra dimension of experience to their teaching, which we believe will ultimately benefit our students. As of 31 August 2017, the university teaching staff and students had published over 2,200 academic papers.

International programmes

Internationalisation is one of the university's key strategies. By cooperating with universities abroad, Guangdong Baiyun University hopes that advanced education philosophies, standards, and resources of its international partners can be introduced to the university's education. As of 31 August 2017, Guangdong Baiyun University had established cooperation with over 23 universities/educational organisations in different countries.

A principal area of cooperation under these cooperation agreements is degree earning programmes. Generally, students will study at Guangdong Baiyun University for certain semesters and then study at the corresponding overseas university for the remaining semesters after meeting certain other requirements. After students complete their study both in China and overseas, they may be eligible to receive a bachelor's degree from the overseas university or two bachelor's degrees from Guangdong Baiyun University and the overseas university. Upon meeting certain requirements, a master's degree may also be earned.

Examinations and Grade Assessment

Examinations are administered at the end of each semester to test students' understanding in various subject matters. The final grade a student receives for a particular course generally consists of his or her performance in the written examinations and/or coursework assessment. The course work assessments consist of projects and other forms of assessment including students' participation in class discussions, their performance on written papers, homework and tests. The results of their internship evaluations and training and practical examinations also form a significant part of their final grades.

Career Development

We believe that career development is a key part of the university's operation, and high quality graduate employment is of vital importance to the university's future success. To facilitate students' career development, the university provides a wide range of services to students who seek employment or internship opportunities. In addition to providing a platform for students to gather and disseminate employment information, the school also strives to help students to explore the life, work and learning options available to them. When students approach the school for counselling services, the school will offer career advice based on the student's personal interests and career plans. The school also organises, job-search trainings and other employment-related events from time to time to equip our students with the desired skills.

In addition to helping students with their future career, the university also encourages students to try to start their own business. The university established a start-up incubator for the purpose of providing training and education relating to establishing a student start-up. The incubator provides hardware facilities and guidance to students with a view to supporting their business start-ups.

In 2014, 2015 and 2016, the Initial Employment Rate of Guangdong Baiyun University was approximately 96.2%, 96.6% and 96.1%, respectively. In contrast, China's overall Initial Employment Rate for higher education graduate was approximately 77.5%, 77.7% and 77.9%, respectively, in the same years, according to the Frost & Sullivan Report.

School Facilities

The campus of Guangdong Baiyun University encompasses approximately 351.1 thousand sq.m. and has a variety of campus facilities, such as classroom buildings, workplace simulation training studios, laboratories, libraries, restaurants, cafeterias, dormitories, gymnasiums, track and field, and courts (such as basketball, tennis and/or soccer courts). Facilities such as water heaters and air conditioners have been installed in school dormitories. Internet services are also available on the campus. The campus is currently undergoing a series of upgrades and construction to better serve the university's fundamental educational objectives.

To equip ourselves for the continuous development and the growing demand, we decided to expand our school capacity by establishing a new campus located at Zhongluotan town. We have obtained the land use right certificate for the 1st phase of the construction on the Zhongluotan Land with a site area of approximately 188,666 sq.m. We have obtained the construction permit with respect to a construction area of 101,074.6 sq.m. and have commenced the 1st phase construction of school building and facilities on the Zhongluotan Land. Barring unforeseen circumstances, our Directors expect that the construction of the campus will be completed in 2018 and put into operation in the 2018/2019 school year. The construction of the new campus takes into account the university's educational objectives and our actual need for the cultivation of talents and primarily focuses on the construction of practical training and teaching platforms, as well as innovation and entrepreneurship education platform. Our Directors believe that, after the new campus is put into use, the new campus and the existing campus will echo and compliment to each other. Our Directors also expect that the new campus will also accommodate our proposed relocation for certain of our properties as a pre-emptive rectification measure, see "– Properties" for details.

Baiyun Technician College

Baiyun Technician College obtained approval from the Guangzhou Municipal People's Government (廣州市人民政府) and the Guangzhou Ministry of Labour (廣東省勞動廳) for its establishment in 1996 under the name of Guangzhou Baiyun Technical School of Business and Technology. In 2005, the school was approved to be established as Baiyun Technician College by the Labour and Social Security Department of Guangdong Province. Baiyun Technician College adopts a market-oriented educational approach and is committed to cultivating well-rounded technicians with skills and knowledge that are desired by employers in the Pearl River Delta Region. After more than two decades of operations, Baiyun Technician College has cultivated a large number of graduate technicians. On 14 August 2017, we obtained control of Baiyun Technician College.

Curriculum and Professional Qualifications

Baiyun Technician College offers two types of educational programmes, namely vocational education programmes and short-term training education programmes. Vocational education programmes consist of five technician diploma programmes, 81 post-secondary vocational diploma programmes and 22 secondary vocational diploma programmes. For the 2016/2017 school year, Baiyun Technician College has 13,532 students enrolled in vocational education programmes. Short-term training education programmes mainly include training courses with respect to specific professional skills or knowledge or professional qualification examination preparation courses.

Baiyun Technician College invites certain enterprise partners to provide input to the curriculum design and make adjustment to the student cultivation plan. We believe that the participation of enterprises and education experts in curriculum development enables the school to offer flexible educational services that respond quickly to evolving market demand and help the school to realise its educational objective.

Due to the importance of professional qualifications to students' future career, Baiyun Technician College generally requires students enrolled in vocational education programmes to take corresponding professional examinations prior to their graduation from relevant vocational education programmes. As such, these students usually hold relevant professional qualification certificate when they graduate. In addition, Baiyun Technician College also encourages students to take the National Higher Education Entrance Examination for Adults for obtaining a bachelor's degree or a junior college diploma. We believe that the possession of professional certificates or higher degree/diplomas, in addition to their graduation certificates, will facilitate students' employment after their graduation and offer them competitive advantage in the beginning of their career.

School-enterprise cooperation programmes

As a vocational college, school-enterprise cooperation is a key educational strategy for Baiyun Technician College. With a view to enhancing, among other things, the school-enterprise cooperation of Baiyun Technician College, Baiyun Technician College entered into an exclusive service agreement with Jiangxi University of Technology in December 2007. See the section headed "Business – Inter-School Cooperation". Leveraging the education capability and leading position of Jiangxi University of Technology, Jiangxi University of Technology has, over the years, promoted and facilitated a number of successful school-enterprise cooperation for Baiyun Technician College. As of 31 August 2017, Baiyun Technician College has partnered with different enterprises such as BSH Home Appliances Service (Jiangsu) and Hilton Hotel Management Shanghai for the school-enterprise cooperation programmes.

As part of the joint education offered to our students, the college offers a employer-tailored programme. Under this programme, enterprises and the college will jointly select students for the programme, formulate tailored cultivation plan and design curriculum to reflect enterprises' specific requirements, teach courses and practical trainings and assess students' performance. In addition, the college cooperated with different enterprises with a view to providing potential internship placement and graduate employment opportunities. The college encourages students to perform well in their internships so that they can be retained by those enterprises for a permanent job.

Examinations and Grade Assessment

Examinations consist of tests/quizzes/assessments during each semester and a final comprehensive examination. Tests/quizzes/assessments during each semester refer to tests, quizzes or coursework assessments on specific topics or practical skills taught during course instruction in a specific semester, while final comprehensive examination refers to a final examination at the last week of a semester. The final grade a student receives for a particular course generally consists of his or her performance in these examinations/assessments and their class participation.

Career Development

The college places emphasis in assisting students on graduate employment. When students approach the college for counselling services, the staffs will offer tailored career advice based on the student's personal interests and preference and fine-tune his or her learning and career plans. The college also organises various, job-hunting trainings and other employment-related events from time to time. In addition to facilitating students' future career, helping students establish their own business is the other main focus of the college. The college has designed several courses relating to starting a business.

In 2014, 2015 and 2016, the Initial Employment Rate of Baiyun Technician College was approximately 99.3%, 99.4% and 99.4% respectively. In contrast, China's overall Initial Employment Rate for higher education graduate was approximately 77.5%, 77.7% and 77.9%, respectively, in the same years, according to the Frost & Sullivan Report.

School Facilities

Baiyun Technician College has various campus facilities, such as classroom buildings, workplace simulation training studios, laboratories, libraries, student admission and career services hall, multi-media rooms, canteens, student dormitories, gymnasiums, track and field and courts. Internet services can be accessed anywhere on the campus. The college has a dormitory management team to provide necessary services and to guarantee security. Student dormitories are surrounded by a series of recreational facilities so that students can conveniently enjoy a break from their intense study life.

OUR STUDENTS

Overview

We seek creative students who are passionate about applied technology and would like to take advantage of the opportunities we offer for growth in the classroom and in the real world. We admit students from all provinces in China.

Student Admission

Gaokao is the major channel for our universities to enrol students. Graduating high school students nationwide submit applications to several universities of their choice based on the scores they achieved in the Gaokao. Each province in the PRC sets its own standard levels of the Gaokao scores for different academic concentrations, and the universities in each province then evaluate and admit prospective students based on the respective scores and specific aspirations in students' applications, which usually rank universities in several categories with the first choice being the school the student wants to attend the most. Our student recruitment network covers all provinces, municipalities, and autonomous regions in China.

In addition to Gaokao, Jiangxi University of Technology was also approved by the provincial education bureau to admit junior college students through the Independent Enrolment for Higher Vocational Education (高職院校單獨招生). For high school graduates and graduates of secondary vocational schools who choose to apply for a junior college programme in Jiangxi University of Technology, apart from Gaokao, they can choose to take the independent enrolment exam administered by Jiangxi University of Technology.

Apart from the above two student admission channels, we also admit continuing education students mainly through the National Higher Education Entrance Examination for Adults. Similar to Gaokao, students will generally be admitted based on their grade in the National Higher Education Entrance Examination for Adults. See "Risk Factors – Risks Relating to Our Business and Industry – Our business is heavily dependent on our reputation and any damage to our reputation would materially and adversely affect our business. Negative publicity concerning our schools or our Group may adversely affect our reputation, business, growth prospect and our ability to recruit qualified teachers and staff" for further details.

With respect to student admission in relation to our vocational education offered by Baiyun Technician College, the school does not require the applicants to take any specific admission examinations, as the school generally accepts middle school graduates and high school graduates to apply to become enrolled in different programmes offered by Baiyun Technician College.

Our new student enrolment has historically been driven primarily by word-of-mouth referrals. Based on the feedback we received from our students and their parents, we believe they are generally satisfied with the high-quality education we provide and are therefore willing to help us attract more students through referrals. In addition, after decades of operations, we have built a wide base of alumni, who we believe have passionate and genuine emotional connections with our schools. Other than referrals, another major marketing effort is to participate in information sessions organised by provincial level education bureaus. A team of personnel has been designated in each of our schools to be responsible for student recruitment. Prior to Gaokao, these recruitment staff visit certain high schools in selected cities in Jiangxi province and Guangdong province to hold information sessions and recruit students for our schools. We believe that, as a result of our efforts in multiple student recruitment channels and the reputation of our high quality education services, the number of students applying our schools has been higher than the actual number of students we are able to enrol in recent years and the actual grades of the students we enrolled in various provinces were also higher than the minimum grade we may enrol.

OUR TEACHERS

Our Teaching Staff

We believe that our team of experienced and dedicated teachers are crucial to our success. As an operator of private schools, we believe that we can provide better incentives to independently recruit qualified teachers who fit our hiring criteria. Teachers are the key to maintaining high-quality educational programmes and services as well as maintaining our brand and reputation. Our aim is to continue hiring teachers with a strong command of their respective subject areas who are open to innovative teaching methods and a caring heart towards students' well-being. We also value the recognition bestowed upon our teachers who have achieved teaching excellence. As of 31 August 2017, we had 3,520 teachers (including the teachers of Baiyun Technician College, the control of which we obtained in August 2017).

As an education group that focuses on applied technology, we believe a team of double-qualification teachers is of great importance in realising our education objectives. Double-qualification teacher refers to full-time teachers with title of lecturer or above and certain professional qualification or industry experience. We consider that these teachers usually have industry experience and have a good command of practical skills and knowledge. As of 31 August 2017, we had 1,195 double-qualification teachers, representing 33.9% of the total number of our teachers. In addition, 97.3% of our teachers as of such date have a bachelor's degree or above, and 59.6% of our teachers have a master's degree or above.

Teacher Recruitment

We recruit teachers based on the size of our current student enrolment and the number of newly admitted students at the beginning of each school year. Before hiring each teacher, we usually consider his or her prior teaching experience, academic record, graduation certificate and reference letters as well as his or her performance in the interview. We also conduct background checks on our candidates during the recruiting process. We may also require applicants to teach a live class as part of his or her application process. From time to time we hire qualified teachers laterally from other public and private schools in the PRC.

Teacher Training

We provide our teachers with several types of trainings. Newly hired teachers usually undergo training programmes that cover, among others, teaching skills and techniques, teacher management policies, and education theories. We also provide continuing training for our teachers so that they can stay abreast of the changes in student demands, new teaching theories and/or methodologies, changing testing standards and other trends. In order to give our teachers necessary exposure to the latest development of technologies in various industries, we also invite industry experts to provide trainings to our teachers and at the same time provide certain teachers with the opportunity to work in relevant companies.

Teaching Performance Evaluations

To ensure the quality of the educational services we provide to our students, we periodically conduct teaching performance evaluations. Each of our schools monitors the overall teaching quality from time to time and periodically conducts teaching evaluations to ensure and maintain our teaching standards, which include in-class

BUSINESS

observations, evaluation of our teachers' class preparation and/or the effectiveness of their classroom instructions. We may take into consideration the performance of each teacher when making decisions regarding their compensation and their career development in our schools.

As a private education institution, we believe we offer compensation to our teachers that is competitive relative to that offered by public schools. Compensation typically includes a base salary and a performance bonus, which is generally based on the teaching quality, performance of the students, work attendance and other factors.

OUR ONLINE EDUCATION PLATFORMS

With a view to providing better education services to our students and foster their better mastery of necessary knowledge and skills, other than traditional class education, our universities have also utilised online education platforms, such as MOOC (Massive Open Online Courses), and integrated such platform into our education. A major function of such online education platform is to allow our students to take certain courses through the internet and have access to various learning materials and resources. We believe our experience in the operation of our online education platform has laid a solid foundation for us in our exploration of other business models in the future as and when appropriate.

INTER-SCHOOL COOPERATION

We have, over the years, leveraged the education capability and leading position of Jiangxi University of Technology to promote inter-school cooperation and our school network. On 28 December 2007, Jiangxi University of Technology entered into an exclusive service agreement with each of Guangdong Baiyun University and Baiyun Technician College. The service agreements focus on enhancing two principal aspects of Guangdong Baiyun University and Baiyun Technician College, namely (i) inter-school cooperation with other education institutions (學校合作); and (ii) school-enterprise cooperation (校企合作). Under the service agreements, Jiangxi University of Technology shall provide each of Guangdong Baiyun University and Baiyun Technician College with opportunities for such cooperation and shall facilitate the fruition of such programmes. In particular, Jiangxi University of Technology shall introduce potential cooperation partners, help facilitate the communications and negotiations with potential cooperation partners, assist in the collection and transmission of related documents and facilitate other related arrangements.

Inter-school cooperation programmes may include the following areas of collaboration:

- (i) school curriculum, such as joint curricula, mutual recognition of course credits and joint degrees;
- (ii) cultural and academic exchanges, such as joint research programmes, exchange of research data, joint publication of research papers and journal articles, academic symposiums and lectures;
- (iii) practical industry learning, such as internship opportunities, working vacation projects and summer camp programmes;
- (iv) training, such as language enhancing classes and joint training centres; and
- (v) student enrolment, such as mutual promotion of admission opportunities.

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School-enterprise cooperation programmes may include the following areas of collaboration:

- (i) customised curriculum, such as the development of courses and training materials in accordance with enterprise and industry demands, as well as related admission and curriculum arrangements;
- (ii) industry research collaboration, such as enterprise internship opportunities, joint school-enterprise practical centres, joint industry research projects and enterprise commissioned research projects;
- (iii) enterprise education support, such as the provision of training courses, facilities, software, hardware, technical guidance and scholarships by the enterprise;
- (iv) academic exchanges, such as enterprise exchange programmes for teaching staff and the employment of enterprise employees as part-time teaching staff; and
- (v) career support, such as priority in on-campus recruitment and recruitment priority for school graduates.

Pursuant to the exclusive service agreements, a consultancy fee is payable annually to Jiangxi University of Technology. Such consultancy fee is to be mutually determined by the parties primarily with reference to the number of inter-school programmes and/or school-enterprise cooperation programmes facilitated by Jiangxi University of Technology, an assessment on the significance of such opportunities in relation to school reputation and student employment and the resources committed by Jiangxi University of Technology. The annual consultancy fee is determined based on the multiple of (i) the number of cooperation projects undertaken by Jiangxi University of Technology; and (ii) the consultancy fee payable to Jiangxi University of Technology for each cooperation project, which may range from RMB10,000 to RMB2,000,000. The general formula adopted by the parties in determining the consultancy fee for each cooperation project is set out below:

$$\left(\begin{array}{l} \text{Estimated degree} \\ \text{of impact of the} \\ \text{cooperation} \\ \text{project to student} \\ \text{employment} \\ \text{opportunity} \\ \text{(0 to 10)} \end{array} + \begin{array}{l} \text{Estimated degree} \\ \text{of impact of the} \\ \text{cooperation} \\ \text{project to the} \\ \text{reputation of the} \\ \text{school} \\ \text{(1 to 10)} \end{array} \right) \times \begin{array}{l} \text{Estimated degree} \\ \text{of resources} \\ \text{committed by} \\ \text{Jiangxi University} \\ \text{of Technology to} \\ \text{the cooperation} \\ \text{project} \\ \text{(1 to 10)} \end{array} \times \begin{array}{l} \text{Cooperation} \\ \text{project basic fee} \\ \text{of RMB10,000} \end{array}$$

For each of the three years ended 31 December 2016 and the six months ended 30 June 2017, we had received consultancy fees from Baiyun Technician College pursuant to the exclusive service agreement amounting to approximately RMB14.1 million, RMB32.3 million, RMB47.2 million and RMB5.3 million, respectively. We obtained control of Baiyun Technician College in August 2017. See the section headed “History, Reorganisation and Corporate Structure – Obtaining Control of Baiyun Technician College”. Going forward, we will no longer receive any consultancy fee income from Baiyun Technician College, and the financial statements of Baiyun Technician College will be consolidated into our Group’s.

OUR SCHOOL MANAGEMENT

As disclosed in the sections headed “Business – Inter-School Cooperation” “History, Reorganisation and Corporate Structure – Inter-School Cooperation”, our schools have a long history of inter-school cooperation and sharing of arrangements in terms of academic affairs, teaching, student recruitments and employment resources, from which we have acquired the capability to implement a comprehensive, efficient and centralised management function. Leveraging our experience accumulated over the years, we believe we will be well-positioned to implement the following centralised management functions through our WFOE and the Contractual Arrangements going forward:

- Curriculum development: a centralised curriculum development to coordinate the development and improvement of curricula to reflect the development trend of the higher education industry both in China and internationally;
- Student recruitment: a unified student recruitment and marketing network to be responsible for our student recruitment and marketing across all provinces, municipalities and autonomous regions in China;
- Career services: sharing of employment or internship information and resources among our schools to benefit our students with employment or internship opportunities;
- International courses sharing: International courses offered or to be offered at any of our schools, including University of Science and Technology we established in the United States, will accept across-registration by students from all our schools subject to applicable approvals; and
- Teacher training: centralising the teacher development with a view to building up a systematic training to our teachers to enhance their teaching ability and skills.

For the purpose of implementing the above management functions, our WFOE was set up initially with over 30 personnel with various professional backgrounds, including education, legal and compliance, business administration and accounting and finance. We believe that, by leveraging the experience of inter-school cooperation and sharing arrangements, we are well-positioned to develop a centralised management system for more efficient utilisation of resources and implementation of consistent strategies with a view to replicating this scalable business model to the new schools that may be included in our Group going forward.

At school level, each of our schools is managed on a day-to-day basis by its president, who is assisted by several vice presidents responsible for one or more specific aspects of our schools’ operations. The board of director of each of our respective schools is responsible for the overall management and decisions on matters that are significant to each of our schools. We believe this management system allows us to maximise the capabilities of our teachers and administrative personnel to enhance the quality of education we provide and promote students’ well-being.

In addition, counsellors (輔導員) are appointed to serve as a bridge between students and colleges. Counsellors are students’ primary contact for questions and concerns they may encounter in their school life. Apart from providing support and guidance to students, counsellors are also responsible for educating students on the

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various rules formulated by our schools and colleges. Counsellors also regularly inspect the student dormitories to ensure orderly, safe, clean and healthy living conditions for our students and help students with social and behavioural issues. As of 31 August 2017, we have a team of 184 counsellors in Jiangxi University of Technology, 80 in Guangdong Baiyun University and 31 in Baiyun Technician College.

To promote operational efficiency and to reduce management costs, we place emphasis on the use of automated information systems that cover different aspects of our school management, teaching activities and student affairs. For example, Jiangxi University of Technology accepts payment of tuition fees through online payment platforms. In the 2016/2017 school year, more than 80% of the students in Jiangxi University of Technology effected payment of the tuition fees through the online payment platforms. Our schools also provide students with convenient services through a mobile platform where students may manage their new student enrolment process and be notified of various information relating to their campus life.

CAMPUS SERVICES

We provide a series of campus services to our students. Meal catering services and medical care services are two major services.

Meal Catering Services

We either operate meal catering services by ourselves or cooperate with catering services providers, who are all Independent Third Parties, for such services. In the case of cooperation with Independent Third Parties, we typically enter into cooperation agreements with a term ranging from one year to five years with such catering providers, setting forth the key terms of the cooperation. Under such arrangements, we provide premises required to the catering providers in return for a management fee. We generally expect catering providers to obtain relevant licences and permits required by the applicable laws and regulations. As advised by our PRC Legal Adviser, for the meal catering services provided by ourselves, we have obtained all material licences and permits required by the applicable laws and regulations. To ensure the food quality and safety, the meal catering services committee oversees the meal catering services and regularly inspect the daily operation of the dining halls at each school. For risks associated with meal catering services, see “Risk Factors – Risks Relating to Our Business and Our Industry – We could be liable and suffer reputational harm if a third-party service provider provides inferior food catering services harming our students, which may have a material adverse effect on our business and reputation.”

Medical Care Services

We operate medical centres in each of our schools and provide medical care services to our students. As advised by our PRC Legal Adviser, we have obtained all material licences and permits required for operating medical centres by the applicable laws and regulations. In certain serious and emergency medical situations, we will send our students to local hospitals for treatment. In addition to medical care services, on-campus psychological counselling service is also available at our schools. The counselling service provides support for our students and helps them overcome any difficulty or concern, whether it is related to study, future career or personal matters, they may be experiencing, develop emotional resilience and enable them to fulfil their academic and personal potential.

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

On 7 November 2016, the Decision on Amending the Law for Promoting Private Education of the PRC was approved by the Standing Committee of the National People's Congress, which became effective on 1 September 2017. It has made certain amendments to the Law for Promoting Private Education. According to the decision, sponsors of private schools can choose to establish schools as non-profit or for-profit entities, with the exception of schools providing compulsory education, which can only be established as non-profit entities. The following table sets forth key differences between a for-profit private school and a non-profit private school under the Decision on Amending the Law for Promoting Private Education:

Item	For-profit private school	Non-profit private school
Receipt of operating profits	Sponsors are allowed to receive operating profits, and the surplus from operations shall be handled in accordance with the provisions of the PRC Company Law and other laws and regulations	Sponsors are not allowed to receive operating profits, and all surplus from operations shall be used for the operation of the school
Licences and registration	Private school operating licences, business licences	Private school operating licences and legal person certificate of private non-enterprise/the legal person certificate of public institution
Fees to be charged	Determined based on school operating costs and market demands, and no prior regulatory approval is required	Determined pursuant to the fee charge regulations to be promulgated by the local governments
Tax treatment	Preferential tax treatment as stipulated by the State	Same preferential tax treatment as public schools
Land	Acquired either through land allocation or land transfer	Acquired through land allocation
Public funding	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused State-owned assets	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused State-owned assets, and government grants, incentive funds and donations
Liquidation	Liquidated in accordance with the provisions of the PRC Company Law. Sponsors can obtain the school's remaining assets after the settlement of the school's indebtedness	For schools established before the promulgation of the decision, if there are still remaining school assets after the settlement of school's indebtedness, such assets shall be used continuously for the operation of non-profit school. School sponsor can apply for compensation or rewards which shall be decided based on a number of factors

However, the Decision on Amending the Law for Promoting Private Education is silent on the specific measures regarding how existing private schools can choose to become for-profit private schools or non-profit private schools, which, according to the decision, shall be regulated by the corresponding laws and regulations to be promulgated by the local government authorities. As of the Latest Practicable Date, however, the local government authorities in Guangdong and Jiangxi provinces have not yet promulgated the corresponding detailed laws and regulations regarding the conversion of existing private schools into for-profit private schools or non-profit private schools.

In addition to the Decision on Amending the Law for Promoting Private Education, State-level government authorities also issued certain implementing rules. On 30 December 2016, five State-level government departments, including the MOE, jointly issued the *Implementing Measures on Classification Registration of Private Schools* (《民辦學校分類登記實施細則》) (the “**Classification Registration Rules**”) without stipulating any definite time for their effectiveness. The Classification Registration Rules stipulates that if an existing private school chooses to register as a non-profit private school, it shall amend its articles of association in accordance with the relevant laws, continue its school operation and complete the new registration formalities. If an existing private school chooses to register as a for-profit private school, it shall make financial settlement, clarify the ownership of the schools’ land, buildings and accumulations with the consent of the relevant departments of the people’s governments at or below the provincial level, pay relevant taxes and fees, obtain new school operation licences, apply for re-registration and continue the school operations. The Classification Registration Rules also stipulates that the provincial people’s government shall be responsible for formulating the detailed measures on the alteration of the registration of the private schools in accordance with national laws and various applicable local circumstances. There are also other State-level regulations, such as the *Implementing Measures for the Supervision and Administration of For-profit Private Schools* (《營利性民辦學校監督管理實施細則》), which was published on 30 December 2016 and sets forth detailed measures regarding the establishment, modification and termination of a for-profit private school, education and teaching related activities carried out by and financial management of a for-profit private school, and the Notice of the State Administration for Industry and Commerce and the Ministry of Education on the Registration and Administration of the Name of For-Profit Private School 《工商總局、教育部關於營利性民辦學校名稱登記管理有關工作的通知》. For further details, see “Regulations – Regulations on Private Education in the PRC – the Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education.”

As a result of the foregoing analysis, there are uncertainties regarding the interpretation and application of the Decision on Amending the Law for Promoting Private Education with respect to various aspects of the operations of private schools, such as (i) procedures to be undergone for private schools to become for-profit private schools or non-profit private schools, (ii) respective preferential tax treatment which may be enjoyed by for-profit private schools and non-profit private schools, and (iii) extra costs for-profit private schools may incurred. Accordingly, as of the Latest Practicable Date, we were not able to accurately quantify the potential impact on our business operations at the current stage. Due to such uncertainties and the lack of detailed measures promulgated by Jiangxi and Guangdong provinces in relation to the implementation of the Decision on Amending the Law for Promoting Private Education and its related regulations, as of the Latest Practicable Date, the schools of our Group had not yet chosen to register either as a for-profit private school or a non-profit private school under Decision on Amending the Law for Promoting Private Education and Classification Registration Rules. Our PRC Legal Adviser is of the opinion that, since the

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Decision on Amending the Law for Promoting Private Education and its related regulations do not specify any clear deadline for existing private schools to carry out such registrations, each of Guangdong Baiyun University, Baiyun Technician College and Jiangxi University of Technology would not violate the Decision on Amending the Law for Promoting Private Education and its related regulations for not choosing the type of registration at the current stage. For risks associated with the Decision on Amending the Law for Promoting Private Education and new regulations in general that may impact our industry and/or our schools, see “Risk Factors – Risks Relating to Our Business and Our Industry.”

With a view to understanding the impact of the Decision on Amending the Law for Promoting Private Education on Guangdong Baiyun University, particularly with respect to the renewal process of its private school operating licence, on 31 October 2017 we consulted the Education Department of Guangdong Province (廣東省教育廳) (the competent authority supervising the operations of Guangdong Baiyun University). Guangdong Baiyun University is currently in the process of renewing its private school operating licence that is due to expire in December 2017. During the consultation, we were given to understand that (i) the renewal process of the private school operation licence is similar to past practice; (ii) Guangdong Baiyun University is not required to choose to register as a for-profit private school or a non-profit private school during its licence renewal process; and (iii) the new private school operating licence of Guangdong Baiyun University is expected to be issued in December 2017 provided that the necessary application materials for licence renewal have been submitted.

In addition, we were also advised by the Education Department of Guangdong Province that, since Guangdong Baiyun University is unable to choose the type of registration at the current stage due to the lack of detailed implementation measures in Guangdong province, (i) Guangdong Baiyun University will be deemed as a non-profit private school for the time being; (ii) Guangdong Baiyun University will not be required to make amendments to the school’s articles of association; (iii) Guangdong Baiyun University can choose to register either as a for-profit private school or a non-profit private school in accordance with the implementation rules to be promulgated by Guangdong province; and (iv) Guangdong Baiyun University can continue to carry out its existing school operations as usual before the detailed implementation measures are promulgated by government authorities in Guangdong province.

With a view to understanding the impact of the Decision on Amending the Law for Promoting Private Education on Baiyun Technician College, particularly with respect to the renewal process of its private school operating licence, on 14 November 2017, we consulted the Guangzhou Human Resources and Social Security Bureau (廣州市人力資源和社會保障局) (the competent authority supervising the operations of Baiyun Technician College). The private school operating licence of Baiyun Technician College is due to expire in August 2020. During the consultation, we were given to understand that (i) prior to the promulgation of the detailed measures implementing the Decision on Amending the Law for Promoting Private Education by the relevant authorities of Guangdong province, Baiyun Technician College will not be required to choose to register as a for-profit private school or a non-profit private school, and its operations will not be subject to any material change; (ii) it is currently uncertain whether Baiyun Technician College will be required to register as a for-profit private school or a non-profit private school upon renewal of its private school operating licence. If the detailed implementation measures have been promulgated at the time of the licence renewal, the renewal process will be subject to such measures. Otherwise, instructions from the provincial government should be sought; (iii) the ability of Baiyun Technician College to operate as a private school will not generally be affected by not choosing to

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register as a for-profit private school or a non-profit private school at the current stage; (iv) the requirement to amend the school's articles of association will be subject to the detailed implementation measures, or prior to the promulgation of such measures, the policies of the provincial government and bureaus; and (v) in the event that the detailed implementation measures have not been promulgated at the time Baiyun Technician College renews its private school operating licence, and Baiyun Technician College is unable to register as a for-profit private school or a non-profit private school, its operations shall maintain the status quo.

With a view to understanding the impact of the Decision on Amending the Law for Promoting Private Education on Jiangxi University of Technology, particularly with respect to the renewal process of its private school operating licence, on 13 November 2017, we consulted the Education Department of Jiangxi Province (the competent authority supervising the operations of Jiangxi University of Technology). Jiangxi University of Technology is currently in the process of renewing its private school operating licence that is due to expire in 2018. During the consultation, we were given to understand that (i) prior to the promulgation of the detailed measures implementing the Decision on Amending the Law for Promoting Private Education by the relevant authorities of Jiangxi province, Jiangxi University of Technology will not be required to choose the type of registration; (ii) if Jiangxi University of Technology does not choose the type of registration before the promulgation of such detailed measures, it will be deemed as a non-profit private school, its current school operations will not be affected, and its article of association will not be required to be amended; and (iii) if the renewal of its private school operation licence occurs prior to the promulgation of such detailed measures, the renewal process will be similar to past practice and Jiangxi University of Technology will not be required to choose the type of registration during the renewal process.

With a view to understanding the impact of the Decision on Amending the Law for Promoting Private Education on our schools from the PRC tax perspective, on 13 November 2017 and 14 November 2017, we consulted Guangdong Province Guangzhou Baiyun District Bureau of Local Taxation (廣東省廣州市白雲區地方稅務局) (which, as advised by our PRC Tax Consultant, is the competent tax authority with respect to Guangdong Baiyun University and Baiyun Technician College) and Jiangxi Province Nanchang Qingshan Lake District Bureau of Local Taxation (江西省南昌市青山湖區地方稅務局) (which, as advised by our PRC Tax Consultant, is the competent tax authority with respect to Jiangxi University of Technology), respectively. During the consultations, we were given to understand that (i) the new tax laws and regulations relating to the Decision on Amending the Law for Promoting Private Education were not yet available; (ii) due to the lack of detailed measures implementing the Decision on Amending the Law of Promoting Private Education and the relevant tax laws and regulations, at the current stage, the tax treatment for private schools follows existing tax regulations and practice; and (iii) at the current stage, the non-profit income (非營利性收入) of our schools is still entitled to non-taxable enterprise income tax treatment. On 1 December 2017, our PRC Tax Consultant consulted Guangdong Province Guangzhou Baiyun District Bureau of Local Taxation and Jiangxi Province Nanchang Qingshan Lake District Bureau of Local Taxation. As confirmed by our PRC Tax Consultant, during such consultations, the relevant officials have confirmed our understanding set out above.

We are closely monitoring the development of the regulatory environment in Guangdong and Jiangxi provinces and will select the type of registration after detailed measures are promulgated by the relevant authorities in Guangdong and Jiangxi provinces addressing the uncertainties regarding the interpretation and application of the Decision on Amending the Law for Promoting Private Education and the related regulations.

COMPETITION

The educational services market in China is rapidly evolving, highly fragmented and competitive. We face competition primarily from public schools and other private higher education institutions in China. We also compete directly with public and other private higher education institutions in Jiangxi province and Guangdong province, where we operate our schools. We believe our principal competitive advantages include, among others:

- the reputation of each of our schools;
- our extensive operating experience;
- the effectiveness and completeness of our educational and practical training-focussed programmes;
- the high employment rate of our graduates and the extensiveness of the career planning guidance we provide;
- the scope and quality of our education programmes, services and major offerings;
- the abundance of internship, practice and training opportunities we are able to provide to our students;
- our cooperation with overseas schools to obtain high-quality educational resources;
- overall student experience and satisfaction;
- students' academic performance; and
- our ability to attract and retain highly qualified teachers.

We expect the competition in the private education market to persist and intensify. We believe we are able to compete effectively due to our strong reputation and established programmes. Our large size of student enrolment also enables us to compete effectively by achieving economies of scale. We had over 50,000 students as of 31 August 2017. According to Frost & Sullivan, we are among the few private higher education groups in China with an ultra-large student body of over 50,000. Upon the Listing, we expect that we will become the largest education group listed on the Stock Exchange in terms of student size. However, some of our existing and potential competitors, especially public schools, have governmental support in the form of government subsidies and other payments or fee reductions. Our competitors may devote greater resources, financial or otherwise, than we can to student recruitment, campus development and brand promotion, and may respond more quickly than we can to changes in student demands and market needs. See the sections headed "Risk Factors – Risks Relating to Our Business and Our Industry – We face intense competition from existing players and industry consolidation in the PRC higher education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures," "Industry Overview – Competitive Landscape of the Private Higher Education Industry in China" and "Industry Overview – Competitive Landscape of the Private Technical School Industry in China" for more information.

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CUSTOMERS AND SUPPLIERS

Our customers are primarily our students. We did not have any single customer who accounted for more than 5% of our revenue for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017.

Our suppliers primarily comprise book suppliers, teaching equipment vendors, human resources services providers, equipment and materials vendors. For the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, purchases from our five largest suppliers amounted to RMB27.5 million, RMB31.2 million, RMB23.7 million and RMB3.1 million, respectively, which represented 6.7%, 7.5%, 5.9% and 1.9% of our total cost of revenue in the same period. During the same periods, purchases from our largest supplier amounted to RMB11.6 million, RMB8.7 million, RMB7.0 million and RMB0.7 million, respectively, which represented 2.8%, 2.1%, 1.7% and 0.4% of our total cost of revenue in the same period. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date. Guangzhou Yuntao Education Technology Company Limited (廣州雲濤教育科技有限公司), one of our top five suppliers during the year ended 31 December 2016, had been owned as to 70% by Ms. Xie Shaohua (our executive Director) and as to 30% by the spouse of Mr. Xie (our executive Director and a Controlling Shareholder) until May 2017, when they disposed their equity interests to Independent Third Parties.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we owned 1,142 patents, 99 software copyrights, three trademarks and two trademark registration applications in the PRC. In addition, as of the Latest Practicable Date, we had made four trademark registration applications in Hong Kong. As of the Latest Practicable Date, we owned 40 domain names. As of the Latest Practicable Date, we had no copyrights or patents which we consider to be or may be material to our business, results of operations or financial condition. See the section headed “Appendix V – B. Further Information about our Business – 2. Intellectual property rights” for more information.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement claims that had any material impact on our Group. See the section headed “Risk Factors - Risks Relating to Our Business and Our Industry – We may face disputes from time to time relating to the intellectual property rights of third parties” for the risks that we may face in this respect.

We carry on business in Hong Kong under “ChinaEdu 中教常春藤” which is different from our name “China Education Group Holdings Limited 中國教育集團控股有限公司” due to a third-party company having the same name that already exists in the index of company names kept by the Registrar of Companies in Hong Kong. To minimise the possible risks arising from potential trademark infringement and/or passing off claims and any application for interlocutory injunctive relief based on such claims, we have resolved to adopt the following mitigating measures:

- (i) We carry on business in Hong Kong under the name “ChinaEdu 中教常春藤” as approved by and registered with the Registrar of Companies in Hong Kong;
- (ii) We will adopt measures (such as putting prominent notices on the website of our Company) to ensure that our Company is properly referred to as a Cayman Islands incorporated company carrying on business in Hong Kong as “ChinaEdu 中教常春藤”.

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For more information, see the section headed “History, Reorganisation and Corporate Structure.”

AWARDS AND RECOGNITIONS

We have received numerous awards and recognitions since our establishment in recognition of the quality of education we provide and the outstanding achievements of our students. The following table sets forth some of the awards and recognition we have received:

Year	Award/Accreditation	Awarding Organisation(s)	Awarded Entity
2002	Outstanding National Professional Education Institution (全國職業教育先進單位)	MOE, MOHRSS, State Economic and Trade Commission	Jiangxi University of Technology
2002	Outstanding National Professional Education Institution (全國職業教育先進單位)	MOE, MOHRSS, State Economic and Trade Commission	Baiyun Technician College
Ten consecutive years from 2005 to 2014	Ranked No. 1 in terms of overall competitive strengths among top 10 private universities and colleges in Guangdong province (廣東高等教育院校(民辦)競爭力10強第一名)*	Guangdong Provincial Academy of Social Sciences and Guangdong General Survey and Research Centre	Guangdong Baiyun University
2004	National Youth Entrepreneurship Training Base (全國青年創業培訓基地)	Central Committee of the Communist Youth League	Baiyun Technician College
Seven consecutive years from 2008 to 2014	Ranked No. 1 in terms of educational competitive strengths among technical schools in Guangdong province (廣東技工教育競爭力20強第一名)*	Guangdong Provincial Academy of Social Sciences and Guangdong General Survey and Research Centre	Baiyun Technician College
From 2009 to present	Ranked No. 1 in terms of overall competitive strengths in the Private University and College Ranking of China (中國民辦院校綜合競爭力排行榜第一名)	China Scientific Evaluation Research Centre and China Education Quality Evaluation Centre of Wuhan University in association with nseac.com	Jiangxi University of Technology
2009	National Outstanding Organisation in Higher Education Graduates Employment Affairs (全國普通高校畢業生就業工作先進集體)	MOE	Guangdong Baiyun University
2011	National Outstanding Private Enterprise for Employment and Social Security (全國就業與社會保障先進民營企業)	MOHRSS, All-China Federation of Trade Union and All-China Federation of Industry and Commerce	Jiangxi University of Technology
2015	National Outstanding Social Organisation (全國先進社會組織)	Ministry of Civil Affairs	Jiangxi University of Technology

Note:

* So far as our Directors are aware, there is no public disclosure of such ranking from 2015 onwards.

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EMPLOYEES

We had 4,104 employees as of 31 December 2014, 4,142 as of 31 December 2015, 3,975 as of 31 December 2016 and 3,784 as of 30 June 2017, respectively. After obtaining control of Baiyun Technician College on 14 August 2017, the number of our employees increased to 4,617. Substantially all of our employees are located in Jiangxi and Guangdong provinces. The following table sets forth the total number of employees by function after the obtaining control of Baiyun Technician College as of 31 August 2017, the end of the 2016/2017 school year:

<u>Function</u>	<u>Number of Employees</u>	<u>% of Total</u>
Executive Directors and senior management	6	0.1%
Teachers ⁽¹⁾	3,520	76.2%
Teaching support staff	119	2.6%
Administrative staff	485	10.5%
Accounting and internal control staff	36	0.8%
Campus security staff	87	1.9%
Other staff ⁽²⁾	364	7.9%
Total	4,617	100.0%

Notes:

- (1) Including 295 teachers who also serve as counsellors and 208 part-time teachers.
- (2) Other staff mainly include logistic service staff.

Each of our schools has established a labour union and our employees may join the labour union of their respective school voluntarily. As confirmed by our Directors, during the Track Record Period, we had not experienced any material labour dispute.

As required by the PRC laws and regulations, we are required to participate in the employee social welfare plan administered by local governments. Such plan consists of housing provident fund, pension, medical insurance, social insurance, maternity insurance and unemployment insurance. According to relevant PRC laws and regulations, the amount we are required to contribute for each of our employees under such plan should be calculated based on the employee's actual salary level of previous year, and be subject to a minimum and maximum level as from time to time prescribed by local authorities.

Our PRC Legal Adviser advises us that (i) for overdue contributions prior to the effectiveness of the Social Insurance Law of the PRC on 1 July 2011, relevant authorities may require us to pay the outstanding amount within a prescribed time limit, and if we fail to make the overdue contributions within such time limit, an additional late payment penalty at daily rate of 0.2% of the outstanding amount may be imposed; and (ii) for overdue contributions after 1 July 2011, relevant authorities may require us to pay, within a prescribed time limit, the outstanding amount with an additional late payment penalty at the daily rate of 0.05%, and if we fail to make the overdue contributions within such time limit, a fine equal to one to three times the outstanding amount may be imposed.

Our PRC Legal Adviser advises us that pursuant to the Regulations on the Management of Provident Fund, an employer shall make full contribution to the housing provident fund on a timely manner and shall not make overdue contribution or inadequate contribution. If an employer does not make such contribution when it is due or makes inadequate contribution to the housing provident fund, the relevant housing provident management centre shall order such employer to make supplemental contributions within stipulated period. If such employer does not make such contributions within the stipulated period, an enforcement application can be made to the people's court.

Jiangxi University of Technology

Social insurance

During the Track Record Period, Jiangxi University of Technology had made contributions to the social insurance plan for its employees based on a standard accepted by the local authorities, instead of the actual salary level of the employees as prescribed by relevant PRC laws and regulations.

Nanchang Social Insurance Management Centre (南昌市社會保險管理中心) issued a certifying letter confirming that it is the competent authority for issuing such letter and even though Jiangxi University of Technology had not made contributions to the social insurance plan based on the actual salary level of its employees, they accepted the basis on which Jiangxi University of Technology had made contributions to the social insurance plan.

In June 2017, our PRC Legal Adviser consulted the Nanchang Social Insurance Management Centre, which confirmed that (i) it did not find any violation of laws and regulations by Jiangxi University of Technology in terms of social insurance registration and the making of contributions; and (ii) it will not impose penalty or compel Jiangxi University of Technology to make supplementary contributions for not making contributions to the social insurance plan based on the actual salary level of its employees.

Our Directors confirm that as of the Latest Practicable Date, Jiangxi University of Technology had never received any written notice from social insurance authorities requiring the university to make contributions within a stipulated time period or make supplementary contributions. We undertake in the event that competent social insurance authorities require Jiangxi University of Technology to make contributions within a stipulated time period or make supplementary contributions and overdue fine, we will ensure the university will duly comply on a timely manner.

Based on the above, our PRC Legal Adviser is of the view that (i) Nanchang Social Insurance Management Centre is the competent authority to issue such certifying letter and to provide such confirmations during the interview, and (ii) the risk of Nanchang Social Insurance Management Centre initiating any actions to compel Jiangxi University of Technology to make supplementary contributions to the social insurance plan and imposing any fine on Jiangxi University of Technology is remote.

Jiangxi University of Technology employs foreign teachers from time to time. As advised by our PRC Legal Adviser, PRC entities are required under the Tentative Measures on Participation in Social Insurance of Foreigners Employed in China (在中國境內就業的外國人參加社會保險暫行辦法) to make social insurance contributions for the foreigners under their employment. As of the Latest Practicable Date, Jiangxi University

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of Technology did not make social insurance contributions for seven foreign teachers. The aggregate amount of contribution that Jiangxi University of Technology had not made for foreign teachers was less than RMB0.1 million for each of the three years ended 31 December 2016 and the six months ended 30 June 2017, respectively. Although our PRC Legal Adviser advises that there may be consequences of such non-compliance, our Directors do not consider that such non-compliance will have any material adverse effect on our financial position given the small number of foreign teachers involved and the insignificant amounts of social insurance contribution concerned.

Housing provident fund

During the Track Record Period, Jiangxi University of Technology had not made contributions to the housing provident fund for some of its employees, and had not made such contributions based on the actual salary level of the employees as prescribed by relevant PRC laws and regulations.

Nanchang Housing Provident Fund Management Centre (南昌住房公積金管理中心) issued a certifying letter confirming that as of the date of the certifying letter, Jiangxi University of Technology had been in compliance with relevant laws and regulations relating to housing provident fund and had not been subject to any penalty due to any violation of relevant laws and regulations relating to housing provident fund.

In June 2017, our PRC Legal Adviser consulted the Nanchang Bureau of Housing Security and Real Estate Management (南昌市住房保障和房產管理局), which confirmed that (i) as of the date on which the interview was conducted, it had not found any violation of laws and regulations relating to the registration of and the making of contribution to the housing provident fund by Jiangxi University of Technology; and (ii) Jiangxi University of Technology will not be penalised or ordered to make supplementary contributions for not making contributions for certain of its employees or for making contributions based on a standard that is higher than the minimum required even though it was not based on the actual salary level of its employees as prescribed by relevant PRC laws and regulations.

Our Directors confirm that as of the Latest Practicable Date, Jiangxi University of Technology had never received any written notice from the competent housing provident fund authorities ordering the university to make contribution within a stipulated period or make supplementary contributions. We undertake in the event that competent housing provident fund authorities inform Jiangxi University of Technology to make contribution within a stipulated time period or make supplementary contributions and pay overdue fine, we will ensure the university will duly comply on a timely manner.

Based on the above, our PRC Legal Adviser is of the view that (i) Nanchang Housing Provident Fund Management Centre is the competent authority to issue such letter and to make such confirmations, and (ii) the risk of Nanchang Housing Provident Fund Management Centre initiating any actions to compel Jiangxi University of Technology to make supplementary contributions to the housing provident fund and imposing any fine on Jiangxi University of Technology is remote.

Guangdong Baiyun University and Baiyun Technician College

Social insurance

During the Track Record Period, Guangdong Baiyun University and Baiyun Technician College had not made contributions to the social insurance plan for some of their employees, and had not made such contributions based on the actual salary level of the employees as prescribed by relevant PRC laws and regulations.

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In August 2017, our PRC Legal Adviser consulted the Guangzhou Human Resources and Social Security Bureau (廣州市人力資源和社會保障局), which confirmed that (i) it did not find violation of PRC laws and regulations in relation to the social insurance by Guangdong Baiyun University and Baiyun Technician College in the past three years; (ii) the percentage of the contributions and the basis for making such contributions by Guangdong Baiyun University and Baiyun Technician College are in compliance with the PRC laws and regulations in relation to the social insurance; (iii) if a relevant complaint is received, it will request Guangdong Baiyun University or Baiyun Technician College (as the case may be) to comply with the applicable requirements, but will unlikely impose any penalty provided that the relevant school proactively adopts remedial measures; and (iv) as of the date of the interview, neither Guangdong Baiyun University nor Baiyun Technician College had been investigated, penalised or ordered to make supplementary contributions due to the entities' violation of PRC laws and regulations in relation to the social insurance.

Guangdong Baiyun University and Baiyun Technician College confirm that (i) in July 2017, they voluntarily adjusted the basis of making contributions to the social insurance plan for the employees, which have since covered all employees and conformed to the standard required by the PRC and local laws and regulations; and (ii) as of the Latest Practicable Date, they had never received any written notice from any competent social insurance authority ordering them to make contributions within any stipulated period or make supplementary contributions. We undertake to make contributions or make supplementary contributions should Guangdong Baiyun University or Baiyun Technician College receive any such request from any competent social insurance authority.

Based on the above, our PRC Legal Adviser is of the view that (i) Guangzhou Human Resources and Social Security Bureau is the competent authority to make such confirmations; and (ii) the risk of Guangzhou Human Resources and Social Security Bureau initiating any actions to compel Guangdong Baiyun University or Baiyun Technician College to make supplemental contributions to the social insurance plan and imposing any fine on Guangdong Baiyun University or Baiyun Technician College is remote.

Guangdong Baiyun University employs foreign teachers from time to time. As advised by our PRC Legal Adviser, PRC enterprises are required under the Tentative Measures on Participation in Social Insurance of Foreigners Employed in China (在中國境內就業的外國人參加社會保險暫行辦法) to make social insurance contributions for the foreigners under their employment. As of the Latest Practicable Date, Guangdong Baiyun University did not make social insurance contributions for eight foreign teachers. The aggregate amount of contribution that Guangdong Baiyun University did not make for foreign teachers was approximately RMB0.2 million, RMB0.2 million, RMB0.1 million and RMB0.1 million for each of the three years ended 31 December 2016 and the six months ended 30 June 2017, respectively. Although our PRC Legal Adviser advises that there may be consequences of such non-compliance, our Directors do not consider that such non-compliance will have any material adverse effect on our financial position given the small number of foreign teachers involved and the insignificant amounts of social insurance contribution concerned.

Housing provident fund

During the Track Record Period, Guangdong Baiyun University and Baiyun Technician College had not made contributions to the housing provident fund for some of their employees, and had not made such contributions based on the actual salary level of the employees as prescribed by relevant laws and regulations.

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In August 2017, our PRC Legal Adviser consulted Guangzhou Housing Provident Fund Management Centre (廣州住房公積金管理中心), which confirmed that (i) it did not find violation of PRC laws and regulations in relation to the housing provident fund by Guangdong Baiyun University and Baiyun Technician College in the past three years; (ii) the percentage of the contributions by Guangdong Baiyun University and Baiyun Technician College is in compliance with the PRC laws and regulations in relation to the housing provident fund; (iii) if a relevant complaint is received, it will request Guangdong Baiyun University or Baiyun Technician College (as the case may be) to comply with the applicable requirements, but will unlikely impose any penalty provided that the relevant school proactively adopts remedial measures; and (iv) as of the date of the interview, neither Guangdong Baiyun University nor Baiyun Technician College had been investigated, penalised or ordered to make supplementary contributions due to non-compliance with PRC laws and regulations in relation to the housing provident fund.

Guangdong Baiyun University and Baiyun Technician College confirm that (i) in July 2017, they voluntarily adjusted the basis of making contributions to the housing provident fund for the employees, which have since covered all employees and conformed to the standard required by the PRC and local laws and regulations; and (ii) as of the Latest Practicable Date, they had never received any written notice from any competent housing provident fund authority ordering them to make contributions within any stipulated period or make supplementary contributions. We undertake to make contributions or make supplementary contributions should Guangdong Baiyun University or Baiyun Technician College receive any such request from any competent housing provident fund authority.

Based on the above, our PRC Legal Adviser is of the view that (i) Guangzhou Housing Provident Fund Management Centre is the competent authority to make such confirmations; and (ii) the risk of Guangzhou Housing Provident Fund Management Centre initiating any actions to compel Guangdong Baiyun University or Baiyun Technician College to make supplemental contributions to the housing provident fund and imposing any fine on Guangdong Baiyun University or Baiyun Technician College is remote.

For the reasons outlined above, our Directors are of the view that these non-compliances will not have a material adverse impact on our overall business operations or financial conditions. We have implemented additional internal control measures to ensure our compliance with relevant social insurance and housing provident fund laws and regulations, details of which are set out in “Business – Internal Control and Risk Management – Internal Control.”

PROPERTIES

As of the Latest Practicable Date, we (i) owned parcels of land with a total site area of approximately 1.7 million sq.m. and buildings with a total GFA of approximately 919,444.37 sq.m. in the PRC; and (ii) leased properties with a total GFA of approximately 44,686.74 sq.m. from Independent Third Parties. All of these properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. See the section headed “Property Valuation Report” in Appendix III for a valuation report of our owned properties prepared by Cushman & Wakefield Limited.

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Owned Properties

Land

The following table sets forth a summary of our land use rights as of the Latest Practicable Date:

No.	Land Use Right Owner	Location	Site Area (sq.m.)	Permitted Use	Expiration Date	Current Status	Land Use Right Certificate
1.	Jiangxi University of Technology	Nanchang, Jiangxi province	796,214.50	Science and education (科教用地)	No expiration date*	Occupied	Obtained
2.	Jiangxi University of Technology	Nanchang, Jiangxi province	293,412.60	Education (教育用地)	No expiration date*	Occupied	Obtained
3.	Jiangxi University of Technology	Nanchang, Jiangxi province	42,985.20	Education (教育用地)	No expiration date*	Occupied	Obtained
4.	Jiangxi University of Technology	Nanchang, Jiangxi province	47,202.00	Education (教育用地)	No expiration date*	Occupied	Obtained
5.	Jiangxi University of Technology	Nanchang, Jiangxi province	93,333.00	Science and education (科教用地)	1 April 2064	Occupied	Obtained
6.	Guangdong Baiyun University	Guangzhou, Guangdong province	115,335.45	Public buildings (公共建築)	No expiration date*	Occupied	Obtained
7.	Guangdong Baiyun University	Guangzhou, Guangdong province	8,000.04	Industrial use (工業用地)	10 January 2058	Occupied	Not obtained ⁽¹⁾
8.	Guangdong Baiyun University	Guangzhou, Guangdong province	20,218.00	Commercial residence (商業住宅)	11 August 2063	Occupied	Not in our possession ⁽²⁾
9.	Guangdong Baiyun University	Guangzhou, Guangdong province (The Zhongluotan Land)	188,666.00	Science and education (科教用地)	No expiration date*	Occupied	Obtained ⁽³⁾
10.	Baiyun Technician College [†]	Guangzhou, Guangdong province	6,187.00	School (學校)	No expiration date*	Occupied	Obtained ⁽⁴⁾
11.	Baiyun Technician College [†]	Guangzhou, Guangdong province	23,811.08	School (學校)	No expiration date*	Occupied	Obtained ⁽⁴⁾
12.	Baiyun Technician College [†]	Guangzhou, Guangdong province	13,608.42	School (學校)	No expiration date*	Occupied	Obtained ⁽⁴⁾

Notes:

* We acquired the land use rights of these parcels of land through allocation (劃撥). According to the relevant laws and regulations, land use rights obtained through such means have no expiration date.

† We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017.

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- (1) We entered into a land use rights transfer agreement with the local government with respect to this parcel of land. The building situated on this parcel of land is being used by Baiyun Technician College as a student dormitory. As of the Latest Practicable Date, we have not obtained the land use right certificate for this parcel of land because, based on our Directors' understanding, the relevant land resources and planning bureau had yet to approve its use. As advised by our PRC Legal Adviser, there is a legal risk of (i) us being required to return the illegally occupied land; (ii) us being confiscated the buildings and other facilities on the land; and (iii) us being imposed a fine of not more than RMB30 per sq.m.

Our PRC Legal Adviser had an interview with the Bureau of Land Resources and Planning of Baiyun District (白雲區國土資源和規劃局) with respect to this parcel of land. The relevant government official confirmed in the interview that (i) we can re-apply for the land use right certificate; (ii) the government authority currently has no plans to demolish the buildings erected on this parcel of land in the next two to three years while we re-apply for the land use right certificate; and (iii) we may continue to use the buildings on this parcel of land provided we can ensure they are safe. Based on this interview, our PRC Legal Adviser is of the view that the risk of us being required to return this parcel of land is remote.

Our Directors confirm that we are currently in discussions with the relevant parties with a view to applying for the land use right certificate as soon as practicable. Based on our Directors' current understanding of the processes involved, (i) barring unforeseen circumstances, we endeavour to obtain the land use certificate, where practicable, within the next two to three years; and (ii) we expect that the application for the land use right certificate will be primarily administrative and procedural in nature and do not expect to incur substantial costs. We expect that any costs in relation to this application will be funded from our operating cash flow.

We commissioned qualified Independent Third Parties to undertake a fire safety assessment and a seismic resistance assessment on the buildings we use on this parcel of land. The qualified Independent Third Parties were able to issue their respective assessment reports on the basis of their respective independent assessments conducted on the safety level of the relevant buildings. The relevant assessment reports did not identify any material safety issues and concluded the relevant buildings had passed the relevant safety assessments conducted.

Based on the above, our Directors consider that the lack of land use right certificate for this parcel of land would not have any material adverse effect on our operations as a whole. Notwithstanding the above, as a pre-emptive rectification measure we intend to implement a relocation plan for the existing operations of the buildings on this parcel of land. See “– Non-compliance with respect to the land and buildings of Guangdong Baiyun University and Baiyun Technician College” for further details.

- (2) We purchased a construction project comprising buildings already erected on this parcel of land from a developer that is an Independent Third Party. As advised by our PRC Legal Adviser, the relevant sale and purchase agreements are legal, valid and binding on the parties. However, as of the Latest Practicable Date, the developer had not effected the transfer of land use right certificate and building ownership certificates to us because our Directors consider that we are not in agreement with respect to the GFA of the relevant buildings that are subject to the sale and purchase, and therefore, the sale and purchase of such land and buildings has yet to be finally completed and we are not in possession of the land use right certificate for this parcel of land and building ownership certificates for the buildings situated on this parcel of land. We currently use the buildings on this parcel of land as dormitories for students and teachers. Our Directors confirm that we are in the process of liaising with the developer with a view to completing the relevant transfer procedures, where practicable. Our Directors consider that this is a contractual matter between the developer and Guangdong Baiyun University and thus, the fact that we are not in possession of the relevant land use right certificate and the building ownership certificates would not result in regulatory intervention that would have a material adverse effect on our operations as a whole.
- (3) We have obtained the land use right certificate and construction permit for the 1st phase of the site of the Zhongluotan Land with a site area of approximately 188,666 sq.m. The Zhongluotan Land is integral to the pre-emptive rectification measure that we intend to implement for the existing operations of certain buildings of Guangdong Baiyun University and Baiyun Technician College. We have obtained the construction permit with respect to a construction area of 101,074.6 sq.m. and have commenced the 1st phase construction of school buildings and facilities on the Zhongluotan Land. Barring unforeseen circumstances, our Directors anticipate

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campus operations on the Zhongluotan Land to commence as soon as the beginning of the 2018/2019 school year. For more information of our pre-emptive rectification measure, see “– Non-compliance with respect to the land and buildings of Guangdong Baiyun University and Baiyun Technician College”.

- (4) The land use rights of land nos. 10, 11 and 12 are registered under Guangzhou Baiyun College of Vocational Skills Training (廣州市白雲職業技能培訓學院) (“**College of Vocational Skills Training**”). In April 2004, the Bureau of Civil Affairs of Guangzhou Municipality (廣州市民政局) issued a notice approving the establishment of Baiyun Technician College, and College of Vocational Skills Training would be deregistered with all of its training business and assets to be transferred to Baiyun Technician College. As advised by our PRC Legal Adviser, subject to Baiyun Technician College completing the relevant procedures for transferring the land use right from College of Vocational Skills Training to Baiyun Technician College and obtaining the relevant certificates, Baiyun Technician College may use these parcels of land according to the conditions set out in such certificates. Our Directors consider that this is a procedural matter and would not have any material adverse effect on our use of the relevant parcels of land. Our Directors believe that, based on their current understanding of the processes involved and barring unforeseen circumstances, we may be able to effect the transfer in 2018.

Buildings

As of the Latest Practicable Date, we owned buildings in the PRC with a total gross floor area of approximately 919,444.37 sq.m. All of these buildings have been used for education-related purposes, such as classroom building, dormitory, canteen, clinic and recreational facilities for teachers and students.

Certain buildings owned and used by our schools do not have buildings ownership certificates due to the lack of construction project planning permit (建設工程規劃許可證), construction commencement permit (施工許可證) and acceptance inspection upon completion (竣工驗收) and/or due to having not passed fire control assessment as required under relevant PRC laws and regulations.

As advised by our PRC Legal Adviser, according to the relevant PRC laws and regulations generally,

- (i) with respect to failure to obtain the construction project planning permit, (a) in the event that remedial measures can be adopted to eliminate any impact on the government’s city planning implementation, we are subject to the risk of being required to adopt such remedial measures within a given time limit and being fined 5% to 10% of the construction costs; or (b) in the event that no remedial measures can be adopted to eliminate such impact on the government’s city planning implementation, we are subject to the risk of being ordered to demolish the relevant buildings within a given time limit (or if demolition is not possible, the confiscation of such buildings or the relevant illegal income) and being fined not more than 10% of the construction costs;
- (ii) with respect to failure to obtain construction commencement permit, we are subject to the risk of being required to adopt remedial measures within certain time limit and fined 1% to 2% of the contract price of the construction project;
- (iii) with respect to failure to conduct acceptance inspection upon completion, we are subject to the risk of being ordered to adopt remedial measures, being fined 2% to 4% of the contract price of the construction project, and being ordered to compensate for any loss incurred; and
- (iv) with respect to failure to pass fire control assessment, we are subject to the risk of being prohibited from using these buildings and being fined between RMB30,000 and RMB300,000 per building.

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The following table sets forth details of the buildings owned and used by our schools as of the Latest Practicable Date.

	GFA of buildings with building ownership certificate (sq.m.) (A)	GFA of buildings without building ownership certificate (sq.m.) (B)	Total GFA of buildings with and without building ownership certificates (sq.m.) (A + B)	GFA of buildings not having passed fire control assessment (sq.m.)	Environmental protection inspection
Jiangxi University of Technology					
Classroom buildings	168,654.31	0	168,654.31	0	Passed
Dormitories	270,844.51	0	270,844.51	0	
Ancillary facilities	77,944.74	2,821.70	80,766.44	2,821.70	
Total	517,443.56⁽¹⁾	2,821.70⁽³⁾	520,265.26	2,821.70	
Guangdong Baiyun University					
Classroom buildings	31,775.87	32,327.17	64,103.04	20,591.17	Passed
Dormitories	36,207.78	99,669.15	135,876.93	88,119.15	
Ancillary facilities	18,387.52	260.00	18,647.52	260.00	
Total	86,371.17	132,256.32	218,627.49	108,970.32	
Baiyun Technician College*					
Classroom buildings	31,557.11	24,912.72	56,469.83	56,469.83	Passed
Dormitories	10,615.08	18,053.51	28,668.59	0	
Ancillary facilities	6,795.80	1,938.00	8,733.80	8,733.80	
Total	48,967.99⁽²⁾	44,904.23	93,872.22	65,203.63	

Notes:

* We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017.

(1) In addition to these buildings, Jiangxi University of Technology also owns certain buildings with building ownership certificates, including certain classroom buildings with an aggregate GFA of approximately 44,320.40 sq.m. and certain dormitories with an aggregate GFA of approximately 23,388.00 sq.m., which are used by (i) the Affiliated High School of the Jiangxi University of Technology (江西科技學院附屬中學), which we disposed of in May 2017 (see “History, Reorganisation and Corporate Structure – Corporate Reorganisation – 2. Reorganisation in relation to Jiangxi University of Technology and Guangdong Baiyun University – Disposal of the Affiliated High School of the Jiangxi University of Technology (江西科技學院附屬中學)”; or (ii) Jiangxi Lantian Driving Training Centre Company Limited (江西藍天駕駛培訓中心有限公司), which had been held as to 90% by Dr. Yu until May 2017 (see “History, Reorganisation and Corporate Structure – Disposal of other business interests by our Directors”), and its subsidiary.

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- (2) Similar to the parcels of land used by Baiyun Technician College (see land nos. 10, 11 and 12 in the table under “Land” above), the building ownership of certain buildings with an aggregate GFA of 48,967.99 sq.m. is registered under College of Vocational Skills Training. As advised by our PRC Legal Adviser, subject to Baiyun Technician College completing the relevant procedures for transferring the building ownership from College of Vocational Skills Training to Baiyun Technician College and obtaining the relevant building ownership certificates, Baiyun Technician College may use these buildings according to the conditions set out in such certificates. Our Directors consider that this is a procedural matter and would not have any material adverse effect on our use of the relevant buildings. Our Directors believe that, based on their current understanding of the processes involved and barring unforeseen circumstances, we may be able to effect the transfer in 2018.
- (3) In addition to these buildings, Jiangxi University of Technology also owns certain buildings without building ownership certificates, including classroom buildings with an aggregate GFA of 4,234.00 sq.m., dormitories with an aggregate GFA of 5,550.00 sq.m. and ancillary facilities with an aggregate GFA of 9,187.00 sq.m. These buildings are used by the Affiliated High School of the Jiangxi University of Technology (江西科技學院附屬中學), which we disposed of in May 2017. See “History, Reorganisation and Corporate Structure – Corporate Reorganisation – 2. Reorganisation in relation to Jiangxi University of Technology and Guangdong Baiyun University – Disposal of the Affiliated High School of the Jiangxi University of Technology (江西科技學院附屬中學)”. Our Directors are of the view that, as these buildings are not used by Jiangxi University of Technology, any regulatory intervention with respect to these buildings would not have any material adverse effect on the operations of Jiangxi University of Technology.

Set out below is a detailed description of the compliance status of the buildings owned and used by our schools.

Compliance Status of the Buildings Owned and Used by Jiangxi University of Technology

Building ownership certificates and fire control assessment

As set out in the table above, Jiangxi University of Technology owns and uses certain buildings with an aggregate GFA of 2,821.70 sq.m. that do not have building ownership certificates and have not passed fire control assessments. As confirmed by our Directors, Jiangxi University of Technology uses such buildings as a logistics office and a clinic.

The logistics office and the clinic occupy an immaterial GFA relative to the campus of Jiangxi University of Technology and we consider that they can be easily re-located to other existing buildings on the campus, if required. As such, our Directors consider that any regulatory intervention concerning these buildings would not have any material adverse impact on our operations as a whole.

In May 2017, the Nanchang High-tech Development Zone Public Security Fire Control Brigade (南昌市高新技術開發區公安消防大隊) issued a letter confirming that Jiangxi University of Technology has been, in recent years, actively engaging in fire safety management, carefully fulfilling the fire safety responsibilities, and cooperating with the fire control brigade to carry out fire hazard investigation work. The letter further confirmed that Jiangxi University of Technology has not been penalised by way of fire control brigade penalties and no fire accidents had happened in recent years. Our PRC Legal Adviser is of the view that with respect to aforementioned logistics office and clinic, (i) Nanchang High-tech Development Zone Public Security Fire Control Brigade is the competent authority for issuing such confirmation letter; and (ii) we are subject to the risk of being prohibited from using such buildings and being imposed a fine between RMB30,000 and RMB300,000 per building.

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Environmental protection inspection

Jiangxi University of Technology had not passed the environmental protection inspection assessment as required under the PRC environmental protection laws and regulations until 2016, when such non-compliance was rectified. On the basis that Jiangxi University of Technology has re-complied with the relevant requirements, our PRC Legal Adviser is of the view that the risk of us being penalised by the relevant authorities due to such historical non-compliance is remote.

Compliance Status of the Buildings Owned and Used by Guangdong Baiyun University and Baiyun Technician College

Building ownership certificates

As set out in the table above, we have not obtained building ownership certificate for (i) certain buildings of Guangdong Baiyun University with an aggregate GFA of approximately 132,256.32 sq.m. (out of which a GFA of 34,036.15 sq.m. is used by Baiyun Technician College as student dormitory); and (ii) certain buildings of Baiyun Technician College with an aggregate GFA of approximately 44,904.23 sq.m. (including buildings with an aggregate GFA of 39,494.14 sq.m. that Baiyun Technician College constructed on lands leased from Independent Third Parties).

As confirmed by our Directors, we have not obtained building ownership certificates for these buildings due to the lack of construction project planning permit (建設工程規劃許可證), construction commencement permit (施工許可證) and acceptance inspection upon completion (竣工驗收), which is in turn due to:

- (i) with respect to certain student dormitory buildings with a GFA of 28,310.14 sq.m., which we acquired from a developer that is an Independent Third Party (see also note (2) of the table setting forth details of the parcels of land we own), our Directors consider that we are not in agreement with the developer with respect to the GFA subject to the relevant sale and purchase, and therefore, the sale and purchase has yet to be finally completed. As of the Latest Practicable Date, the developer had not effected the transfer of building ownership certificate to us, and thus, we are not in possession of the building ownership certificates for the four buildings situated on this parcel of land. Our Directors consider this as a contractual matter between the developer and Guangdong Baiyun University and thus, the fact that we are not in possession of the relevant building ownership certificates would not result in regulatory intervention that would have a material adverse effect on our operations as a whole;
- (ii) with respect to certain buildings with an aggregate GFA of 39,494.14 sq.m. that Baiyun Technician College constructed on the lands leased from Independent Third Parties, we do not have the relevant land use right certificates as we do not own the lands, and our Directors understand that, without such land use right certificates, we are unable to comply with the construction application procedures to obtain the building ownership certificates; and
- (iii) with respect to other buildings generally, the management of Guangdong Baiyun University and Baiyun Technician College at the relevant time were unfamiliar with the relevant regulatory requirements and considered that the potential consequences of non-compliance would unlikely materialise if the

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schools could provide a safe campus environment for the benefit of the students. The management of Guangdong Baiyun University and Baiyun Technician College considered that they had done what was reasonable to ensure the premises were safe for use by the students and teachers and considered that there was no urgency in complying with the relevant requirements, given that the safety of the students and teachers had not been compromised.

Our Directors confirm that we are currently in discussions with the relevant parties with a view to re-complying with the construction application procedures where practicable in order to obtain the relevant building ownership certificates as soon as practicable. Based on our Directors' current understanding of the processes involved, (i) barring unforeseen circumstances, we endeavour to obtain the relevant building ownership certificates of the buildings where practicable within the next two to three years; and (ii) we expect that such re-compliance will be primarily administrative and procedural in nature and do not expect to incur substantial costs. We expect that any costs in relation to such re-compliance will be funded from our operating cash flow.

Our PRC Legal Adviser had interviews with (i) the Bureau of Land Resources and Planning of Baiyun District (白雲區國土資源和規劃局) and the relevant government official did not indicate any immediate intention to demolish the buildings in the next two to three years and confirmed that we may continue to use these buildings provided we can ensure they are safe; and (ii) the Bureau of Housing Construction and Water of Baiyun District (白雲區住房和建設水務局) and the relevant government official confirmed that we may re-apply to the bureau for the relevant certificates and that the bureau would not require us to stop using the buildings or compel the demolition of the buildings.

Based on the interviews, our PRC Legal Adviser is of the view that (i) both the Bureau of Land Resources and Planning of Baiyun District and the Bureau of Housing Construction and Water of Baiyun District are competent authorities for providing such confirmations; (ii) provided we can ensure safety, the risk of us being ordered to adopt remedial measures within a given time limit or demolish the buildings for the lack of construction project planning permit is remote, but the risk of us being fined cannot be eliminated; (iii) the risk of us being ordered to adopt remedial measures within a given time limit for the lack of construction commencement permit is remote, but the risk of us being fined cannot be eliminated; and (iv) the risk of us being ordered to adopt remedial measures for not conducting acceptance inspection upon completion is remote, but the risk of us being fined cannot be eliminated.

Based on our Directors' estimation, the maximum penalty in relation to the lack of building ownership certificates of these buildings is not expected to exceed RMB10 million. Based on the interviews with the relevant authorities as described above, our PRC Legal Advisers are of the view that the risk of us being penalised cannot be eliminated. Our Directors consider that no provision needs to be made in this respect, on the basis that our Controlling Shareholders have provided an indemnity in favour of us with respect to any loss we may suffer in connection with such penalty (See "E. Other information – 1. Deed of Indemnity" in Appendix V) and our Directors are satisfied that our Controlling Shareholders are financially capable of honouring such indemnity.

We commissioned a qualified Independent Third Party to undertake a seismic resistance assessment on the buildings that do not have building ownership certificates. The qualified Independent Third Party was able to issue its assessment reports on the basis of its independent assessments conducted on the structural safety level of the relevant buildings. The relevant assessment reports did not identify any material safety issues and concluded that the relevant buildings had passed the relevant assessments conducted.

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Based on the above, our Directors consider that the lack of building ownership certificate for these buildings would not have any material adverse effect on our operations as a whole. Notwithstanding the above, as a pre-emptive rectification measure, we intend to implement a relocation plan for the existing operations of these buildings. See “– Non-compliance with respect to the land and buildings of Guangdong Baiyun University and Baiyun Technician College” for further details.

Fire control assessment

As set out in the table above, we have not passed fire control assessment for (i) certain buildings of Guangdong Baiyun University with an aggregate GFA of approximately 108,970.32 sq.m. (out of which a GFA of 34,036.15 sq.m. is used by Baiyun Technician College as student dormitory); and (ii) certain buildings of Baiyun Technician College with an aggregate GFA of approximately 65,203.63 sq.m. (including buildings with an aggregate GFA of 39,494.14 sq.m. that Baiyun Technician College constructed on lands leased from Independent Third Parties).

As confirmed by our Directors, we were not able to comply with the fire control assessment requirements for these buildings due to:

- (i) with respect to certain student dormitory buildings with a GFA of 28,310.14 sq.m., which we acquired from a developer that is an Independent Third Party (see also note (2) of the table setting forth details of the parcels of land we own), our Directors consider that we are not in agreement with the developer with respect to the GFA subject to the relevant sale and purchase, and therefore, the sale and purchase has yet to be finally completed. As of the Latest Practicable Date, the developer had not effected the transfer of the relevant construction application procedure documents and licences to us. Our Directors understand that, without these documents and licences, we are not able to apply to the relevant government authorities to comply with the fire control assessment requirements;
- (ii) with respect to certain buildings with an aggregate GFA of 39,494.14 sq.m. that Baiyun Technician College constructed on the lands leased from Independent Third Parties, we do not have the relevant land use right certificates as we do not own the lands, and our Directors understand that, without such land use right certificates, we are not able to comply with the with the requisite construction application procedures, and without complying with such procedures, as a procedural matter, the relevant government authorities will not proceed to conduct fire control assessments and issue fire safety reports; and
- (iii) with respect to other buildings generally, we have not complied with the requisite construction application procedures with the relevant government authorities in the PRC because the management of Guangdong Baiyun University and Baiyun Technician College at the relevant time were unfamiliar with the relevant regulatory requirements and considered that the potential consequences of non-compliance would unlikely materialise if the schools could provide a safe campus environment for the benefit of the students. The management of Guangdong Baiyun University and Baiyun Technician College considered that they had done what was reasonable to ensure the premises are safe for use by the students and teachers and considered that there was no urgency in complying with the relevant requirements, given that the safety of the students and teachers had not been compromised. Our Directors

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understand that, without complying with such procedures, as a procedural matter, the relevant government authorities will not proceed to conduct fire control assessments and issue fire safety reports.

Our PRC Legal Adviser had an interview with the Fire Control Brigade of Guangzhou Public Security Bureau Baiyun District Branch (廣州市公安局白雲區分局消防大隊). The relevant government official confirmed in the interview that (i) we may re-apply for the fire control inspection procedure provided that the underlying land use right procedures have been re-complied with; (ii) for buildings that cannot be subject to re-compliance of the fire control inspection procedure due to historical reasons, we are required to cooperate with the relevant authorities to ensure fire control measures are adopted properly; and (iii) we will not be prohibited from using such buildings before completing the process of re-applying for the fire control inspection procedure.

With respect to our buildings that cannot be subject to re-compliance with fire control inspection procedure due to historical reasons, in accordance with the interview with the Fire Control Brigade of Guangzhou Public Security Bureau Baiyun District Branch as described above, we have adopted the relevant fire control measures and undertake to cooperate with the relevant government authorities from time to time to ensure fire control measures are adequate and adopted properly. With respect to our buildings that can be subject to re-compliance with fire control inspection procedure, our Directors confirm that we are currently in discussions with the relevant parties with a view to re-complying with fire control inspection procedure as soon as practicable. Based on our Directors' current understanding of the process involved, (i) barring unforeseen circumstances, we endeavour to re-comply with the relevant fire control assessment requirements for the buildings, where practicable, in the next two to three years; and (ii) we expect that such re-compliance will be primarily administrative and procedural in nature and do not expect to incur substantial costs. We expect that any costs in relation to such re-compliance will be funded from our operating cash flow.

Based on the above, our PRC Legal Adviser is of the view that (i) the Fire Control Brigade of Guangzhou Public Security Bureau Baiyun District Branch is the competent authority for making such confirmation; (ii) we are subject to the risk of being fined between RMB30,000 and RMB300,000 per building that has not passed fire control inspection procedure; and (iii) the risk of us being prohibited from using such buildings is remote.

We commissioned a qualified Independent Third Party to undertake a fire safety assessment on the buildings that have not complied with fire control assessment requirements. The qualified Independent Third Party was able to issue its assessment reports on the basis of its independent assessments conducted on the fire safety level of the relevant buildings. The relevant assessment reports did not identify any material safety issues and concluded that the relevant buildings had passed the relevant fire safety assessments conducted.

Based on the above, our Directors consider the fact that these buildings have not passed fire control assessments would not have any material adverse effect on our operations as a whole. Notwithstanding the above, as a pre-emptive rectification measure we intend to implement a relocation plan for the existing operations of these buildings. See “– Non-compliance with respect to the land and buildings of Guangdong Baiyun University and Baiyun Technician College” for further details.

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Environmental protection inspection

Guangdong Baiyun University and Baiyun Technician College had not passed the environmental protection inspection assessment as required under the PRC environmental protection laws and regulations until 2017, when such non-compliance was rectified. On the basis that each of Guangdong Baiyun University and Baiyun Technician College has re-complied with the relevant requirements, our PRC Legal Adviser is of the view that the risk of us being penalised by the relevant authorities due to such historical non-compliance is remote.

Leased Properties

As of the Latest Practicable Date, we leased eight properties from Independent Third Parties. All of these properties have been used for education-related purposes.

No.	Lessee	Leased property	Permitted Use of underlying land	Current Use	Lease Term	Validity of Lease Contract	Registration of Lease Contract
1.	Guangdong Baiyun University	One parcel of land with a site area of 3,581.4 sq.m.	Construction use (建設用地)	Basketball court	1 July 2004 to 30 June 2029 ⁽⁴⁾	Valid and binding	No ⁽⁵⁾
2.	Guangdong Baiyun University	One parcel of land with a site area of 5,000 sq.m. and buildings situated on the land with a GFA of 10,243.20 sq.m.	Construction use (建設用地)	Student dormitory	1 August 2007 to 30 July 2032 ⁽⁴⁾	Uncertain ⁽³⁾	No ⁽⁵⁾
3.	Guangdong Baiyun University	One parcel of land with a site area of 10,292 sq.m. and buildings situated on the land with a GFA of 17,213.48 sq.m.	Industrial use (工業用地) ⁽³⁾	Student dormitory of Baiyun Technician College ⁽³⁾	12 years starting from 11 August 2009	Uncertain ⁽³⁾	No ⁽⁵⁾
4.	Baiyun Technician College*	One parcel of land with a site area of 4,905.32 sq.m. ⁽¹⁾ and buildings situated on the land with a GFA of 7,354.16 sq.m.	Construction use (建設用地)	Classroom building and administrative building	1 August 2017 to 31 August 2023	Uncertain ⁽³⁾	No ⁽⁵⁾
5.	Baiyun Technician College*	One parcel of land with a site area of 13,270 sq.m. ⁽²⁾	Construction use (建設用地)	Student dormitory, practical training building, academic exchange centre and gym	1 September 2003 to 31 August 2028 ⁽⁴⁾	Valid and binding	No ⁽⁵⁾

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No.	Lessee	Leased property	Permitted Use of underlying land	Current Use	Lease Term	Validity of Lease Contract	Registration of Lease Contract
6.	Baiyun Technician College*	One building with a GFA of 3,325.9 sq.m.	Residence (住宅)	Student dormitory	1 September 2017 to 31 August 2018	Valid and binding	No ⁽⁵⁾
7.	Baiyun Technician College*	One building with a GFA of 3,259 sq.m.	Residence (住宅)	Student dormitory	1 September 2016 to 31 August 2018	Valid and binding	No ⁽⁵⁾
8.	Baiyun Technician College*	One building with a GFA of 3,291 sq.m.	Residence (住宅)	Student dormitory	1 September 2016 to 31 August 2018	Valid and binding	No ⁽⁵⁾

Notes:

* We obtained control of Baiyun Technician College after the Track Record Period on 14 August 2017.

- (1) Baiyun Technician College constructed certain buildings with an aggregate GFA of 5,002.63 sq.m. on this parcel of land leased from an Independent Third Party. These buildings are considered our owned properties and the relevant GFA is included in the table under the paragraph headed “– Buildings” above.
- (2) Baiyun Technician College constructed certain buildings with an aggregate GFA of 34,491.51 sq.m. on this parcel of land leased from an Independent Third Party. These buildings are considered our owned properties and the relevant GFA is included in the table under the paragraph headed “– Buildings” above.
- (3) Leased property no. 3 was leased by Guangdong Baiyun University and used by Baiyun Technician College as student dormitories.

Our PRC Legal Adviser advises us that there is uncertainty with respect to the validity of the lease agreements of leased property no. 2, 3 and 4 due to (i) with respect to leased property no. 2, 3 and 4, failure by the relevant landlords to provide the relevant ownership certificates; and (ii) with respect to leased property no. 3, our use of the relevant land in contravention of permitted use. As a result, the validity of these lease agreements may be subject to challenge, and if successful, we may not be able to continue to use the leased properties. Our Directors consider the leased properties, being mostly student dormitories, are not critical to our operations. Should our use of these buildings be adversely effected, our Directors believe that we will be able to lease alternative premises or relocate to other buildings on the campus of Guangdong Baiyun University or Baiyun Technical College, as the case may be, without significant disruption. Based on the above, our Directors are of the view that the uncertainty with respect to the validity of the lease agreements of the three leased properties would not have any material adverse impact on our operations as a whole.

- (4) Our PRC Legal Adviser advises us that for the leased contracts with a lease term longer than 20 years, the lease term of longer than 20 years is invalid under PRC laws and regulations.
- (5) The lease agreements our schools have entered into with our landlords were not registered with the relevant PRC government authorities. Our PRC Legal Adviser has advised us that we may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease. However, as of the Latest Practicable Date, we had not been fined by the relevant PRC authorities with respect to these non-registered leases, and our PRC Legal Adviser advises us that the non-registration of such lease agreements would not affect the leases' validity.

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For further details on the risks associated with the properties we use for our operations, see the section headed “Risk Factors – Risks Relating to Our Business and Industry – We are subject to extensive governmental approvals and compliance requirements for the construction and development of our schools and in relation to the land and buildings that we own. Some of the properties we use for our operations are not in compliance with applicable laws and regulations in the PRC” and “Risk Factors – Risks Relating to Our Business and Our Industry – We lease several of our school premises and may not be able to control the quality, maintenance and management of these school premises, nor can we ensure we will be able to find suitable premises to replace our existing school premises if our lease are terminated.”

Non-compliance with respect to the Land and Buildings of Guangdong Baiyun University and Baiyun Technician College

As disclosed in “-Properties”, with respect to our Guangdong Baiyun University and Baiyun Technician College, as of the Latest Practicable Date, (i) we have not obtained land use right certificate for a parcel of land of Guangdong Baiyun University with a site area of 8,000.04 sq.m. (the “**Land Issue**”); (ii) we have not obtained building ownership certificates for certain buildings of Guangdong Baiyun University with an aggregate GFA of approximately 132,256.32 sq.m. (including buildings with an aggregate GFA of 28,310.14 sq.m. that we purchased from an Independent Third Party) and certain buildings of Baiyun Technician College with an aggregate GFA of approximately 44,904.23 sq.m. (the “**Buildings Issue**”); and (iii) we have not complied with fire control assessment requirements for certain buildings of Guangdong Baiyun University with an aggregate GFA of approximately 108,970.32 sq.m. and certain buildings of Baiyun Technician College with an aggregate GFA of approximately 65,203.63 sq.m. (the “**Fire Control Issue**”).

Our Directors are of the view that the Land Issue, the Buildings Issue and the Fire Control Issue ultimately relate to the safety standard of our campus environment. This is of particular importance to the safety of our students and teachers. Despite these issues, we are committed to ensuring the safety standard of our campus environment. Our Directors consider that the Land Issue, the Buildings Issue and the Fire Control Issue would not have a material adverse effect on our operations, primarily on account of the following:

- (a) our Directors consider that the safety of our students and teachers had not been compromised as the management of Guangdong Baiyun University and Baiyun Technician College considered that they had done what was reasonable to ensure the campuses are safe for the students and teachers; furthermore, our Directors consider that appropriate school liability insurance is in place to cover our students and teachers from certain loss or harm as a result of fire accidents or other incidents taking place the relevant campus;
- (b) our Directors confirm that there have not been any material safety incidents directly attributable to the safety of the school buildings and facilities and no regulatory concerns relating to the school buildings and facilities have been raised by any competent authorities;
- (c) based on the interviews with the relevant regulators as set out above, we may re-apply for re-compliance of the relevant certificates, permits and fire control assessment procedures and thus, the Land Issue, the Buildings Issue and the Fire Control Issue may be capable of being rectified by us. We intend to re-apply for the relevant certificates, permits and fire control assessment

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procedures as soon as practicable. Furthermore, based on such interviews, the relevant regulators did not indicate any immediate intention to demolish any of the buildings in the next two to three years and we may continue to use these buildings provided that we can ensure they are safe;

- (d) with a view to obtaining independent assurances that the campuses of Guangdong Baiyun University and Baiyun Technician College are safe, we commissioned qualified Independent Third Parties to undertake (i) a fire safety assessment on the buildings that have not complied with fire control assessment requirements; and (ii) a seismic resistance assessment on the buildings that do not have building ownership certificates. The relevant assessment reports did not identify any material safety issues and concluded that the relevant buildings had passed the relevant assessments conducted;
- (e) based on the assessment reports in (d) above, our Directors have received assurances that the campuses are safe, and based on the interviews with the relevant regulators and the advice of our PRC Legal Adviser (see Note 1 in the section headed “– Properties – Owned Properties – Land” and Notes 5 and 9 in the section headed “– Properties – Owned Properties – Buildings”), our Directors consider that the risk of any regulatory intervention is minimal; and
- (f) our Controlling Shareholders have provided an indemnity in favour of us with respect to any loss our Company may suffer in connection with the Land Issue, the Buildings Issue and the Fire Control Issue (See “E. Other information – 1. Deed of Indemnity” in Appendix V). The indemnity does not cover the costs of the pre-emptive rectification measure as more particularly described below, including the costs of constructing the school buildings and other facilities on the Zhongluotan Land or any corresponding relocating costs.

Notwithstanding the above, as a pre-emptive rectification measure, we intend to implement a relocation plan for the existing operations of the buildings affected by the Land Issue, the Buildings Issue and/or the Fire Control Issue (the “**Relevant Buildings**”). As disclosed in the table in the section headed “– Properties – Owned Properties – Land”, in August 2017, we acquired the land use right certificate for the 1st phase of the site of Zhongluotan Land with a site area of 188,666 sq.m., which is expected to be developed into a new campus of Guangdong Baiyun University. Our Directors believe that such relocation will be feasible as the Zhongluotan Land is located in proximity to Guangdong Baiyun University and Baiyun Technician College, and the Zhongluotan Land will provide sufficient capacity to accommodate the expansion of campus and relocation of the existing operations of the Relevant Buildings as we re-comply with the relevant regulatory requirements. Furthermore, our Directors consider that our school buildings and facilities may be constructed and put into operation in a relatively short period of time.

We have obtained the construction permit with respect to a construction area of 101,074.6 sq.m. and commenced the 1st phase construction of school buildings and facilities on the Zhongluotan Land. Barring unforeseen circumstances, our Directors anticipate campus operations on the Zhongluotan Land may commence as soon as from the 2018/2019 school year. See “– Our Business Strategies – Develop new school campus to further increase our capacity and student body” for our investment budget and preliminary costs incurred in relation to the construction of our new campus on the Zhongluotan Land. Barring unforeseen circumstances, upon the anticipated commencement of the new campus in the 2018/2019 school year, we will gradually relocate the existing operations of the Relevant Buildings to the new campus. We

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estimate that such relocation may be completed within two to three years. We expect to incur relocation costs of not more than RMB2 million, which will be funded from our operating cash flow. We will implement special arrangements, if required, to ensure such relocation would not be overly disruptive to our students and teachers.

Our Directors expect that any relocation will be a temporary measure. Once we have re-complied with the applicable requirements, depending on the then circumstances, we may continue or resume our operations in the Relevant Buildings, as the case may be. As described above, our Directors confirm that we are currently in discussions with the relevant parties with a view to rectifying the non-compliances with respect to the Relevant Buildings where practicable. Based on our Directors' current understanding of the process involved, we endeavour to rectify such non-compliances, to the extent they are capable of being rectified, in the next two to three years. Our Directors expect that the rectification will involve protracted discussions with, and coordination among, various government authorities and time consuming government administrative processes that may not be within our control. In view of the extent of the buildings involved, even though our Directors expect that such rectification will be primarily administrative and procedural in nature, our Directors expect that it may take up two to three years to complete the rectification. We will provide periodic updates in our annual and interim reports after the Listing to inform our Shareholders of our rectification progress. We expect that the rectification will be primarily administrative and procedural in nature and do not expect to incur substantial costs. We expect that any costs involved in such rectification will be funded from our operating cash flow. We will closely follow up with the government authorities with respect to our applications and will use our best efforts to cooperate with the government authorities to expedite the process. To ensure that this situation is rectified in a timely manner and if the circumstances require so, we will also engage external legal advisers or other professional advisers to tackle any issue that may arise in the process of the rectification. We currently do not expect to record any material write off on the amount of property, plant and equipment for the purposes of re-complying with the applicable requirements with respect to the Relevant Buildings.

For on-going compliance of matters concerning our land and buildings, we have designated a responsible officer and enhanced the awareness of our managers with respect to compliance with the regulatory requirements relating to building ownership certificates and other requisite certificates or permits. See “– Internal Control and Risk Management” for more details of our internal control measures adopted. We will promptly engage external legal or professional advisers to assist us in complying with the requirements when required. In particular, we will ensure that the Zhongluotan Land and the buildings to be constructed on the Zhongluotan Land will comply with the applicable regulatory requirements in all material respects.

We have designated officers in charge of rectification of the non-compliance, including (i) Mr. Liu Jianfeng (劉劍鋒), the secretary of Communist Party Committee and a vice president of Guangdong Baiyun University, who is in charge of the relocation of the existing operations of the Relevant Buildings; (ii) Mr. Huang Ruohai (黃若海), director of infrastructure construction department of Guangdong Baiyun University, who is in charge of re-compliance of the land and the Relevant Buildings; and (iii) Mr. Mok Kwai Pui Bill (莫貴標), our chief financial officer, who is in charge of on-going compliance.

For reasons set out above, our Directors consider that the non-compliance with respect to the Relevant Buildings is adequately mitigated and would not have a material adverse effect on our operations.

We will disclose the process of relocation of the existing operations of the Relevant Buildings to the Zhongluotan Land and re-compliance of the land and Relevant Buildings in our interim or annual reports as appropriate.

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INSURANCE

All of our schools maintain school liability insurance to safeguard against certain risks and unexpected events. Our school liability insurance generally covers harms suffered by our students that (i) arise in the course activities held at the campus of our schools or activities held by our schools; and (ii) are due to the negligence or omission of our schools.

Our Directors believe that our insurance coverage is generally consistent with the industry practice and provides adequate protection for our assets and operations for each school. Nevertheless, we cannot assure you that we will have sufficient insurance coverage for all of our school liabilities that may arise in our business operations. See “Risk Factors – Risks Relating to Our Business and Our Industry – Our insurance coverage may not be sufficient.”

LICENCES AND PERMITS

Our PRC Legal Adviser has advised that during the Track Record Period and up to the Latest Practicable Date, save as otherwise disclosed in “– Properties”, we had obtained all material licences, permits, approvals and certificates necessary to conduct our business operations from the relevant government authorities in the PRC, and such licences, permits, approvals and certificates remained in full effect for all the schools we operate currently.

For risks and uncertainties associated with our licences, approval and permits, see “Risk Factors – Risks Relating to Our Business and Our Industry – We may not be able to obtain all necessary approvals, licences and permits and to make all necessary registrations and filings for our education services in the PRC.”

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

<u>Licence/Permit⁽¹⁾</u>	<u>Holder</u>	<u>Granting authority</u>	<u>Grant date</u>	<u>Expiry date</u>
Private school operating licence	Jiangxi University of Technology	MOE	2012	2018
Private school operating licence ⁽²⁾	Guangdong Baiyun University	MOE	1 January 2009	31 December 2017
Private school operating licence	Baiyun Technician College	Guangzhou Human Resources and Social Security Bureau	9 August 2017	8 August 2020
Registration certificate of private non-enterprise entities	Jiangxi University of Technology	Civil Affairs Department of Jiangxi Province	30 May 2016	30 May 2021
Registration certificate of private non-enterprise entities	Guangdong Baiyun University	Civil Affairs Department of Guangdong Province	25 August 2017	24 August 2021

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<u>Licence/Permit⁽¹⁾</u>	<u>Holder</u>	<u>Granting authority</u>	<u>Grant date</u>	<u>Expiry date</u>
Registration certificate of private non-enterprise entities	Baiyun Technician College	Civil Affairs Bureau of Guangzhou	9 August 2016	19 October 2018

Note:

- (1) As advised by our PRC Legal Adviser, to maintain each of our private school operating licences, the respective school is required to pass an annual inspection regardless of whether such licence bears an expiry date or not. As of the Latest Practicable Date, each of our schools had passed the latest annual inspection.
- (2) With respect to the private school operating licence of Guangdong Baiyun University, our Directors currently do not expect any difficulties in renewing it and expect to complete such renewal in December 2017.

HEALTH AND SAFETY MATTERS

We are dedicated to protecting the health and safety of our students. We have on-site medical staff or health care personnel at each of our schools to handle routine medical situations involving our students. In certain serious and emergency medical situations, we will send our students to local hospitals for treatment. With respect to school safety, we have in place certain school safety and security measures and a team of security staff at each of our schools. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any accident, medical situation or safety issue that would have a material adverse effect on us.

We understand that our students may from time to time be subject to various level of stress, arising from both academic and non-academic factors. We are committed to promoting psychological health among our students. Psychological counselling service is available at our schools. For more information, see the section headed “– Campus Services – Medical Care Services.”

However, we have limited or no control over undesirable incidents that may take place at our schools. For more information, see the section headed “Risk Factors – Risks Relating to Our Business and Our Industry – Accidents or injuries suffered by our students or our employees on or outside our school campuses or by other personnel on our school campuses may adversely affect our reputation and subject us to liabilities.”

LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which, in the opinion of our management, could have a material adverse effect on our operations or financial condition. Our Directors have confirmed that none of our schools is currently engaged in any material litigation, arbitration or administrative proceeding.

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Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date (i) we had not experienced any material or systemic non-compliance of applicable laws or regulations, which taken as a whole, in the opinion of our Directors, are likely to have a material and adverse effect on our business, financial condition or results of operations; and (ii) we had not experienced any non-compliance of applicable laws or regulations, which taken as a whole, in the opinion of our Directors, reflects negatively on the ability or tendency of our Company, our Directors or our senior management, to operate our business in a compliant manner.

See “Employees” and “Properties” in this section for a description of certain legal matters relating to our compliance with certain employee benefits and property related laws and regulations which our Directors consider would not have a material and adverse effect on our business, financial condition or results of operations for the reasons described in those paragraphs.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. We have engaged an independent internal control consultant (the “**Internal Control Consultant**”) to conduct an assessment of our internal control system. The internal control consultant has conducted review procedures on our internal control system in certain aspects, including revenue, purchase, fixed assets management, human resources, financial management and information technology. The Internal Control Consultant conducted its work in July 2017 and provided a number of findings and recommendations in its report. The internal control findings identified by the Internal Control Consultant did not result in any misstatement to our consolidated financial information prepared in accordance with IFRS during the Track Record Period as set out in Appendix IA and Appendix IB after certain appropriate adjustments were made to address those internal control deficiencies. We have subsequently taken remedial actions in response to such findings and recommendations. The Internal Control Consultant performed follow-up procedures on our Company’s system of internal control with regard to those actions taken by our Company and reported further commentary in August 2017. As of the Latest Practicable Date, we confirm that there were no material internal control findings outstanding.

We have established an internal control function on the group level and each of our schools has designated the relevant personnel who will be responsible for monitoring our on-going compliance with the relevant PRC laws and regulations that govern our business operations and overseeing the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management (including the principals and vice principals of our schools) and employees involved with continuing training programmes and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identifying any concerns and issues relating to potential non-compliance. Our chief financial officer and company secretary, Mr. Mok Kwai Pui Bill, is responsible for ensuring our overall on-going compliance.

With respect to our properties, we have implemented the following internal control measures to ensure our compliance with property laws and regulations:

- before we purchase any properties and enter into any new lease, our Directors and senior management will conduct enhanced due diligence to ensure there are no title issues and legal issues. The enhanced due diligence includes,

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among others, (i) examining the relevant land use right certificates and building title ownership documents; (ii) verifying such certificates and documents with the land administration authority and building administration authority and confirming the ownership; (iii) checking with building administration authority to ascertain whether any mortgage, charge or other security are attached to the building; and (iv) conducting site visits;

- we will obtain the requisite licences and permits (including but not limited to land use right certificates and building ownership certificates) as and when required by the laws and regulations and follow the requisite procedures relating to construction and work completion of buildings;
- we will seek our PRC Legal Adviser's opinion on the issues relating to title of properties and compliance of property laws and regulations;
- we have established a set of policies and procedures for property purchase and leasing arrangement to enhance our internal approval process; and
- Mr. Mok Kwai Pui Bill, our chief financial officer, will monitor the implementation of the above measures and will check whether there is any non-compliance going forward.

With respect to our employee social security plan, we have implemented the following internal control measures to ensure our compliance with relevant social security laws and regulations:

- the manager of the human resources department of our Group will review the reporting and contributions of social insurance and housing provident fund for the employees of our Group regularly;
- our human resources department will also consult our PRC Legal Adviser, on the requirements under the relevant PRC laws and regulations in relation to social insurance and housing provident fund;
- training on relevant social security and housing provident fund laws and regulations will be arranged for our management from time to time to keep them informed of the latest development in these areas;
- our human resources department will also organise information sessions for our employees and urge them to make contributions/payments in accordance with relevant social security and housing provident fund laws and regulations; and
- the manager of the human resources department will report to Mr. Mok Kwai Pui Bill, our chief financial officer, on the legal and regulatory compliance and provide improvement recommendations when required.

With respect to our on-going compliance generally, we have implemented the following internal control measures to ensure our compliance with applicable laws and regulations and to enhance our internal control:

- internal control system manuals on corporate governance, operations, management, legal matters, finance and auditing setting out the internal approval and review procedures pursuant to which our employees are mandated to comply with;

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- supervision and guidance by our audit committee, which is empowered to provide an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group and the relevant audit processes;
- hiring additional personnel to support our continued growth and development including candidates with professional experience and qualifications; and
- engaging external professional advisers (including our Compliance Adviser, as well as legal advisers as to Hong Kong laws, PRC laws and laws of the jurisdiction in which we may expand our operations, and tax advisers) to provide professional advice and guidance to our Group to ensure compliance with applicable laws and regulations. We will also arrange our external professional advisers to provide internal training to our Directors and employees from time to time to ensure our Directors and employees are kept up-to-date with any legal and regulatory developments.

Taking into account the internal control measures implemented by us in connection with the “– Employees” and “– Properties” in this section, the ongoing monitoring and supervision by our Board with the assistance from professional external advisers where required, and the fact that, as confirmed by our Directors, the non-compliance incidents did not involve fraud or dishonesty, our Directors are of the view that our enhanced internal control measures are adequate and effective; the suitability of our Directors is compliant with Rules 3.08 and 3.09 of the Listing Rules; and our Company is suitable for listing under Rule 8.04 of the Listing Rules. Based on (i) a review of the internal control report and other due diligence documents; (ii) discussions with our Directors, the internal control consultant and our PRC Legal Adviser; and (iii) our Directors’ confirmation, nothing has come to the attention of the Sole Sponsor that would lead it to cast doubts on the views of our Directors.

In 2013, certain teachers and students of Jiangxi University of Technology colluded to cheat on the National Higher Education Entrance Examination for Adults. Some of the teachers were investigated and sentenced to imprisonment by the relevant authorities. Although we did not perpetrate this incident, we suffered a certain degree of reputational damage. As a result of the incident, Jiangxi University of Technology was removed from the list of approved entrance examination centres for adults and was disqualified from admitting students for adult higher education for the year of 2014.

After becoming aware of the incident, we have stepped up our examination security measures with a view to ensuring the examinations are conducted fairly and properly without malpractice, including:

- *upgrade of examination facilities*: installed digital surveillance systems to monitor and record the conduct of the examinations. In an attempt to prevent students from using high-tech miniaturised gadgets to communicate during exams, we have installed signal blocking devices that disrupt telecommunication. Our metal detectors also assist exam invigilators in detecting if a student is carrying devices that may facilitate cheating. ID card readers enable us to confirm the validity of the students’ ID documents and identify impersonators. Dedicated transport vehicles and storage and transfer protocols have been put in place to enhance the secured logistics of examination materials.

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- *invigilators and examination staff election*: our invigilators and examination staff are carefully selected. In particular, we prohibit the participation of our invigilators and examination staff who may have a conflict of interest that may interfere with their impartiality in administering the examinations. We adhere to the principle of separation of teaching and examination and prohibit any person having an immediate family relationship with a student taking part in an examination in becoming an invigilator or examination staff for that examination.
- *accountability system*: we have adopted an accountability system that covers the examination process with a view to ensuring every person involved in administering the examinations is aware of their respective tasks and responsibilities. Any dereliction of duty will be investigated and dealt with seriously. We encourage the report of improprieties of our examination staff. We have implemented training on our examination staff, particularly on the examination processes and procedures, professional ethics and awareness of law, risk and responsibilities.

Our Directors consider that the removal of Jiangxi University of Technology from the list of approved entrance examination centres for adults and disqualification from admitting students for adult higher education for the year 2014 did not result in any material adverse impact on our business and financial position as a whole, primarily because: (i) the provision of continuing education programmes to adult students does not contribute substantially to the revenue of Jiangxi University of Technology. For the year ended 31 December 2014, revenue generated from adult students enrolled in continuing education programmes for the 2013/2014 school year only accounted for an insignificant portion of the overall revenue of Jiangxi University of Technology. Therefore, our Directors consider that the financial impact resulting from the disqualification from admitting students for adult higher education in respect of the 2014/2015 school year was relatively limited; (ii) the existing adult students enrolled in continuing education programmes could attend examinations in other examination centres; and (iii) Jiangxi University of Technology's ability to enrol students into its bachelor's degree programmes and junior college programmes was not affected by this incident, and the university was able to increase such number of students for the 2014/2015 school year.

In parallel with the above, we have also enhanced our anti-bribery efforts, and we prohibit our teachers and staff from receiving improper payments and benefits. In particular, scholarships and grants must be genuinely assessed in accordance with the relevant criteria and distributed to the students, and no staff involved is allowed to receive any form of benefits from any student in return for a favourable assessment. We have implemented complaint channels and have designated staff in handling complaints. Our school principals meet with students face-to-face to address any major complaints or concerns the students may have. We also established a task force comprising of principal and head of school departments with a view to understanding, responding and resolving complaints from students.

Risk Management

We are exposed to various risks in the operations of our business and we believe that risk management is important to our success. Key operational risks faced by us include, among others, changes in general market conditions and perceptions of private education, changes in the regulatory environment in the PRC education industry, our ability to offer quality education to our students, our ability to increase student enrolment

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and/or raising tuition fee rates, our potential expansion into other regions, availability of financing to fund our expansion and business operations and competition from other school operators that offer similar quality of education and have similar scale. See the section headed “Risk Factors” for disclosures on various risks we face. In addition, we also face numerous market risks, such as interest rate, credit and liquidity risks that arise in the normal course of our business. For a discussion on these market risks, see the section headed “Financial Information – Quantitative and Qualitative Disclosures about Market Risk.”

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

- our Board is responsible and has the general power to manage the operations of our schools, and is in charge of managing the overall risks of our Group. It is responsible for considering, reviewing and approving any significant business decision involving material risk exposures, such as our decision to expand our school network into new geographic areas, to raise our tuition fees, and to enter into cooperative business relationships with third parties to establish new schools;
- we maintain insurance coverage, which we believe is in line with customary practice in the PRC education industry, including school liability insurance; and
- we have made arrangements with our lenders to ensure that we will be able to obtain credit to support for our business operation and expansion.