
CONTRACTUAL ARRANGEMENTS

BACKGROUND TO THE CONTRACTUAL ARRANGEMENTS

We currently conduct our private education business through our consolidated affiliated entities in the PRC as PRC laws and regulations, or the implementation of those laws and regulations by the relevant government authorities, generally prohibit or restrict foreign ownership in the private education industry in the PRC. Currently, PRC laws and regulations restrict the operation of higher education institutions to Sino-foreign ownership, in addition to imposing a qualification requirement on the foreign owners. Further, government approvals in respect of Sino-foreign ownership in the private education sector have, with very limited exceptions, been withheld in practice.

As a result of the restrictions imposed by PRC laws and regulations, our Company is unable to own or hold any direct sponsor interest or equity interest (as the case may be) in our consolidated affiliated entities. Accordingly, the term “ownership” or the relevant concept, as applied to our Company in this document, as the case may be, refers to an economic interest in the assets or businesses through the Contractual Arrangements without holding any sponsorship/equity interest in our consolidated affiliated entities. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our consolidated affiliated entities, have been narrowly tailored to achieve our business purpose and minimise the potential conflict with relevant PRC laws and regulations.

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

Higher education

Pursuant to the Foreign Investment Industries Guidance Catalogue (as amended in 2017) (《外商投資產業指導目錄》(2017年修訂)), the provision of higher education in the PRC falls within the “restricted” category. In particular, such catalogue explicitly restricts higher education institutions to Sino-foreign cooperation, which means that foreign investors may only operate higher education institutions through cooperating with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation. In addition, such catalogue also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools or education institutions shall be a PRC national; and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign school (the “**Foreign Control Restriction**”).

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, the foreign investor in a Sino-foreign school (whether as a kindergarten, high school or higher education institution, a “**Sino-Foreign School**”) must be a foreign educational institution with relevant qualification and high quality of education (the “**Qualification Requirement**”). Pursuant to the Sino-foreign Vocational Skills Training Measures, the foreign investor in a Sino-foreign technical school (a “**Sino-Foreign Technical School**”) must be a foreign education institution or a foreign vocational skills training institution with relevant qualification and high quality (the “**Qualification Requirement**”). Furthermore, pursuant to the Implementation Opinions, the foreign portion of the total investment in a Sino-Foreign School should be below 50% (the “**Foreign Ownership Restriction**”) and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

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Our PRC Legal Adviser has advised that the laws and regulations are currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant authority that it meets the Qualification Requirement.

With the assistance of our PRC Legal Adviser, we consulted the Education Department of Jiangxi Province (江西省教育廳) on 6 June 2017, the Education Department of Guangdong Province (廣東省教育廳) on 19 May 2017 and the Human Resources and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) on 17 May 2017, being the competent authorities as advised by our PRC Legal Adviser to confirm the matters relating to the Sino-Foreign Schools and Sino-Foreign Technical Schools relevant to us. We were advised by (a) the director of the International Cooperation and Exchange Office (國際合作與交流處) and a researcher of the Development and Planning Office (發展規劃處) of the Education Department of Jiangxi Province; (b) the director of the Policy and Regulation Office (政策法規處) of the Education Department of Guangdong Province and (c) the deputy director of the Vocational Education and Management Office (技工教育管理處) of the Human Resources and Social Security Department of Guangdong Province:

- (i) the Foreign Control Restriction and the Foreign Ownership Restriction apply to Sino-Foreign Schools and Sino-Foreign Technical Schools in their regions;
- (ii) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation and the Sino-foreign Vocational Skills Training Measures, including the Qualification Requirement, in Jiangxi and Guangdong provinces;
- (iii) as a matter of policy, due to the lack of implementing measures or specific guidance on the Sino-Foreign Regulation, and the Sino-foreign Vocational Skills Training Measures including the Qualification Requirement, the relevant authorities will unlikely approve an application to convert the PRC Operating Schools or the schools to be newly established or invested by us into Sino-Foreign Schools or Sino-Foreign Technical Schools; and
- (iv) the execution of the Contractual Arrangements does not require approval from them.

Given the policy adopted by the Human Resources and Social Security Department of Guangdong Province and the Education Department of Guangdong and Jiangxi provinces as summarised above, our Directors consider that it is not practicable for us to seek to apply to reorganise any of our schools as a Sino-Foreign School or a Sino-Foreign Technical School.

Notwithstanding the above, we are committed to working towards meeting the Qualification Requirement. We have adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. We will communicate with the relevant authorities on a regular basis following the Listing to keep abreast of any regulatory developments, including whether there will be any change in policy for approving Sino-Foreign Schools and Sino-Foreign Technical Schools in Guangdong and Jiangxi provinces, and assess whether we are qualified to meet the Qualification Requirement, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC laws and regulations. See the paragraphs headed “– PRC Laws and Regulations relating to Foreign Ownership in the Education Industry – Circumstances in which we will unwind the Contractual

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Arrangements” and “– PRC Laws and Regulations relating to Foreign Ownership in the Education Industry – Plan to comply with the Qualification Requirement” in this section for further details.

Due to the regulatory restrictions stated above, our PRC Operating Schools are in the form of domestic private college, university or technical school and we do not hold any sponsor interests in, but rather control by way of the Contractual Arrangements with, such college, university or technical school.

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any government bodies in relation to the Contractual Arrangements. The consolidated financial results of our consolidated affiliated entities, which engage in provision of education service, are consolidated into those of our Group.

Circumstances in which we will unwind the Contractual Arrangements

Under the Sino-Foreign Regulation, foreign investment in higher education institutions in the PRC is required to be in the form of cooperation between domestic educational institutions and foreign educational institutions and subject to the Foreign Ownership Restriction and the Foreign Control Restriction, foreign investors can only hold less than 50% interest in a Sino-Foreign School and not less than 50% of the governing body of the higher education institution must be appointed by the Chinese investors. Under the Sino-foreign Vocational Skills Training Measures, foreign investment in technical schools in the PRC is required to be in the form of cooperation between domestic educational institutions and foreign educational institutions. As confirmed by the relevant authority, the technical schools are also subject to the Foreign Control Restriction and the Foreign Ownership Restriction.

In the event that the Qualification Requirement is removed or we are able to meet the Qualification Requirement but (a) the Foreign Ownership Restriction and the Foreign Control Restriction remain; (b) the Foreign Ownership Restriction remains and the Foreign Control Restriction is removed; (c) the Foreign Ownership Restriction is removed and the Foreign Control Restriction remains; or (d) both the Foreign Ownership Restriction and the Foreign Control Restriction are removed, as permitted by the applicable PRC laws and regulations at the relevant time:

1. in circumstance (a), our Company will partially unwind the Contractual Arrangements and directly hold a sponsor or equity interest of less than 50% in the relevant school or corporate entity (as the case may be) (such as a 49.99% sponsor interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign School and a Sino-Foreign Technical School up to no more than 50%. However, our Company will not be able to control such school and corporate entities without the Contractual Arrangements in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction and the Foreign Control Restriction remain, regardless of whether the Qualification Requirement is removed, our Company will still rely on the Contractual Arrangements to establish control over the schools and corporate entities. Our Company will also acquire rights to appoint members to the board of directors of the school who together shall constitute less than 50% of the board of directors of the relevant school. We will then control the voting power of the other members of the board of directors appointed by the domestic interest holder(s) by way of the Contractual Arrangements;

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2. in circumstance (b), we will partially unwind the Contractual Arrangements and directly hold a sponsor or equity interest of less than 50% in the relevant school or corporate entity (as the case may be) (such as a 49.99% sponsor interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign School up to no more than 50%. However, our Company will not be able to control such school or corporate entities without the Contractual Arrangements in place with respect to the domestic interests. Our Company will also acquire rights to appoint all members to the board of directors of the school;
3. in circumstance (c), notwithstanding we will be able to hold a majority interest in Sino-Foreign Schools and Sino-Foreign Technical Schools, the Sino-Foreign Regulation still dictates that there be a domestic interest in the school and we will not be eligible to operate the schools by ourselves. Under such circumstances, we will acquire rights to appoint members to the board of directors of each of our schools who together shall constitute less than 50% of the board of directors of the relevant school. We will then control the voting power of such members appointed by the domestic interest holder(s) by way of the Contractual Arrangements. We also plan to directly hold the maximum percentage of equity interests permitted by the relevant laws and regulations in the relevant schools, subject to the approval of relevant government authorities. We will continue to control the remaining minority domestic interests that our Company intends to consolidate pursuant to the Contractual Arrangements; and
4. in circumstance (d), our Company will be allowed to directly hold 100% of the interests in our schools and our Company will fully unwind the Contractual Arrangements and directly hold all sponsor or equity interests in the schools or corporate entities (as the case may be). Our Company will also acquire rights to appoint all members to the board of directors of our schools.

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

Plan to comply with the Qualification Requirement

We are implementing a business plan with a view to expanding our education operations overseas. We believe that such business plan represents our commitment and a meaningful endeavour to demonstrate compliance with the Qualification Requirement. In particular, we have taken the following concrete steps to ensure compliance with the Qualification Requirement:

- on 14 June 2017, we entered into a consulting agreement with an independent education consultant with extensive experience and background in private post-secondary education in the State of California, the United States, pursuant to which the consultant shall provide consultation and adviser services in relation to (i) the incorporation of a subsidiary company with a view to providing educational services in California; and (ii) the licensing application to be submitted to the Bureau for Private Post-secondary Education (BPPE) in California; and

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- on 10 July 2017, we incorporated an operating entity in the State of California, the United States, namely University of Science and Technology, which is wholly owned by HK China Education Group. University of Science and Technology is expected to be responsible for the daily operation and management of our education businesses in the State of California, the United States. We anticipate that University of Science and Technology will formally commence operations in or around February 2019. We also estimate that an initial investment of USD1,050,000 will be required to establish such operations. We currently anticipate that the institution will initially offer two undergraduate degree programmes, namely, Bachelor of Science in Computer Science (計算機科學學士) and Bachelor of Science in Business Management (商務管理學士).

Our PRC Legal Adviser is of the view that while Sino-foreign Schools are to be jointly established by both foreign and domestic educational institutions, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate that it meets the Qualification Requirement. Based on the interviews conducted with the Education Department of Guangdong and Jiangxi Provinces and the Human Resources and Social Security Department of Guangdong Province and the steps that we have undertaken as mentioned above, our PRC Legal Adviser is of the view that we have taken all reasonable steps towards fulfilling the Qualification Requirement.

For taking the steps mentioned above, we had expended approximately US\$30,400 in connection with our plan as of the Latest Practicable Date. Towards the end of 2017, we expect to deploy three management personnel, namely Dr. Yu, Mr. Mok Kwai Pui Bill and Mr. Li Renyi, to develop the university in California. We will disclose our progress in the implementation of our overseas expansion plans and updates to the Qualification Requirement in our annual and interim reports to inform the public investors after the Listing as and when appropriate.

We have undertaken to the Stock Exchange that we will:

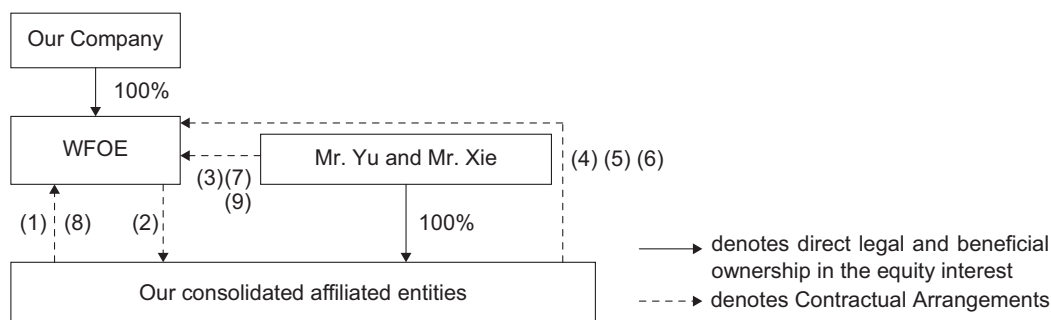
1. under the guidance of our PRC Legal Adviser, continue to keep ourselves updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirement; and
2. provide periodic updates in our annual and interim reports after Listing to inform our Shareholders of our efforts and actions undertaken with the Qualification Requirement.

OPERATION OF THE CONTRACTUAL ARRANGEMENTS

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

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The following simplified diagram illustrates the flow of economic benefits from our schools to us under the Contractual Arrangements:



Notes:

- (1) Payment of service fees. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Exclusive Technical Services and Management Consultancy Agreements” for details.
- (2) Provision of exclusive technical and management consultancy services. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Exclusive Technical Services and Management Consultancy Agreements” for details.
- (3) Exclusive call options to acquire all or part of our school sponsors’ or equity interests in our PRC Operating Schools, Huafang Education or Lihe Education. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Exclusive Call Option Agreements” for details.
- (4) Entrustment of school sponsors’ rights in our PRC Operating Schools. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – School Sponsors’ and Directors’ Rights Entrustment Agreements and Shareholders’ Rights Entrustment Agreements” and “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Powers of Attorney” for details.
- (5) Entrustment of directors’ rights in our PRC Operating Schools by directors of our PRC Operating Schools including directors’ powers of attorney. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – School Sponsors’ and Directors’ Rights Entrustment Agreements and Shareholders’ Rights Entrustment Agreements” and “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Powers of Attorney” for details.
- (6) Entrustment of shareholders’ rights in Huafang Education and Lihe Education including Shareholders’ Powers of Attorney. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – School Sponsors’ and Directors’ Rights Entrustment Agreements and Shareholders’ Rights Entrustment Agreements” and “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Powers of Attorney” for details.
- (7) Entrustment of school sponsors’ right including School Sponsors’ Powers of Attorney. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – School Sponsors’ and Directors’ Rights Entrustment Agreements and Shareholders’ Rights Entrustment Agreements” and “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Powers of Attorney” for details.
- (8) Pledge by Jiangxi University of Technology and Guangdong Baiyun University of their interest in certain receivables and any proceeds from the sale or transfer of the sponsor interests in Guangdong Baiyun University and Jiangxi University of Technology by Mr. Yu and Mr. Xie (as the case may be). See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Receivables Pledge Agreements” for details.
- (9) Pledge of all the equity interests in Lihe Education by Huafang Education and in Huafang Education by Mr. Yu and Mr. Xie. See “Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements – Equity Pledge Agreement” for details.

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Summary of the Material Terms of the Contractual Arrangements

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

Business Cooperation Agreements

Pursuant to the business cooperation agreements entered into by and between (i) WFOE, Jiangxi University of Technology and Mr. Yu dated 30 June 2017, (ii) WFOE, Guangdong Baiyun University and Mr. Xie dated 30 June 2017 and (iii) WFOE, Baiyun Technician College, Huafang Education, Lihe Education, Mr. Yu and Mr. Xie dated 14 August 2017 (the “**Business Cooperation Agreements**”), WFOE has the exclusive right to provide each of our consolidated affiliated entities technical services, management support services, consulting services, intellectual property licences and other additional services as the parties may mutually agree from time to time, and in return, our PRC Operating Schools and other consolidated affiliated entities shall make payments accordingly. Without WFOE’s prior written consent, none of our consolidated affiliated entities and our Registered School Sponsors may accept services which are in competition or contradiction with those covered by the Business Cooperation Agreements from any third party.

To ensure the due performance of the Contractual Arrangements, each of our consolidated affiliated entities agreed to comply, and procure any of its subsidiaries to comply with, and our Registered School Sponsors agreed to procure our consolidated affiliated entities to comply with the obligations as prescribed under the Business Cooperation Agreements set forth as follows:

- (a) to carry out its private education operations in a prudent and efficient manner in accordance with good financial and business standards while maintaining the asset value of our PRC Operating Schools and the quality and standard of private education;
- (b) to prepare school development plans and annual working plans in accordance with the instructions of WFOE;
- (c) to carry out its private education activities and other relevant business under the assistance of WFOE;
- (d) to carry out and manage its daily operations and financial management in accordance with the recommendations, advice, principles and other instructions of WFOE;
- (e) to execute and act upon the recommendations of WFOE in terms of employment and removal of senior management and staff;
- (f) to adopt the advice, guidance and plans given by WFOE in relation to their respective strategic development;
- (g) to carry out its business operations and renew and maintain its respective necessary licences;

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- (h) at the request of WFOE, to provide information relevant to the operation of our PRC Operating Schools, Lihe Education and Huafang Education, and timely notify WFOE any event that led to or may lead to material adverse effect on its business, and to use best efforts to prevent the occurrence of such event and/or to mitigate loss resulting from such event;
- (i) at the request of WFOE, to purchase insurance from insurance companies (agreed by WFOE) relating to the assets and businesses of our PRC Operating Schools, Lihe Education and Huafang Education, the amount and category of such insurance shall be consistent with those companies or schools in the same area holding similar properties and assets; and
- (j) to deliver all authorising seals (including the school seal and the financial seal) and originals of its registration documents (including but not limited to the school's private non-enterprise unit registration certificate, school permit and articles and association) to WFOE for its custody and management under the Contractual Arrangements.

In addition, pursuant to the Business Cooperation Agreements,

- (a) each of Mr. Yu and Mr. Xie undertakes to WFOE that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of his direct or indirect sponsor or equity interest in Jiangxi University of Technology, Guangdong Baiyun University and Huafang Education, he shall have made all necessary arrangement and sign all necessary documents such that his respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the sponsor interest or relevant rights shall not prejudice or hinder the enforcement of the Contractual Arrangements;
- (b) each of Mr. Yu and Mr. Xie undertakes that, in the event of the dissolution or liquidation of our PRC Operating Schools, Huafang Education and/or Lihe Education, (i) WFOE shall have the right to exercise all school sponsor's/shareholder's right on behalf of the Registered School Sponsor, Huafang Education and/or Lihe Education; (ii) each of Mr. Yu and Mr. Xie shall transfer or procure the transfer of all assets received or receivable in the capacity as school sponsor/shareholder of each of our PRC Operating Schools, Huafang Education and/or Lihe Education as a result of the dissolution or liquidation of our PRC Operating Schools, Huafang Education and/or Lihe Education to WFOE or other persons designated by us at nil consideration, and instruct our PRC Operating Schools, Huafang Education and/or Lihe Education to transfer such assets directly to WFOE; (iii) if consideration is required for such transfer under the then applicable PRC laws, Mr. Yu and/or Mr. Xie shall compensate WFOE or the person as designated by us the amount and guarantee that WFOE or other persons as designated by us does not suffer any loss; and
- (c) our PRC Operating Schools, Huafang Education and Lihe Education agreed that, without the prior written consent of WFOE, our PRC Operating Schools, Huafang Education and/or Lihe Education shall not declare or pay to Mr. Yu or Mr. Xie any reasonable return, dividend or other interest or benefit. In the event that Mr. Yu or Mr. Xie receives any reasonable return, dividend or other interest or benefit, he shall unconditionally and without compensation transfer such amount to WFOE.

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In order to prevent the leakage of assets and values of our PRC Operating Schools, each of Mr. Yu, Mr. Xie, our PRC Operating Schools, Huafang Education and Lihe Education has undertaken that, without the prior written consent of WFOE or its designated party, Mr. Yu, Mr. Xie, our PRC Operating Schools, Huafang Education and/or Lihe Education shall not conduct or cause to conduct any activity or transaction which may have any actual impact (i) on the assets, business, staff, obligations, rights or operations of our PRC Operating Schools, Huafang Education and/or Lihe Education or (ii) on the ability of Mr. Yu, Mr. Xie, our PRC Operating Schools, Huafang Education and/or Lihe Education to perform the obligations under the Contractual Arrangements. Such activities and transactions include, without limitation:

- (a) establishment of any subsidiary or entity by our PRC Operating Schools, Huafang Education and Lihe Education;
- (b) conduct of any activity by our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries which are outside the ordinary course of business or change the mode of operations of our PRC Operating Schools or their respective subsidiaries;
- (c) consolidation, subdivision, change of form of corporate organisation, dissolution or liquidation of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries;
- (d) providing any borrowing, loan or guarantee in respect of any debt to, or obtaining any borrowing and loan from, our PRC Operating Schools, Huafang Education, Lihe Education and/or their respective subsidiaries;
- (e) providing any borrowing, loan or guarantee in respect of any debt, or obtaining any borrowing and loan by our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries to or from any third party, except those arise in the ordinary course of business and provided that the amount of a single item of debt is less than RMB100,000;
- (f) change or removal of any director, supervisor or senior manager of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries, increase or decrease of their remuneration package, or change of their appointment terms and conditions;
- (g) sale, transfer, lending or authorising the use or disposal of any assets or rights of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries to any third party other than WFOE or its designated party, or purchase from any third party any assets or rights, except in the ordinary course of business and provided that the amount of a single transaction is less than RMB100,000;
- (h) sale of any equity interest or school sponsor rights in our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries to any third party other than WFOE or its designated party, or of the registered capital or change of the structure of the equity or sponsor interest of our PRC Operating Schools or their respective subsidiaries;
- (i) providing security over equity interest and/or sponsor interest in or assets or rights of, or creating encumbrance over equity and/or sponsor interest in or assets of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries to third parties other than to WFOE or its designated party;

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- (j) altering, amending or revoking any permits of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries;
- (k) amending the articles of association or scope of business of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries;
- (l) change of any normal business procedures or amendment of any internal procedures and system of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries;
- (m) entering into any business contracts outside the ordinary course of business except pursuant to the plan or suggestion of WFOE or us;
- (n) distribution of dividend, reasonable return or other payments to our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries;
- (o) carrying out any activity which has or may have an adverse effect on the daily operations, business or assets of our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries or their ability to make any payment to WFOE;
- (p) entering into any transaction which has or may have an adverse effect on the transactions contemplated under the Contractual Arrangements; and
- (q) transfer of his/its rights and obligations under the Contractual Arrangements to any third party other than WFOE or its designated party, or establishment and commencement of any cooperation or business relationship similar to that under the Contractual Arrangements with any third party by our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries.

Furthermore, each of Mr. Yu and Mr. Xie undertakes to WFOE that, unless with the prior written consent of WFOE, he shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with any of our PRC Operating Schools, Huafang Education, Lihe Education and their respective subsidiaries (“**Competing Business**”), (ii) use information obtained from our PRC Operating Schools, Huafang Education, Lihe Education or their respective subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. Each of Mr. Yu and Mr. Xie further consents and agrees that, in the event that Mr. Yu or Mr. Xie (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business, WFOE and/or other entities as designated by us shall be granted an option to require the entity engaging in the Competing Business to enter into an arrangement similar to that of the Contractual Arrangements. If WFOE does not exercise such option, Mr. Yu or Mr. Xie shall cease the operation of the Competing Business within a reasonable time.

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Exclusive Technical Services and Management Consultancy Agreements

Pursuant to the exclusive technical services and management consultancy agreements entered into by and between (i) WFOE and Jiangxi University of Technology dated 30 June 2017, (ii) WFOE and Guangdong Baiyun University dated 30 June 2017 and (iii) WFOE, Lihe Education, Huafang Education and Baiyun Technician College dated 14 August 2017 (the “**Exclusive Technical Services and Management Consultancy Agreements**”), WFOE has the exclusive right to provide, or designate any third party to provide, technical services to each of our PRC Operating Schools, Lihe Education and Huafang Education, including (a) design, development, update and maintenance of software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites necessary for the education activities of our PRC Operating Schools, Lihe Education and Huafang Education; (c) design, development, update and maintenance of management information systems necessary for the education activities of our PRC Operating Schools, Lihe Education and Huafang Education; (d) provision of other technical support necessary for the education activities of our PRC Operating Schools, Lihe Education and Huafang Education; (e) provision of technical consulting services; (f) provision of technical training; (g) engaging technical staff to provide on-site technical support; and (h) other technical services reasonably requested by our PRC Operating Schools, Lihe Education and Huafang Education. Without WFOE’s prior written consent, none of our consolidated affiliated entities may accept services covered by the Exclusive Technical Services and Management Consultancy Agreements from any third party.

Furthermore, WFOE agreed to provide exclusive management consultancy services to our PRC Operating Schools, Lihe Education and Huafang Education, including (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimisation on annual budget; (h) advising on design of internal structures and internal management; (i) provision of management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of marketing network; and (m) providing other services reasonably requested by our PRC Operating Schools, Lihe Education and Huafang Education.

As of the Latest Practicable Date, WFOE had over 30 personnel with various professional backgrounds, including education, legal and compliance, business administration and accounting and finance. We will deploy relevant staff to continue providing services to our PRC Operating Schools, Lihe Education and Huafang Education from time to time pursuant to the Exclusive Technical Service and Management Consultancy Agreements.

In consideration of the technical and management consultancy services provided by WFOE, each of our PRC Operating Schools, Lihe Education and Huafang Education agreed to pay WFOE a service fee equal to all of their respective amount of surplus from operations (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law), the legally compulsory development fund of the respective school (if required by the law) and other sums required by the relevant laws and regulations to be reserved or withheld). The compulsory development fund is included as statutory surplus reserve at the Group’s level and retained at schools’ level. WFOE has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of our PRC Operating Schools, Lihe Education and Huafang Education, provided that any adjusted amount shall not exceed the amount mentioned above.

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Pursuant to the Exclusive Technical Service and Management Consultancy Agreements, unless otherwise prescribed under the PRC laws and regulations, WFOE shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by WFOE to our PRC Operating Schools, Lihe Education and Huafang Education, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreements and/or any other agreements entered into between WFOE and other parties.

Exclusive Call Option Agreements

Under the exclusive call option agreements entered into by and between (i) WFOE, Jiangxi University of Technology and Mr. Yu dated 30 June 2017, (ii) WFOE, Guangdong Baiyun University and Mr. Xie dated 30 June 2017 and (iii) WFOE, Baiyun Technician College, Mr. Yu, Mr. Xie, Huafang Education and Lihe Education dated 14 August 2017 (the “**Exclusive Call Option Agreements**”), Mr. Yu, Mr. Xie, Lihe Education and Huafang Education have irrevocably granted WFOE or its designated purchaser the right to purchase all or part of the interests in our PRC Operating Schools, Huafang Education or Lihe Education (as the case may be). The purchase price payable by WFOE in respect of the transfer of such sponsor interest upon exercise of the call option shall be the lowest price permitted under the PRC laws and regulations. WFOE or its designated purchaser shall have the right to purchase such proportion of the sponsor interest in our PRC Operating Schools or the equity interests in Huafang Education or Lihe Education as it decides at any time.

In the event that PRC laws and regulations allow WFOE or us to directly hold all or part of the sponsor interest in our PRC Operating Schools or the equity interests in Huafang Education or Lihe Education and operate private education business in the PRC, WFOE shall issue a notice of exercise of the call option as soon as practicable, and the percentage of sponsor interest or equity interest purchased upon exercise of the call option shall not be lower than the maximum percentage then allowed to be held by WFOE or us under PRC laws and regulations.

Each of Mr. Yu and Mr. Xie has further undertaken to WFOE that he:

- (a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over his sponsor interest in any of our PRC Operating Schools, Lihe Education and Huafang Education directly or indirectly without the prior written consent of WFOE;
- (b) shall not increase or reduce or agree to the increase or reduction of capital investment as school sponsor of our PRC Operating Schools, Lihe Education and Huafang Education without the prior written consent of WFOE;
- (c) shall not agree to or procure any of our PRC Operating Schools, Lihe Education and Huafang Education to divide into or merge with other entities without the prior written consent of WFOE;

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- (d) shall not dispose of or procure the management of our PRC Operating Schools, Lihe Education and Huafang Education to dispose of any of the assets of our PRC Operating Schools, Lihe Education and Huafang Education without the prior written consent of WFOE, except in the ordinary course of business and provided that the value of assets in relation to each and every disposal shall not exceed RMB100,000;
- (e) shall not terminate or procure the management of our PRC Operating Schools, Lihe Education and Huafang Education to terminate any material contract (which includes any agreement under which the amount for each and every termination involved exceeds RMB100,000, the Contractual Arrangements and any agreement of similar nature or content to the Contractual Arrangements) or enter into any other contracts which may contradict such material contracts without the prior written consent of WFOE;
- (f) shall not procure any of our PRC Operating Schools, Lihe Education and Huafang Education to enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of our PRC Operating Schools without the prior written consent of WFOE, save for transactions which are in the ordinary course of business of our PRC Operating Schools, Lihe Education and Huafang Education with the amount of each and every transaction involved not more than RMB100,000, or transactions which have been disclosed to WFOE and approved by WFOE;
- (g) shall not agree to or procure any of our PRC Operating Schools, Lihe Education and Huafang Education to declare or in substance distribute any distributable reasonable return or agree to such distribution without the prior written consent of WFOE;
- (h) shall not agree to or procure any of our PRC Operating Schools to change its mode of operation (辦學模式) or its nature of operation (辦學性質);
- (i) shall not agree to or procure any of our PRC Operating Schools, Lihe Education and Huafang Education to amend its articles of association without the prior written consent of WFOE;
- (j) shall ensure that any of our PRC Operating Schools, Lihe Education and Huafang Education does not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by our PRC Operating Schools, Lihe Education or Huafang Education exceeds RMB100,000, obligations which restrict or hinder the due performance of obligations under the Contractual Arrangements by our PRC Operating Schools, Lihe Education and Huafang Education, obligations which restrict or prohibit the financial or business operations of our PRC Operating Schools, Lihe Education and Huafang Education, or any obligations which may result in change of the structure of the school sponsor's/ shareholder's interest of our PRC Operating Schools) outside its ordinary course of business without the prior written consent of WFOE;

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- (k) shall use its best endeavours to develop the business of our PRC Operating Schools, Lihe Education and Huafang Education and ensure compliance with laws and regulations by our PRC Operating Schools, Lihe Education and Huafang Education, and shall not take or fail to take any action which may prejudice the assets, goodwill or the effectiveness of operational licences of our PRC Operating Schools, Lihe Education and Huafang Education;
- (l) shall, prior to the transfer of his sponsor interest or equity interests in Lihe Education or Huafang Education to WFOE or its designated purchaser and without prejudice to the School Sponsors' and Directors' Rights Entrustment Agreements and Shareholders' Rights Entrustment Agreements, execute all documents necessary for holding and maintaining the ownership of its interest in our PRC Operating Schools, Lihe Education and Huafang Education;
- (m) shall sign all documents and take all necessary actions to facilitate transfer of its sponsor interest in our PRC Operating Schools, Lihe Education and Huafang Education to WFOE or its designated purchaser;
- (n) shall take all such actions to facilitate our PRC Operating Schools, Lihe Education and Huafang Education in their performance of its obligations under the Exclusive Call Option Agreements if such performance requires any action be taken by the Registered School Sponsor on his part;
- (o) shall, in its capacity as a school sponsor/shareholder of our PRC Operating Schools, Lihe Education and Huafang Education and without prejudice to the Contractual Arrangements, procure directors nominated by it to exercise all rights to enable any of our PRC Operating Schools, Lihe Education and Huafang Education to perform its rights and obligations under the Exclusive Call Option Agreements, and shall replace any director or council member who fails to do so; and
- (p) in the event that the consideration paid by WFOE or its designated purchaser for the transfer of all or part of the interest in our PRC Operating Schools, Lihe Education or Huafang Education exceeds RMB0, shall pay such excess amount to WFOE or its designated entity.

In order to prevent the flow of the assets and value of our consolidated affiliated entities to their respective school sponsors, pursuant to the Exclusive Call Option Agreements, none of the assets of our PRC Operating Schools, Lihe Education and Huafang Education are to be sold, transferred or otherwise disposed of without the written consent of WFOE. Unless our PRC Operating Schools, Lihe Education and Huafang Education can prove that such transaction (i) occurred in the ordinary course of business and (ii) has a value not exceeding RMB100,000 for a single transaction. In addition, under the Exclusive Call Option Agreements, none of Mr. Yu, Mr. Xie, Lihe Education or Huafang Education may transfer or permit the encumbrance to be created on any of his or its interests in our PRC Operating Schools, Lihe Education and Huafang Education without WFOE's prior written consent.

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School Sponsors' and Directors' Rights Entrustment Agreements and Shareholders' Rights Entrustment Agreements

Pursuant to the school sponsors' and directors' rights entrustment agreements entered into by and between (i) WFOE, Mr. Yu and each director of Jiangxi University of Technology dated 30 June 2017, (ii) WFOE, Mr. Xie and each director of Guangdong Baiyun University dated 30 June 2017 and (iii) WFOE, Lihe Education and each director of Baiyun Technician College dated 14 August 2017 (the "**School Sponsors' and Directors' Rights Entrustment Agreements**"), the Registered School Sponsors have irrevocably authorised and entrusted WFOE to exercise all its rights as school sponsor of each of our PRC Operating Schools to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of the schools; (b) the right to appoint and/or elect supervisors of the schools; (c) the right to access the information relating to the operation and financial situation of the schools; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the schools; (e) the right to obtain reasonable returns or any returns as school sponsor of the schools in accordance with the laws and the articles of association of each school; (f) the right to acquire residue assets upon winding-up, liquidation, dissolution or cessation of operation of the schools in accordance with the laws; (g) the right to transfer sponsor interest in accordance with the laws; (h) the right to vote as school sponsor upon winding-up, liquidation, dissolution or cessation of operation of the schools in accordance with the laws; (i) the right to handle the legal procedures of registration, approval and licensing of our PRC Operating Schools at the education department, the department of civil affairs or other government departments and (j) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time. In addition, Lihe Education has also irrevocably authorised and entrusted WFOE to elect Baiyun Technician College to be a for-profit school or a non-profit school.

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreements, each of the directors of each school (the "**Appointees**") has irrevocably authorised and entrusted WFOE to exercise all his/her rights as directors of our PRC Operating Schools as appointed by the Registered School Sponsors and to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representative of the directors appointed by the Registered School Sponsors; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of our PRC Operating Schools; (c) the right to propose to convene interim board meetings of each of our PRC Operating Schools; (d) the right to sign all board minutes, board resolutions and other legal documents which the directors appointed by the Registered School Sponsors have authority to sign in his/her capacity as directors of our PRC Operating Schools; (e) the right to instruct the legal representative, financial, business, and administration responsible persons of our PRC Operating Schools to act in accordance with the instruction of WFOE; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of our PRC Operating Schools; (g) the right to handle the legal procedures of registration, approval and licensing of our PRC Operating Schools at the education department, the department of civil affairs or other government regulatory departments; and (h) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of our PRC Operating Schools as amended from time to time.

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Pursuant to the shareholders' rights entrustment agreements entered into by and between (i) WFOE, Huafang Education, Mr. Yu and Mr. Xie and (ii) WFOE, Lihe Education and Huafang Education (the "**Shareholders' Rights Entrustment Agreements**"), Mr. Yu, Mr. Xie and/or Huafang Education have irrevocably authorised and entrusted WFOE to exercise all his/its rights as shareholders of each of Huafang Education and Lihe Education to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend shareholders' meetings of Huafang Education and Lihe Education, as the case may be; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of the Huafang Education and Lihe Education, as the case may be; (c) the right to appoint directors or legal representative of the Huafang Education and Lihe Education, as the case may be; (d) the right to propose to convene interim shareholders' meetings of the Huafang Education and Lihe Education, as the case may be; (e) the right to sign all shareholders' resolutions and other legal documents which Mr. Yu, Mr. Xie and Huafang Education have authority to sign in his or its capacity as shareholders of Huafang Education and Lihe Education, as the case may be; (f) the right to instruct the directors and legal representative of the Huafang Education or Lihe Education, to act in accordance with the instruction of WFOE; (g) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of Huafang Education and Lihe Education, as the case may be; (h) the right to handle the legal procedures of registration, approval and licensing of Huafang Education and Lihe Education, as the case may be at the education department, the department of civil affairs or other government departments; and (i) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of Huafang Education and Lihe Education as amended from time to time.

In addition, each of Mr. Yu, Mr. Xie, Lihe Education, Huafang Education and the Appointees has irrevocably agreed that (i) WFOE may delegate its rights under the School Sponsors' and Directors' Rights Entrustment Agreements and the Shareholders' Rights Entrustment Agreements to the directors of WFOE or its designated person, without prior notice to or approval by Mr. Yu, Mr. Xie, Lihe Education, Huafang Education and the Appointees, as the case may be; and (ii) any person as successor of civil rights of WFOE or liquidator by reason of subdivision, merger, liquidation of WFOE or other circumstances shall have authority to replace WFOE to exercise all rights under the School Sponsors' and Directors' Rights Entrustment Agreements and the Shareholders' Rights Entrustment Agreements.

Powers of Attorney

Pursuant to the School Sponsors' Powers of Attorney executed by the Registered School Sponsors in favour of WFOE, each of the Registered School Sponsors authorised and appointed WFOE as its agents to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of our PRC Operating Schools.

WFOE shall have the right to further delegate the rights so delegated to the directors of WFOE or other designated person. The Registered School Sponsors irrevocably agreed that the authorisation and appointment in the School Sponsor's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of the School Sponsors' subdivision, merger, winding up, consolidation, liquidation or other similar events. Each of the School Sponsors' Powers of Attorney shall constitute a part and incorporate terms of the relevant School Sponsors' and Directors' Rights Entrustment Agreement.

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Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favour of WFOE, each of the Appointees authorised and appointed WFOE as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors of our PRC Operating Schools.

WFOE shall have the right to further delegate the rights so delegated to the directors of WFOE or other designated person. Each of the Appointees irrevocably agreed that the authorisation and appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. Each of the Directors' Powers of Attorney shall constitute a part of and embody the terms of the relevant School Sponsors' and Directors' Rights Entrustment Agreement.

Pursuant to the Shareholders' Powers of Attorney executed by each of Mr. Yu, Mr. Xie and Huafang Education in favour of WFOE (together with the Schools Sponsors' Powers of Attorney and the Directors' Powers of Attorney, the "**Powers of Attorney**"), each of Mr. Yu, Mr. Xie and Huafang Education authorised and appointed WFOE, as his or its agent to act on his or its behalf to exercise or delegate the exercise of all his or its rights as shareholders of Huafang Education and Lihe Education. Each of the Shareholders' Power of Attorney shall constitute a part of and embody the terms of the relevant Shareholders' Rights Entrustment Agreement.

In addition, the Powers of Attorney specifically provide that the attorney-in-fact is entitled to sign minutes and file documents with the relevant authorities.

Those of our powers to direct the activities of our PRC Operating Schools that most significantly impact the schools' economic performance include:

1. as the attorney-in-fact of school sponsors, we elect all members of the board of directors for each of our PRC Operating Schools, approve the director compensation, review and approve annual budget and vote on all matters that requiring approval from school sponsors;
2. through the control over the boards of directors of our PRC Operating Schools, we appoint all senior management, approve executive compensation and review and approve operating, investing, and financing plans; and
3. through control over the management team, we effectively control the daily operations of our PRC Operating Schools.

Receivables Pledge Agreements

Pursuant to the receivables pledge agreements entered into by and between (i) WFOE, Jiangxi University of Technology and Mr. Yu dated 30 June 2017 and (ii) WFOE, Guangdong Baiyun University and Mr. Xie dated 30 June 2017 (the "**Receivables Pledge Agreements**"), each of Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University unconditionally and irrevocably pledged and granted first priority security interests over all of his or its interest in (i) receivables from the schools' boarding and tuition fees, (ii) rent from the school's properties, (iii) receivables from services provided by the school and (iv) any proceeds from the sale or transfer of the sponsor interests in Guangdong Baiyun University or Jiangxi University of Technology by Mr. Xie or Mr. Yu (as the case may be), together with all related rights thereto to WFOE as security for performance of the Contractual Arrangements and all direct, indirect or consequential damages and foreseeable loss of interest incurred by WFOE as

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a result of any event of default on the part of Mr. Yu and Mr. Xie or each of Jiangxi University of Technology and Guangdong Baiyun University and all expenses incurred by WFOE as a result of enforcement of the obligations of Mr. Yu and Mr. Xie and/or each of Jiangxi University of Technology and Guangdong Baiyun University under the Contractual Arrangements (the “**Secured Indebtedness**”).

Pursuant to the Receivables Pledge Agreements, without the prior written consent of WFOE, Jiangxi University of Technology and Guangdong Baiyun University shall not transfer the receivables or create further pledge or encumbrance over the pledged interest in the receivables. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the interest in the receivables shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by WFOE. Mr. Yu and Mr. Xie also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged interest pursuant to the relevant Receivables Pledge Agreement.

Any of the following events shall constitute an event of default under the Receivables Pledge Agreements:

- (a) Mr. Yu or Mr. Xie commits any breach of any obligations under the Contractual Arrangements;
- (b) any representations or warranties or information provided by Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University under the Contractual Arrangements is proved incorrect or misleading; or
- (c) any provision in the Contractual Arrangements becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, WFOE shall have the right to enforce the Receivables Pledge Agreements by written notice to our PRC Operating Schools in one or more of the following ways:

- (a) sell the pledged receivables interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds;
- (b) appoint relevant auction parties for the action; and/or
- (c) dispose of the pledged receivables interest in other manner subject to applicable laws and regulations.

The pledges under the Receivables Pledge Agreements were registered with the Credit Reference Centre of the People’s Bank of China (中國人民銀行徵信中心) on 10 August 2017 as required by the Receivables Pledge Registration Measures (《應收賬款質押登記辦法》) promulgated by the People’s Bank of China and became effective on the same day of registration.

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Designated Accounts

Pursuant to the account supervision agreements entered into by and between (i) WFOE, Jiangxi University of Technology, Mr. Yu and Nanchang Agriculture Bank Holdings Company Limited Qingshanhu Branch (南昌農村商業銀行股份有限公司青山湖支行) (“**Jiangxi Bank**”) dated 15 August 2017, and (ii) WFOE, Guangdong Baiyun University, Mr. Xie and China Construction Bank Holdings Company Limited Guangzhou Baiyun Branch (中國建設銀行股份有限公司廣州白雲支行) (“**Guangdong Bank**”) dated 28 August 2017 (the “**Account Supervision Agreements**”): (a) Mr. Yu and Jiangxi University of Technology shall each set up a bank account at Jiangxi Bank; and (b) Guangdong Baiyun University and Mr. Xie shall each set up a bank account at Guangdong Bank (together, the “**Designated Accounts**”), for the purpose of safeguarding the WFOE’s interests under the Receivables Pledge Agreements. Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University shall only use the Designated Accounts in the ordinary course of business except otherwise used with WFOE’s prior consent. WFOE shall have the right to supervise the daily operation of the Designated Accounts. Any transactions with respect to the Designated Accounts shall require the chops of both WFOE and Jiangxi University of Technology or Guangdong Baiyun University, as the case may be. In the event of default by Mr. Yu, Mr. Xie, Jiangxi University of Technology or Guangdong Baiyun University under the agreements, WFOE shall have the right to deduct the relevant amount from his or its Designated Account.

Each of Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University shall deposit all of his or its proceeds from receivables or the sale or transfer of sponsor interest (as the case may be) subject to the Receivables Pledge Agreements into his or its Designated Account. Under the Account Supervision Agreements, the daily operation of the Designated Accounts shall be under the supervision of Jiangxi Bank and Guangdong Bank (as the case may be) on behalf of WFOE. In addition, WFOE shall also have access to the internet banking functions of the Designated Accounts. Each of Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University shall not (i) change, cancel or open any account to replace the Designated Account, (ii) pledge any interest in the Designated Account in favour of third parties or (iii) use the Designated Account as any guarantee account.

Equity Pledge Agreement

There are no equity pledge arrangements in relation to Jiangxi University of Technology and Guangdong Baiyun University. Nevertheless, there is an equity pledge agreement in relation to Baiyun Technician College. Pursuant to the equity pledge agreement entered into by WFOE, Mr. Yu, Mr. Xie, Huafang Education and Lihe Education dated 14 August 2017 (the “**Equity Pledge Agreement**”), Mr. Yu, Mr. Xie and Huafang Education unconditionally and irrevocably pledged and granted first priority security interests over all of his or its equity interest in Lihe Education and Huafang Education, as the case may be, together with all related rights thereto to WFOE as security for performance of the Contractual Arrangements and all direct, indirect or consequential damages and foreseeable loss of interest incurred by WFOE as a result of any event of default on the part of Mr. Yu, Mr. Xie, Huafang Education, Lihe Education or Baiyun Technician College and all expenses incurred by WFOE as a result of enforcement of the obligations of Mr. Yu, Mr. Xie, Huafang Education, Lihe Education and/or Baiyun Technician College under the Contractual Arrangements (the “**Secured Indebtedness**”).

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Pursuant to the Equity Pledge Agreement, without the prior written consent of WFOE, Mr. Yu, Mr. Xie, Huafang Education shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by WFOE. Mr. Yu, Mr. Xie, Huafang Education also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Equity Pledge Agreement.

Any of the following events shall constitute an event of default under the Equity Pledge Agreement:

- (a) any of Mr. Yu, Mr. Xie, Huafang Education, Lihe Education or Baiyun Technician College commits any breach of any obligations under the Contractual Arrangements;
- (b) any representations or warranties or information provided by any of Mr. Yu, Mr. Xie, Huafang Education, Lihe Education or Baiyun Technician College under the Contractual Arrangements is proved incorrect or misleading; or
- (c) any provision in the Contractual Arrangements becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, WFOE shall have the right to enforce the Equity Pledge Agreement by written notice to Mr. Yu, Mr. Xie or Huafang Education in one or more of the following ways:

- (a) to the extent permitted under PRC laws and regulations, WFOE may request Mr. Yu, Mr. Xie or Huafang Education to transfer all or part of its equity interest in Lihe Education to any entity or individual designated by WFOE at the lowest consideration permissible under the PRC laws and regulations;
- (b) sell the pledged equity interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds;
- (c) dispose of the pledged equity interest in other manner subject to applicable laws and regulations.

The pledges under the Equity Pledge Agreement were registered with the relevant Market and Quality Supervision Administrations of the PRC on 28 August 2017 and became effective on the same date of the registration of the pledge.

Under the Contractual Arrangements, there is no equity pledge arrangement between WFOE and Mr. Yu and Mr. Xie over the sponsor interest in Jiangxi University of Technology and Guangdong Baiyun University held by Mr. Yu and Mr. Xie. As advised by our PRC Legal Adviser, if we were to make an equity pledge arrangement with our school sponsors where our school sponsors pledge their sponsor interest in each of our Jiangxi University of Technology and Guangdong Baiyun University in favour of us, such arrangement would be unenforceable under PRC laws and regulations given that sponsor interests in schools are not pledgeable under PRC laws and any equity pledge arrangements with respect to our sponsor interests in schools cannot be registered with the relevant PRC regulatory authorities. Furthermore, to the best of the Directors'

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knowledge, based on the current implementation of applicable laws by the relevant authorities, as a practicable matter, Mr. Yu and Mr. Xie are not able to transfer their sponsor interests to another entity to enable them to pledge the equity interests in such entity to us.

Nevertheless, in addition to the Receivables Pledge Agreements pursuant to which we have been granted a security interest over the principal revenue streams from the Jiangxi University of Technology and Guangdong Baiyun University and proceeds from the sale on transfer of the sponsor interests in Guangdong Baiyun University or Jiangxi University of Technology by Mr. Xie or Mr. Yu (as the case may be) and the Account Supervision Agreements pursuant to which we have oversight and control over the bank accounts of Jiangxi University of Technology and Guangdong Baiyun University, we have implemented various additional measures with a view to securing control over Jiangxi University of Technology and Guangdong Baiyun University at a level no less than that under a contractual arrangement with equity pledge arrangement. According to the Private High School Administrative Approval Manual (民辦高等學校行政工作許可手冊), any transfer of the school sponsor interest would require: (i) two thirds approval from the school's board of directors; (ii) execution of the transfer documents and adoption of amended school articles with the authorisation seal; and (iii) assets supporting materials and original school registration document with the authorisation seal. Accordingly, our Company will take the following measures to ensure the sponsor interest in our PRC Operating Schools may not be transferred without our consent:

- (a) as disclosed above, under the School Sponsors' and Directors' Rights Entrustment Agreements and the various Powers of Attorney, WFOE has the right to further delegate the rights so delegated to itself to other persons. WFOE intends to delegate all of such rights to our independent non-executive Directors who shall act unanimously to exercise oversight over our Company's interests in the consolidated affiliated entities. Accordingly, our Directors consider that WFOE, together with our independent non-executive Directors (the latter acting unanimously), as attorneys-in-fact are effectively entrusted with the control over the composition of the school boards and the exercise of the voting powers of each sponsor appointed board member of each of Jiangxi University of Technology and Guangdong Baiyun University. With such arrangement, our Directors consider that we are effectively in a position to control the votes required for the transfer of the sponsor interest, deal with the sponsor interests as we see fit and prevent any unauthorised transfer. We will provide our independent non-executive Directors with full access to the affairs of our Jiangxi University of Technology and Guangdong Baiyun University with a view to facilitating their oversight. Since our independent non-executive Directors are also the attorneys-in-fact, they have the authority (acting unanimously) to intervene in the matters concerning our Jiangxi University of Technology and Guangdong Baiyun University as and when necessary. We intend to adopt internal control procedures which provide for how WFOE and independent non-executive Directors (the latter acting unanimously) may exercise their authority with respect to various matters concerning Jiangxi University of Technology and Guangdong Baiyun University. In particular, any matters concerning the sponsor interest of Jiangxi University of Technology and Guangdong Baiyun University will require approval from the Company's independent non-executive Directors. Each of our independent non-executive Directors has confirmed that he/she is independent from the influence of Mr. Yu and Mr. Xie and will be able to exercise independent judgment in the best interest of our Company with respect to the sponsor interests in, and any conflicts of interests relating to, Jiangxi University of Technology and

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Guangdong Baiyun University, and has undertaken to monitor the effectiveness of such internal procedures and ensure that they are properly implemented and executed to safeguard our Company from any unauthorised transfer of sponsor interests; and

- (b) our Directors confirm that we have secured possession of all school seals and chops and the original registration documents of Jiangxi University of Technology and Guangdong Baiyun University, which are, according to the Private High School Administrative Approval Manual (民辦高等學校行政工作許可手冊), mandatory for effecting the transfer of sponsor interest at the MOE. We intend to adopt internal control procedures with respect to the custody and use of these items under the scrutiny of our independent non-executive Directors, pursuant to which these items will not be made available to Mr. Yu and Mr. Xie without proper approval. Such measures will include arranging for the company seals of Jiangxi University of Technology and Guangdong Baiyun University and/or Mr. Yu and Mr. Xie to be kept in the safe custody of the finance department of WFOE and setting up lines of authority for using the company seals, financial chops and business registration certificates such that the company seals, financial chops and business registration certificates can only be used under our supervision and authorisation.

Based on the above, our Directors are of the view that the above additional measures allow us to control Jiangxi University of Technology and Guangdong Baiyun University and offer us protection at a level no less than that under contractual arrangements with equity pledge arrangements.

Dispute Resolution

In the event of any dispute with respect to the interpretation or performance of the provisions, each of the Contractual Agreements stipulates that:

- (a) any dispute, controversy or claim arising out of or in connection with the performance, interpretation, breach, termination or validity of the Contractual Arrangements shall be resolved through negotiation after one party delivers to the other parties a written negotiation request setting out the specific statements of the disputes or claims;
- (b) if the parties are unable to settle the dispute within 30 days of delivery of such written negotiation request, any party shall have the right to refer the dispute to and have the dispute finally resolved by arbitration administered by the China International Economic and Trade Arbitration Commission in Beijing, the PRC under the prevailing effective arbitration rules thereof. The results of the arbitration shall be final and binding on all relevant parties;
- (c) the arbitration commission shall have the right to award remedies over the equity interest and property interest and other assets of the Registered School Sponsors and each of our PRC Operating Schools, injunctive relief (for the conduct of business or to compel the transfer of assets), or order the bankruptcy winding up of the Registered School Sponsors or our PRC Operating Schools; and

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- (d) upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of PRC, Hong Kong, the Cayman Islands and the place where the principal assets of our Company and our PRC Operating Schools are located shall be considered as having jurisdiction for the above purposes.

In connection with the dispute resolution arrangements as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Adviser that:

- (a) under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or sponsor interest in our PRC Operating Schools in case of disputes. As such, these remedies may not be available to our Group under PRC laws;
- (b) further, under the PRC laws, courts or judicial authorities in the PRC generally would not award remedies over the assets of our PRC Operating Schools, injunctive relief or winding-up of each of our PRC Operating Schools or the Registered School Sponsors as interim remedies, before there is any final outcome of arbitration;
- (c) however, the PRC laws do not disallow the arbitral body to give award of transfer of assets of or a sponsor interest in each of our PRC Operating Schools at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;
- (d) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over each of our PRC Operating Schools, and our ability to conduct our business may be negatively affected; and
- (e) even if the above-mentioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that any of our PRC Operating Schools or the Registered School Sponsors breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Operating Schools and conduct our business could be materially and adversely affected. See the paragraph headed “Risk Factors – Risks Relating to Our Contractual Arrangements” for details.

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Conflicts of Interests

To ensure our effective control over our consolidated affiliated entities, we have implemented measures to protect against the potential conflicts of interest between our Company and the Registered School Sponsors or the shareholders of Huafang Education. Pursuant to the Exclusive Call Option Agreements, the Registered School Sponsors or the shareholders of Huafang Education granted WFOE or its designated third party an exclusive option to purchase part or all of the sponsor interests in our PRC Operating Schools, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the sponsor or equity interests in our PRC Operating Schools and other consolidated affiliated entities. Under the irrevocable Powers of Attorney executed by each of the Registered School Sponsors or the shareholders of Huafang Education, they appointed WFOE, or any person designated by WFOE (excluding Mr. Yu, Mr. Xie or other non-independent persons or persons who may give rise to conflicts of interests) as their respective attorney-in-fact to appoint directors and vote on their behalf on all matters of our PRC Operating Schools requiring school sponsors' approval under their articles of associations and under the relevant PRC laws and regulations.

Furthermore, there are mechanisms in place to protect against the spouses of Mr. Yu and Mr. Xie from exercising any control or influence over the consolidated affiliated entities. Each of the spouses of Mr. Yu and Mr. Xie executed irrevocable undertakings (the "**Spouse's Undertakings**"), pursuant to which:

- (a) the spouse has full knowledge of and has consented to the entering into of the Contractual Arrangements by Mr. Yu or Mr. Xie, as the case may be, and in particular, the arrangement as set out in the Contractual Arrangements in relation to the restrictions imposed on the direct or indirect sponsor or equity interest in our PRC Operating Schools or any of Huafang Education and Lihe Education, pledge or transfer the direct or indirect sponsor interest, or the disposal of the direct or indirect sponsor interest;
- (b) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to our PRC Operating Schools or any of Huafang Education and Lihe Education;
- (c) the spouse authorises Mr. Yu or Mr. Xie, as the case may be, or his authorised person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's sponsor or equity interest in our PRC Operating Schools or any of Huafang Education and Lihe Education (direct or indirect) in order to safeguard the interest of WFOE under the Contractual Arrangements and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;
- (d) any undertaking, confirmation, consent and authorisation under the Spouse's Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect sponsor or equity interest in our PRC Operating Schools or any of Huafang Education and Lihe Education;

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- (e) any undertaking, confirmation, consent and authorisation under the Spouse's Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events; and
- (f) all undertakings, confirmations, consents and authorizations under the Spouse's Undertakings shall continue to be valid and binding until otherwise terminated by both WFOE and the spouse in writing.

Each of the Spouse's Undertakings shall have the same term as and embody the terms of the relevant Business Cooperation Agreements.

The Registered School Sponsors and the shareholders of Huafang Education have undertaken that during the period that the Contractual Arrangements remain effective, (i) unless otherwise agreed to by WFOE in writing, they will not, directly or indirectly (either on their own account or through any natural person or legal entity) participate, or be interested, or engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of our consolidated affiliated entities or any of their respective affiliates; and (ii) they will not obtain any benefit from any entities or businesses which are or may potentially be in competition with businesses of our consolidated affiliated entities. Based on the above, our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between us and the Registered School Sponsors and the shareholders of Huafang Education and that these measures are sufficient to protect our Group's interest in the consolidated affiliated entities.

Loss Sharing

None of the agreements constituting the Contractual Arrangements provide that our Company or WFOE is obligated to share the losses of our consolidated affiliated entities or provide financial support to our consolidated affiliated entities. Further, each of our PRC Operating Schools is a separate legal entity and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or WFOE, as the primary beneficiary of our consolidated affiliated entities, is not required to share the losses of our consolidated affiliated entities or provide financial support to our consolidated affiliated entities. Despite the foregoing, given that our Group conducts its businesses in the PRC through our consolidated affiliated entities which hold the requisite PRC licences and approvals, and that our consolidated affiliated entities' financial condition and results of operations are consolidated into our Company's Historical Financial Information and results of operations under the applicable accounting principles, our business, financial condition and results of operations would be adversely affected if our consolidated affiliated entities suffer losses. Therefore, the provisions in the Contractual Arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on WFOE and our Company resulting from any loss suffered by our consolidated affiliated entities.

For instance, as provided in the Exclusive Call Option Agreements, none of the assets of our consolidated affiliated entities are to be sold, transferred or otherwise disposed of without the written consent of our Company. In addition, under the Exclusive Call Option Agreements, none of the Registered School Sponsors may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of his or her equity interests in our PRC Operating Schools without our Company's prior written consent.

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In addition, under the Business Cooperation Agreements and the Exclusive Technical Services and Management Consultancy Agreements, without the prior written consent of WFOE, our consolidated affiliated entities shall not change or remove the members of the boards of directors who are appointed by WFOE in accordance with the constitutional documents of each of our consolidated affiliated entities. WFOE also has the right to appoint the school presidents, financial controllers and other senior managers of our consolidated affiliated entities. WFOE has absolute control over the distribution of reasonable returns or any other amounts to the school sponsors of our consolidated affiliated entities as our consolidated affiliated entities and their Registered School Sponsors have undertaken not to make any distribution without the prior written consent of WFOE. WFOE also has the right to periodically receive or inspect the accounts of our consolidated affiliated entities and the financial results of our consolidated affiliated entities can be consolidated into our Group's financial information as if they were our Group's subsidiaries.

Liquidation

According to the Business Cooperation Agreements, the Exclusive Technical Services and Management Consultancy Agreements and the Exclusive Call Option Agreements, the Registered School Sponsors have undertaken to appoint a committee designated by WFOE as the liquidation committee upon the winding up of our consolidated affiliated entities to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, all of the remaining assets and residual interests of consolidated affiliated entities shall be transferred to WFOE after such liquidation pursuant to PRC laws.

Insurance

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

Our Confirmation

Our Directors confirm that, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our consolidated affiliated entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

1. each of WFOE and our consolidated affiliated entities is a duly incorporated and validly existing company or school, and their respective establishment is valid, effective and complies with the relevant PRC laws, each of the Registered School Sponsors is a natural person or company (as the case may be) with full civil and legal capacity, and each of WFOE, our consolidated affiliated entities and the Registered School Sponsors has obtained all necessary board and sponsor approvals and authorisations to execute and perform the Contractual Arrangements;

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2. as of the date of issuing their legal opinion, no PRC laws and regulations explicitly prohibit contractual arrangements in the private education industry in the PRC. Parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of our PRC Operating Entities, injunctive relief and/or winding up of our PRC Operating Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interest in our PRC Operating Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in China. Each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law;
3. none of the Contractual Arrangements violates any provisions of the articles of association of our consolidated affiliated entities or WFOE;
4. the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, and the Contractual Arrangements do not violate the M&A Rules; and
5. each of the Contractual Arrangements is valid, legal and binding under PRC laws.

Our Directors are of the view that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable us to control our consolidated affiliated entities which engage in the operation of higher education and technical schools where the PRC laws and regulations currently restrict operation of higher education institutions and technical schools to Sino-foreign cooperation, in addition to imposing Qualification Requirements on the foreign owners and withholding government approval in respect of Sino-foreign cooperation which are currently impracticable for us to meet or obtain.

Our PRC Legal Adviser further advises that WFOE’s right to receive the service fees from our consolidated affiliated entities does not contravene any PRC laws or regulations and that the payment of service fees under the Contractual Arrangements should not be regarded as part of the distribution of returns or profits to the sponsors of our schools. As confirmed by our Directors, the Contractual Arrangements were entered into between the relevant parties based on their actual and genuine intentions and the service fees are paid by our consolidated affiliated entities as consideration for obtaining genuine services of substance provided by WFOE. Pursuant to the Contractual Arrangements, the services provided by WFOE include, among other things, providing educational software and course materials, employee training, technology development, transfer and consultation services, public relation services, market surveys, and trademark and know-how licensing, in each case as required by the consolidated affiliated entities in their ordinary course of business.

Distribution of earnings of our schools to their respective school sponsor is not permitted under PRC laws and regulations. According to our PRC Legal Adviser, no current PRC laws or regulations expressly restrict or prohibit WFOE’s contractual rights to receive service fees from our consolidated affiliated entities for the services rendered under the Contractual Arrangements. Furthermore, as advised by our PRC Legal Adviser, the service fees are generated from the provision of services by WFOE to our consolidated affiliated entities under the Contractual Arrangements and such service

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fees constitute revenue for WFOE and costs of our consolidated affiliated entities for their business operations as part of the commercial arrangements agreed among the relevant parties to the Contractual Arrangements. Accordingly, the income of WFOE is generated from the provision of services under the Contractual Arrangements, rather than receiving distribution of earnings indirectly from our schools.

On 17 May, 19 May and 6 June 2017, with the assistance of our PRC Legal Adviser, we consulted the responsible officers of the Vocational Education and Management Office (技工教育管理處) of the Human Resources and Social Security Department and the Policy and Regulation Office (人力資源和社會保障廳及政策法規處) of the Education Department of the Guangdong Province and International Cooperation and Exchange Office (國際合作與交流處) and Development and Planning Office (發展規劃處) of the Education Department of Jiangxi Province, respectively. The foregoing departments are the competent authorities as advised by our PRC Legal Adviser to issue such confirmations in respect of the matters relating to the operation and management of the schools. We were advised by the officers that paying services fees to WFOE in return for technical and consultancy services is a normal commercial arrangement of the school and no regulatory approvals are required for the execution of the Contractual Arrangements. During the consultations, none of the officers had indicated that the payment of service fees by the schools to WFOE would be deemed as indirect distribution of earnings to the school sponsor. As advised by our PRC Tax Consultant and based on our consultations with the relevant local tax bureaus (which, as advised by our PRC Tax Consultant, have competent authority over our schools) conducted on 16 November 2017, the payment of service fees by our schools to WFOE should not be deemed as circumvention of the restriction that our schools are not allowed to distribute earnings to their respective school sponsor or tax evasion under relevant PRC laws and regulations. Our PRC Legal Adviser has confirmed that, based on the consultations with the relevant local tax bureaus, it shares the same opinions with our PRC Tax Consultant. On 1 December 2017, our PRC Tax Consultant consulted with the relevant local tax bureaus. As confirmed by our PRC Tax Consultant, during such consultations, the relevant officials have confirmed the aforesaid opinions of our PRC Tax Consultant.

We have been advised by our PRC Legal Adviser, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC Legal Adviser. We have been further advised by our PRC Legal Adviser that if the PRC government finds that the Contractual Arrangements do not comply with PRC government restrictions on foreign investment in the education business, we could be subject to severe penalties, which could include:

1. revoking the business and operating licences of WFOE and our consolidated affiliated entities;
2. restricting or prohibiting related party transactions between WFOE and our consolidated affiliated entities;
3. imposing fines or other requirements with which we may find it difficult or impossible to comply;
4. requiring us to restructure the relevant ownership structure or operations; and
5. restricting or prohibiting the use of any proceeds from the Global Offering to finance our business and operations in the PRC.

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

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With a view to understanding the PRC tax implications of the service fees under the Contractual Arrangements, we have sought the following professional opinions and regulatory confirmations:

- (i) as advised by our PRC Tax Consultant, the Contractual Arrangements should not be deemed as an illegal means of “tax evasion” under Article 63 of the PRC Administrative Law on Tax Collection, provided that (a) genuine sales/services are rendered under the Contractual Arrangements; (b) the sales/service relationship between the WFOE and our consolidated affiliated entities are supported by proper documentation; (c) the service fees are charged on an arm’s length basis with reference to market price; and (d) our schools and WFOE will disclose the related party transactions and report their profits to the relevant tax bureaus. Based on the consultations with the relevant tax bureaus as more particularly set out in (ii) below, our PRC Legal Adviser is in agreement with the aforesaid opinion of our PRC Tax Consultant; and
- (ii) with the assistance of our PRC Legal Adviser, on 16 November 2017, we have consulted the Guangdong Province Guangzhou Baiyun District Bureau of Local Taxation (廣東省廣州市白雲區地方稅務局) (the competent tax authority with respect to Guangdong Baiyun University and Baiyun Technician College) and the 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) (the competent tax authority with respect to Jiangxi University of Technology) (together, the “**Relevant Local Tax Bureaus**”). During the consultations, the officials confirmed that (a) the payment of certain service fees by our schools to WFOE in return for technical and consultancy services under the Contractual Arrangements is not in violation of any tax related laws and regulations in the PRC; (b) the tax bureaus would not require us to unwind the Contractual Arrangements; and (c) the tax bureaus would not deem the Contractual Arrangements as a means to distribute our schools’ earnings to the school sponsor or arrangements intended to achieve tax evasion, provided that the services provided by WFOE to our consolidated affiliated entities are genuine and the relevant service fees are reasonably determined on an arm’s length basis with reference to market price. On 1 December 2017, our PRC Tax Consultant consulted the Relevant Local Tax Bureaus. As confirmed by our PRC Tax Consultant, during such consultations, the relevant officials have confirmed the opinions of our PRC Tax Consultant.

Our Directors have confirmed that our Contractual Arrangements are designed and implemented to deliver genuine services of substance to our consolidated affiliated entities and such services are critical to their operations. As of the Latest Practicable Date, WFOE had over 30 personnel with various professional backgrounds, including education, legal and compliance, business administration and accounting and finance. We will deploy relevant staff to continue providing services to our consolidated affiliated entities from time to time pursuant to the Contractual Arrangements. Our Directors consider that the nature of the Contractual Arrangements is consistent with the circumstances set out in the professional opinions and regulatory confirmations above.

Our Directors have also confirmed that the Contractual Arrangements are not intended to evade any tax obligations. As advised by our PRC Tax Consultant, the implementation of the Contractual Arrangements subject our Group, as a whole, to a higher effective tax rate, as the service fees received by WFOE under the Contractual Arrangements are subject to PRC enterprise income tax and value added tax, whereas preferential tax benefits are applicable to the non-profit income (非營利性收入) of our schools. In view of the above, as advised by our PRC Tax Consultant, the service fees under the Contractual Arrangements would not nullify the preferential tax benefits

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enjoyed by our schools or subject us to additional tax liabilities (other than the PRC enterprise income tax and value added tax applicable to the service fees received by WFOE from our consolidated affiliated entities) or penalties. On 16 November 2017, with a view to obtaining confirmations from the PRC tax authorities in relation to the above, we consulted with the Relevant Local Tax Bureaus (which, as advised by our PRC Tax Consultant, have competent authority over our schools), and during such consultations, the relevant tax officials had confirmed the aforesaid advice of our PRC Tax Consultant. On 1 December 2017, our PRC Tax Consultant consulted the Relevant Local Tax Bureaus. As confirmed by our PRC Tax Consultant, during such consultations, the relevant officials have confirmed the aforesaid advice of our PRC Tax Consultant.

Accounting Aspects of the Contractual Arrangements

Consolidation of Financial Results of our Consolidated Affiliated Entities

Under the Exclusive Technical Services and Management Consultancy Agreements, it was agreed that, in consideration of the services provided by WFOE, each of our consolidated affiliated entities will pay services fees to WFOE. The services fees, subject to WFOE's adjustment, are equal to the total income of our consolidated affiliated entities (net of costs, expenses, taxes, losses incurred for the previous year(s) and payments required by the relevant laws and regulations to be reserved or withheld). WFOE may adjust the services fees at its discretion and allow our consolidated affiliated entities to retain sufficient working capital to carry out any growth plans. WFOE also has the right to periodically receive or inspect the accounts of our consolidated affiliated entities. Accordingly, WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefit of our consolidated affiliated entities through the Exclusive Management Consultancy and Business Cooperation Agreements.

In addition, under the Exclusive Technical Services and Management Consultancy Agreements, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of the consolidated affiliated entities as WFOE's prior written consent is required before any distribution can be made. In the event that the Registered School Sponsors of the consolidated affiliated entities receive any profit distribution or dividend from the consolidated affiliated entities, the Registered School Sponsors must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to WFOE.

As a result of these Contractual Arrangements, our Company has obtained control of our consolidated affiliated entities through WFOE and, at our Company's sole discretion, can receive substantially all of the economic interest returns generated by the consolidated affiliated entities. Accordingly, our consolidated affiliated entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

In this regard, our Directors consider that our Company can consolidate the financial results of the consolidated affiliated entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of the consolidated affiliated entities is disclosed in note 3 to the Accountants' Report set out in Appendix IA.

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DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Draft New Foreign Investment Law

The MOFCOM published the Draft Foreign Investment Law of the PRC (《中華人民共和國外國投資法(草案徵求意見稿)》) (the “**Draft FIL**”) in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in the PRC. The MOFCOM has solicited comments on this draft and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft FIL, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in the PRC.

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

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

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

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

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of our consolidated affiliated entities by WFOE, through which we operate our education business in PRC. Under the Draft FIL,

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variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. For companies with a VIE structure in an industry category that is in the “restricted category” on the “negative list” it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

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

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

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

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

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

1. requiring them to make a declaration to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;
2. requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification by the competent authority, the VIE structures may be retained; and
3. requiring them to apply to the competent authority for permission to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

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Where foreign investors and FIEs circumvent the provisions of the Draft FIL by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft FIL, as the case may be.

If foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft FIL, including by way of failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit, if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investment amount shall be imposed.

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

If the Draft FIL is promulgated in the current draft form, on the basis that (i) Mr. Yu and Mr. Xie, who are parties acting in concert and are of Chinese nationality, will collectively control an aggregate of 75% of the issued share capital of our Company upon completion of the Global Offering (assuming the Over-allotment Option and the options granted under the Share Option Schemes are not exercised and no Shares are granted under the Share Award Scheme); (ii) our Company through WFOE exercises effective control over our consolidated affiliated entities pursuant to the Contractual Arrangements, our PRC Legal Adviser is of the view that we can apply for the recognition of the Contractual Arrangements as a domestic investment and it is likely that the Contractual Arrangements will be considered as legal.

Pursuant to the Foreign Investment Industries Guidance Catalogue (as amended in 2017) (《外商投資產業指導目錄》(2017年修訂)), the higher education business that we operate falls within the “restricted” category on the “negative list”. If the operation of our schools is no longer on the “negative list” and we can legally operate the education business under PRC Laws, WFOE will exercise the call option under the Exclusive Call Option Agreements to acquire the sponsor interests or equity interests in our consolidated affiliated entities and unwind the Contractual Arrangements subject to reapproval by the relevant authorities.

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If the Draft FIL as finally enacted is refined or deviates from the current draft, depending on the treatment of existing VIE structures, the Contractual Arrangements may be regarded as invalid and illegal. In that case, we will not be able to operate our schools through the Contractual Arrangements and would lose our rights to receive the economic benefits of our consolidated affiliated entities. As a result, the financial results of our consolidated affiliated entities will no longer be consolidated into our Group's financial results and we would have to derecognise their assets and liabilities according to the applicable accounting standards. An investment loss will be recognised as a result of such derecognition.

Nevertheless, considering that a number of existing entities engaged in the education industry, while some of which have obtained listing status abroad, are operating under contractual arrangements, our Directors are of the view that it is unlikely, if the Draft FIL is promulgated, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

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

Potential measures to maintain control over and receive economic benefits from our consolidated affiliated entities

As mentioned above, our PRC Legal Adviser is of the view that the Contractual Arrangements are likely to be deemed as a domestic investment if the Draft FIL were to become effective in its current form and content.

To ensure the Contractual Arrangements are likely to continue to be viewed as a domestic investment so that we can maintain control over our consolidated affiliated entities and receive all economic benefits derived from our consolidated affiliated entities, each of Mr. Yu and Mr. Xie has given an undertaking (the "**Undertaking**") to our Company, and our Company has agreed with the Stock Exchange to enforce such Undertaking, that during the subsistence of the Contractual Arrangements, each of Mr. Yu and Mr. Xie will use his best efforts to do and procure our Company to do all such possible acts which are necessary to give effect to the Contractual Arrangements and/or to enable the continuation of business operations of our consolidated affiliated entities as a result of any impact due to the promulgation and implementation of the New Foreign Investment Law and other future laws and regulations relating to foreign investment and in particular:

1. each of Mr. Yu and Mr. Xie maintaining his Chinese nationality and citizenship while he remains as our Controlling Shareholder; and
2. in the event of any transfer or disposal by Mr. Yu or Mr. Xie of a shareholding that may result in the transferee(s) acquiring "control" over the Company (as defined in the Draft FIL or the New Foreign Investment Law (as enacted), as the case may be), he will (as may be relevant) (a) procure that the transferee(s) provide an undertaking on substantially the same terms and

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conditions as the one provided by Mr. Yu and Mr. Xie to our Company and (b) demonstrate to the reasonable satisfaction of our Company and the Stock Exchange that the Contractual Arrangements will continue to be viewed as a domestic investment under the Draft FIL or the New Foreign Investment Law (as enacted), as the case may be.

The Undertaking will become effective from the date of the listing of our Shares on the Stock Exchange and will remain effective until the earlier of the occurrence of the following events: (i) Mr. Yu or Mr. Xie ceasing to be one of our Controlling Shareholders and an actual controller of our Company; (ii) Mr. Yu or Mr. Xie ceasing to be an actual controller of any of our PRC Operating Schools; (iii) compliance with the relevant requirements under the New Foreign Investment Law or applicable foreign investment laws (together with, if any, all subsequent amendments or updates, as promulgated) as finally enacted is not required and the Stock Exchange has consented to this; (iv) compliance with the Undertaking is no longer required, as advised by the Stock Exchange; or (v) the Stock Exchange and any applicable Chinese regulatory departments have consented to such termination. To the extent that only part of the Undertaking above is no longer required as a result of any of the events in (iii), (iv) or (v) of the preceding sentence occurring, only such part of the Undertaking that is no longer required shall cease to be effective. To the extent that the Undertaking (or any part thereof) is no longer effective, the Company will issue an announcement as soon as practicable.

Taking into account that Mr. Yu or Mr. Xie can only transfer his interests in our Company in circumstances where the transfer is in compliance with the New Foreign Investment Law as finally enacted, such arrangement will ensure that the control of our Company will at all times be in accordance with the requirements of the New Foreign Investment Law as finally enacted. For the avoidance of doubt, as advised by our PRC Legal Adviser, there are no legal restrictions under the current PRC laws and regulations for Mr. Yu or Mr. Xie to transfer his interests in our Company.

Based on the view of our PRC Legal Adviser and the aforesaid Undertaking given by Mr. Yu and Mr. Xie, our Directors are of the view that (i) the Contractual Arrangements are likely to be deemed as a domestic investment and to be permitted to continue in the event that the New Foreign Investment Law is finally enacted; and (ii) our Group can maintain control over our consolidated affiliated entities and receive all economic benefits derived from our consolidated affiliated entities.

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

Our Company and our Directors will provide periodic updates in the annual and interim reports regarding the status of compliance with the Draft FIL and its accompanying explanatory notes, including the latest relevant regulatory development as well as the plan and progress in acquiring the relevant experience to meet the qualification requirement. See also the section headed "Contractual Arrangements – PRC Laws and Regulations Relating to Foreign Ownership in the Education Industry – Plan to comply with the Qualification Requirement".

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COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

We have adopted the following measures to ensure our effective operation with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
2. the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. we will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports;
4. our Directors undertake to provide periodic updates in our annual reports regarding the qualification requirement as stipulated under the paragraph headed “– Background to the Contractual Arrangements” in this section and the latest development of the Draft FIL as disclosed under the paragraph headed “– Development in PRC Legislation on Foreign Investment” in this section, including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the qualification requirement; and
5. our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our consolidated affiliated entities to deal with specific issues or matters arising from the Contractual Arrangements.

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

1. the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, the Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted towards the quorum;
2. each of our Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefits and in the best interests of our Company;

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3. we have appointed three independent non-executive Directors to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
4. we will disclose in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director that competes or may compete with our business and any other conflicts of interest which any such person has or may have with us.