

## CONTRACTUAL ARRANGEMENTS

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### BACKGROUND

#### Introduction

Due to regulatory restrictions on foreign ownership in our schools in the PRC as further described below, we conduct a substantial portion of our business through our consolidated affiliated entities in China. We do not hold any equity interests in our consolidated affiliated entities. Rather, through a series of Contractual Arrangements, we effectively control these consolidated affiliated entities and are able to derive substantially all of their economic benefits, and expect to continue to do so.

The Contractual Arrangements among us, Beipeng Software, our consolidated affiliated entities and shareholders of our consolidated affiliated entities enable us to:

- (i) receive substantially all of the economic benefits from our consolidated affiliated entities in consideration for the services provided by Beipeng Software, whose primary businesses are software development, system integration and the provision of other technology-related services;
- (ii) exercise effective control over our consolidated affiliated entities; and
- (iii) hold an exclusive option to purchase all or part of the equity interests in our consolidated affiliated entities when and to the extent permitted by PRC laws.

As a holding company, our ability to pay dividends and other cash distributions to our Shareholders depends on our ability to receive dividends and other distributions from Beipeng Software. The amount of dividends and other distributions paid to us by Beipeng Software in turn depends on the service fees paid to Beipeng Software from our consolidated affiliated entities and from Dalian Maple Leaf High School. However, there are restrictions under PRC laws for the payment of dividends to us by Beipeng Software. In addition, if Beipeng Software incurs debt on its own behalf, the instruments governing the debt may restrict its ability to make payments or distributions to us. Furthermore, relevant PRC laws and regulations permit payments of dividends by Beipeng Software only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, Beipeng Software is required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to fund a statutory reserve until the accumulated amount of such reserve has exceeded 50% of its registered capital. This reserve is not distributable as dividends. In addition, although Dalian Maple Leaf High School is our PRC subsidiary, it is not allowed to distribute dividends under PRC law due to its being an entity that does not require a “reasonable return”. Consequently, each of Beipeng Software and Dalian Maple Leaf High School is subject to limits in its ability to transfer a portion of its net assets to us or any of our other subsidiaries in the form of dividends, loans or advances.

Our PRC Legal Counsel has advised that there are no PRC laws or regulations expressly prohibiting the consolidated affiliated entities and Dalian Maple Leaf High School from making service fee payments to service providers, such as Beipeng Software, the amount of which may be as significant as the amount of retained earnings. Thus, we and our PRC Legal Counsel believe that, the payment of service fees by the consolidated affiliated entities and Dalian Maple Leaf High School to Beipeng Software under the Contractual Arrangements would not be regarded as circumvention of the prohibition on dividend distribution under PRC laws and regulations.

The principal regulations governing private education in China are the Law for Promoting Private Education and the Implementation Rules. Under these regulations, a private school may elect to be a school that does not require a reasonable return or a school that requires a reasonable return. A private school that does not require a reasonable return cannot distribute dividends to its sponsors. Each of our schools has elected to be a school that does not require a reasonable return. No current PRC laws or regulations provide a formula or guidelines for determining what constitutes a reasonable return. In addition, no current PRC laws or regulations set forth clear requirements or restrictions on a private school’s ability to operate its education business based on such school’s

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status as a school that requires a reasonable return or a school that does not require a reasonable return. Further, whether or not a school elects to be a school that requires or does not require a reasonable return has no impact whatsoever on the payment of service fees by the consolidated affiliated entities and Dalian Maple Leaf High School to Beipeng Software. For more details on “reasonable returns”, see the section headed “Regulatory Overview — Regulations on Private Education in the PRC” in this [REDACTED].

Our PRC Legal Counsel has advised that the service fees received by Beipeng Software under the Contractual Arrangements are permissible under PRC laws for the following reasons:

- (a) Beipeng Software has a legal right to make profits from providing services to the schools under the Contractual Arrangements. Beipeng Software is a duly established company under the laws of the PRC. The services provided by Beipeng Software to the schools are within Beipeng Software’s business scope approved by the applicable PRC governmental authorities. There are no prohibitions or restrictions on Beipeng Software from making profits by providing services to other entities, including the schools under the Contractual Arrangements;
- (b) private schools have a legal right to enter into service agreements, accept the provision of services and pay service fees pursuant to the underlying services agreements. Pursuant to the Law for Promoting Private Education, a private school has property rights over the assets accumulated throughout the school’s operation and other entities are encouraged to provide services to private schools. Therefore, the consolidated affiliated entities and Dalian Maple Leaf High School may enter into service agreements with Beipeng Software and pay service fees as prescribed under the agreements;
- (c) the distinction between schools that require reasonable returns and schools that do not require reasonable returns does not change the conclusion that the services fee arrangements between the our schools and Beipeng Software are permissible under PRC Laws. The restrictions imposed on a private school’s ability to distribute reasonable returns to its sponsor does not apply to service fees paid to Beipeng Software; and
- (d) the Contractual Arrangements are, collectively and individually, valid, legal and binding and do not contravene the relevant PRC Laws and regulations and the payment of service and license fees by the schools to Beipeng Software under the Contractual Arrangements are not prohibited under the relevant PRC laws and regulations and all possible actions or steps taken to enable it to confirm the foregoing opinions had been taken.

We have sought an opinion from a PRC tax expert, Dalian Zheng An Tax Agency Limited, which has confirmed that the Contractual Arrangements are legal, valid and binding commercial contracts under PRC laws that do not constitute an attempt to conceal illegal intentions and do not fall within the definition of “tax evasion” under Article 63 of the PRC Administrative Law on Tax Collection (中華人民共和國稅收徵收管理法第六十三條規定). Further, upon the expiration of Beipeng Software’s tax exemption as a software enterprise, the effective tax rate being paid by the Group as a whole will actually be higher under the Contractual Arrangements than if the schools were schools of which the sponsors had elected to require reasonable returns. Therefore, the service fees and Contractual Arrangements will not be viewed as a form of tax evasion under applicable PRC laws and regulations. Furthermore, notwithstanding the fact that there is no single authority competent to give a view on the totality of the taxation aspects of the Contractual Arrangements, we and our PRC Legal Counsel consulted an officials from the tax bureaus in Dalian, Tianjin and Wuhan, being the locations that generated approximately 97.9%, 95.9%, 92.7% and 87.2% of our revenue for the three years ended August 31, 2011, 2012 and 2013 and the nine months ended May 31, 2014, respectively and where we currently enjoy preferential tax treatment. We and our PRC legal counsel provided an outline of the Contractual Arrangements, including (i) our schools are schools for which the sponsors do not require reasonable returns and have been enjoying preferential tax treatment in the past few years; (ii) our schools pay service fees to Beipeng Software in return for the services provided by Beipeng Software; (iii) our schools and Beipeng Software are related parties; and (iv) Beipeng Software is entitled to enjoy a two-year tax exemption and a three-year income tax reduction of 50%. Each of the officials confirmed that the service fee arrangement will not nullify the preferential tax treatment enjoyed by our

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schools and will not be deemed as a form of tax evasion under applicable PRC laws and regulations given there are actual services provided and the fees are determined on arms-length basis.

We and our PRC legal Counsel are not aware of any legislative or regulatory actions taken by the PRC government authorities against the Contractual Arrangements nor are they aware of any official plan or proposal to make new regulations or rules governing the Contractual Arrangements in the PRC. We have not, to date, encountered any interference or encumbrance from any governing bodies in operating the business of the Group pursuant to the Contractual Arrangements. In accordance with Article 4 of the Interpretation of the Supreme People’s Court of Several Issues Concerning the Application of the Contract Law of the PRC (Part I) promulgated by the PRC Supreme People’s Court in 1999, the PRC courts shall only invalidate a contract according to laws enacted by the National People’s Congress and its Standing Committee, and administrative regulations promulgated by the State Council (“**Invalidation Laws and Regulations**”). To date, the Company and its PRC Legal Counsel are not aware of any such Invalidation Laws and Regulations that would require a PRC court to invalidate any contracts that consist of contractual arrangements or VIE structure in the private education industry. In preparation for the [REDACTED], we and our PRC Legal Counsel also consulted with a senior officer in the highest level government authority governing the education industry in China, including foreign investment in the industry, during which the officer confirmed that they have no objection to the overseas [REDACTED] of companies in the education industry that use contractual arrangements and are not concerned by service fee payments made by schools to foreign-invested companies, regardless of whether the schools require “reasonable returns” or not.

Based on the opinion of our PRC Legal Counsel, although we effectively control our consolidated affiliated entities and Dalian Maple Leaf High School and are able to derive substantially all of their economic benefits through the Contractual Arrangements, we do not invest in or hold any equity interests in these consolidated affiliated entities or Dalian Maple Leaf High School or indirectly do so through trust arrangement. In the opinion of our PRC Legal Counsel, save for certain dispute resolution clauses of the Contractual Arrangements in connection with injunctive relief as disclosed on page 223 of this [REDACTED], the Contractual Arrangements do not violate the applicable PRC laws and regulations, and are, collectively and individually, valid, legal and binding and neither of the underlying agreements of the Contractual Arrangements nor the Contractual Arrangements as a collective whole fall within any of the circumstances (including, without limitation, “concealing an illegitimate purpose under the guise of legitimate acts”) under Article 52 of the PRC Contract Law for which the contracts would be determined to be invalid.

Our PRC Legal Counsel has advised that pursuant to Article 52 of the PRC Contract Law, a contract may be determined to be invalid under any of the following five circumstances: (i) the contract is entered into by fraud or coercion by one party which damages the interest of the State; (ii) malicious collusion is involved to damage the interest of the State, a collective unit or a third party; (iii) an illegitimate purpose is concealed under the guise of legitimate acts; (iv) the contract damages the social public interest; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. However, Our PRC Legal Counsel is of the view that the Contractual Arrangements do not fall within any of the circumstances set out above, because, based on the knowledge of the facts: (i) there was no coercion or fraud involved in entering into the Contractual Arrangements by and among Beipeng Software, Dalian Maple Leaf High School, the consolidated affiliated entities and their respectively shareholders; (ii) there was no malicious collusion in entering into the Contractual Arrangements, (iii) there was no “concealing illegitimate purpose under the guise of legitimate acts” as further set forth in the paragraph below; (iv) there is no ground to believe that the entering into of such Contractual Arrangements is detrimental to the social public interest; and (v) none of the Contractual Arrangements violates any mandatory provisions of current PRC laws as promulgated by the National People’s Congress of the PRC or its Standing Committee, or of any mandatory provisions of administrative regulations issued by the State Council of the PRC.

Our PRC Legal Counsel has further advised that the Contractual Arrangements do not amount to “concealing an illegitimate purpose under the guise of legitimate acts” under Article 52 of the PRC Contract Law based on its

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knowledge of the facts that, each contract under the Contractual Arrangements has been agreed upon, signed and executed by each party thereto with the purpose to: (i) use the economic interests generated from the consolidated affiliated entities and Dalian Maple Leaf High School as consideration for obtaining services provided by Beipeng Software, and the services provided by Beipeng Software include providing educational software and course materials, employee training, technology development, transfer and consulting services, public relation services, market survey, software and trademark and know-how licensing as needed by the consolidated affiliated entities and Dalian Maple Leaf High School in their ordinary course of business; (ii) ensure shareholders of the consolidated affiliated entities and Dalian Maple Leaf High School would not carry out any act that is contrary to the interest of Beipeng Software; and (iii) enable the Company to obtain the economic interests generated from the consolidated affiliated entities and Dalian Maple Leaf High School by way of provision of services needed by the consolidated affiliated entities and Dalian Maple Leaf High School, and thereafter to achieve our operational goals. None of these purposes are illegal or illegitimate and the contracts underlying the Contractual Arrangements are legitimate and legal.

Although we believe that Beipeng Software’s right to receive service fees from our consolidated affiliated entities and Dalian Maple Leaf High School will not be affected by the fact that the schools do not require reasonable returns. However, if our view turns out to be incorrect and the PRC governmental authorities restrict the ability of private schools that do not require reasonable returns to make service fee payments to third parties, Beipeng Software’s ability to receive service fees from the schools may be limited and it may be necessary for us to change its election with respect to our schools to schools which require reasonable returns, which would in turn result in the consolidated affiliated entities and Dalian Maple Leaf High School ceasing to enjoy certain preferential tax treatments. According to our PRC Legal Counsel, to change the status of a school from “not requiring reasonable returns” to “requiring reasonable returns”, the school shall modify its articles of association and apply for the approval and registration from the relevant education authority and the department of civil affairs in the relevant city following the procedures below:

- (a) The relevant school must modify its articles of association so that it contains a definitive provision that the sponsor of the school requires “reasonable returns”. The board of directors of the school shall adopt and approve the modification with the consent of two thirds of its directors;
- (b) The relevant school must submit an application to the relevant education authority for approving the alteration and registration of its modified articles of association; and
- (c) The relevant school must submit an application to the relevant department of civil affairs for registration of its modified articles of association.

For a description of the risks with respect to the Contractual Arrangements, please see the section headed “Risk Factors — Risks Relating to our Contractual Arrangements” in this [REDACTED].

According to the Implementation Rules for the Law for Promoting Private Education (the “**Implementation Rules**”), private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. This preferential tax treatment is not applicable to private schools for which the sponsors require reasonable returns. As a result, private schools providing academic qualification education are eligible to enjoy income tax exemption treatment if the sponsors of such schools do not require reasonable returns. The schools which enjoyed certain tax exemptions have obtained certificate letters and confirmations from relevant local tax authorities regarding the tax exemptions. Based on these letters and confirmations, our PRC legal Counsel has advised that it is unlikely that the relevant tax authorities will nullify the preferential tax treatment previously enjoyed by the schools or subject the schools to further tax payments for the periods during which they enjoy tax exemption.

Beipeng Software could have charged our consolidated affiliated entities for intellectual property licenses as well as comprehensive technical and educational consultancy services in the amounts of RMB20.5 million, RMB20.3 million, RMB22.8 million and RMB11.4 million for the financial years ended August 31, 2011, 2012, 2013 and

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the nine months ended May 31, 2014, respectively. However, in 2012 our Board determined that in order to finance the continued expansion of our business it would be preferable for the license and services fees payable to Beipeng Software under the Exclusive Management Consultancy and Business Cooperation Agreements (as defined below) for those three years to be retained by our consolidated affiliated entities. As of the Latest Practicable Date, Beipeng Software had received an aggregate of RMB2.7 million under the Exclusive Management Consultancy and Business Cooperation Agreements. Beipeng Software has not paid any dividends to us since it has an accumulated loss. The decision by Beipeng Software to enable our schools to retain those funds was in order to provide the schools with additional finances to aid their expansion, failing which the schools would have been required to obtain financing from alternative sources to do so. It is our intention to distribute all of the economic benefits of the consolidated affiliated entities and Dalian Maple Leaf High School to Beipeng Software in the form of service fees after [REDACTED], insofar as it is permitted under PRC tax laws and regulations.

We do not hold equity interests in our consolidated affiliated entities; however, as a result of the Contractual Arrangements further described below, we have consolidated the financial results of our consolidated affiliated entities in our consolidated financial statements in accordance with IFRS. For the financial years ended August 31, 2011, 2012, 2013 and the nine months ended May 31, 2014, RMB145.4 million, RMB187.0 million, RMB239.1 million and RMB263.5 million, respectively, or 42.0%, 45.2%, 50.7% and 72.1%, respectively, of our total net revenue was attributable to our consolidated affiliated entities. The remaining portion of our total net revenue for those years was attributable to revenue generated by Dalian Maple Leaf High School, one of our PRC subsidiaries.

For a detailed discussion of the risks associated with the Contractual Arrangements, see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this [REDACTED].

### **PRC laws and regulations relating to the education industry**

PRC laws and regulations currently prohibit foreign ownership of elementary and middle schools in China. Furthermore, although PRC laws and regulations allow foreign investment in foreign national schools, preschools and high schools, government authorities either impose restrictions in this respect or, as a matter of policy, withhold approval for such ventures altogether. The Contractual Arrangements set out below are therefore necessary to achieve our business objectives, although they have been as narrowly tailored as possible so as to minimize potential conflict with current PRC laws and regulations.

### ***Elementary Schools and Middle Schools***

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

As a result, foreign investors (including individuals, companies, partnerships, educational institution and any other entities) are prohibited from owning elementary schools or middle schools in the PRC, whether through direct investments or through wholly-owned subsidiaries in the PRC. For this reason, the elementary schools and middle schools that are operated by us in the PRC are held by Dalian Science and Education and Dalian Educational Group, which are directly or indirectly wholly-owned by the Founder’s Sister, and controlled by us pursuant to the Contractual Arrangements.

Moreover, our PRC Legal Counsel, Tian Yuan Law Firm, has opined that all possible actions or steps necessary for it to confirm that the Contractual Arrangements with respect to the operation of elementary and middle school businesses are valid, legal and binding and do not contravene PRC laws and regulations have been taken.



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### *Foreign National Schools*

Pursuant to the Administrative Measures, legally established foreign institutions, foreign invested enterprises, PRC branches of international organizations and foreign individuals who are legally residing in the PRC may apply to operate foreign national schools in accordance with the provisions thereof. According to the Administrative Measures, to operate a foreign national school, the investor should submit applications to the relevant educational authorities at the provincial, autonomous region or municipality level where the school is intended to operate and, after receiving a pre-approval from such educational authorities, the application will be forwarded to the relevant education department of the State Council for final approval. Pursuant to the September 2012 State Council Decision, the authority for approving foreign national schools was delegated to the relevant educational authorities at the provincial level.

As at May 31, 2014, we have two foreign national schools in Dalian, Liaoning province and Wuhan, Hubei province, respectively, through the Founder, a Canadian citizen qualified to be the foreign investor of a foreign national school in China under PRC laws, being the owner of the Foreign Schools. With the assistance of our PRC Legal Counsel, we have consulted the Department of Education of Hubei and Liaoning, respectively, with respect to changing the owner of the Foreign Schools from the Founder to us. However, according to the relevant educational authorities, due to the fact that the authority for approving Foreign Schools has only recently been delegated by the MOE to the relevant educational authorities at the provincial level pursuant to the September 2012 State Council Decision, and no detailed policies or regulations with regard to the change of owner of the Foreign Schools have yet been issued at the provincial level, the Department of Education of Hubei and Liaoning have confirmed that they will not accept any application for the change of owner from the Founder to us until the detailed policies and regulations have been issued. Therefore, the Founder will continue to be the owner of the Foreign Schools until the relevant provincial educational authorities approve the change of sponsor.

Our PRC Legal Counsel has opined that all possible actions or steps necessary for it to confirm that the Contractual Arrangements with respect to the operation of the Foreign Schools are valid, legal and binding and do not contravene PRC laws and regulations have been taken. If the detailed policies and procedures with respect to the application for the change of owner are issued and the relevant provincial educational authorities start accepting the applications, we will use our best endeavors to promptly obtain approval for the change of owner and operate the Foreign Schools without having to rely on the Contractual Arrangements.

### *Preschools and High Schools*

The operation of preschools in the PRC is not regulated by the Foreign Investment Catalog. However, pursuant to the Sino-Foreign Regulation, foreign educational institutions and other foreign entities or individuals are prohibited from independently establishing and operating schools or other educational institutions (including preschools, secondary schools and other levels of schools) primarily intended for PRC students. In addition, if foreign educational institutions operate schools in the PRC primarily intended for PRC students through joint ventures with PRC educational institutions, they are required to comply with the Sino-Foreign Regulation.

The operation of high schools in the PRC falls within the “restricted” category of the Foreign Investment Catalog and is explicitly restricted to Sino-foreign cooperation, which means that foreign investors may only operate high schools through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation. Pursuant to the Sino-Foreign Regulation, the foreign investor in a Sino-foreign joint venture school for PRC students at the preschool or high school level (a “**Sino-Foreign Joint Venture Private School**”) must be a foreign educational institution with relevant qualification and experience at the same level and in the same category of education (the “**Qualification Requirement**”). Furthermore, pursuant to the Implementation Opinions, the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the “**Foreign Ownership Restriction**”) and the establishment of these schools is subject to approval of education authorities at the provincial level. Our PRC Legal Counsel has consulted the PRC educational authorities that have jurisdiction over each of the regions where the Company offers preschool and high school

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education. The authorities confirmed that the Foreign Ownership Restriction applies to Sino-Foreign Joint Venture Private Schools in their regions.

In the middle of 2013 and in April and May 2014, we consulted the relevant educational authorities that have jurisdiction over some regions where we currently offer preschool and high school education to PRC students with the assistance of our PRC Legal Counsel with regard to the current policies on foreign investment for preschools and high schools. These authorities include the International Cooperation and Exchange Division of Hubei Education Department (湖北省教育廳對外合作交流處), the International Cooperation and Exchange Division of Tianjin Education Commission (天津市教育委員會國際合作交流處), the International Cooperation and Exchange Division of Chongqing Education Commission (重慶市教育委員會國際合作交流處), the International Cooperation and Exchange Division of Jiangsu Education Department (江蘇省教育廳國際合作交流處), the International Cooperation and Exchange Division of Liaoning Education Department (遼寧省教育廳國際合作交流處), the Preschool Division of Liaoning Education Department (遼寧省教育廳學前教育處) and the Henan Education Department (河南省教育廳). During the consultation, these authorities expressed the opinion that:

- (i) the foreign investor in a Sino-Foreign Joint Venture Private School should be an educational institution that already provides the same level of education in a foreign country, namely education for preschool or high school students; and
- (ii) as a matter of policy, no Sino-Foreign Joint Venture Private School has been approved in their respective jurisdictions after the Sino-Foreign Regulation became effective on September 1, 2003.

We conducted an interview with the Shanghai Education Commission (上海市教育委員會), which is, as advised by our PRC Legal Counsel, the highest local-level authority governing the education sector in Shanghai municipality and the competent local authority in charge of international cooperation and exchange in education, in May 2014. As advised by our PRC Legal Counsel, the Shanghai Education Commission has not yet promulgated any implementing measures or specific guidance pursuant to the Sino-Foreign Regulation. However, according to the aforesaid interview, the foreign investor in a Sino-Foreign Joint Venture Private School would be expected to be a reputable provider of education in the foreign country with advanced educational resources. We believe that the Sino-Foreign Joint Venture Private School approved by the Shanghai Commission involves a foreign sponsor that *prima facie* meets any reasonable interpretation of the Qualification Requirement. As at the Latest Practicable Date, we do not yet meet the Qualification Requirement or any reasonable interpretation thereof as we have no experience in operating a school outside of the PRC, and it is therefore not practicable for us to seek to apply to reorganize our Shanghai Maple Leaf International School (High School) as a Sino-Foreign Joint Venture Private School.

With a view to further understanding the feasibility of converting Shanghai Maple Leaf International School (High School) into a Sino-Foreign Joint Venture Private School, we and our PRC Legal Counsel conducted another interview with the Shanghai Education Commission in October 2014. According to the aforesaid interview, notwithstanding the our willingness to take necessary steps in meeting the Qualification Requirements, the Shanghai Education Commission would not accept the Company's application to convert Shanghai Maple Leaf International School (High School) into a Sino-Foreign Joint Venture Private School for the following reasons:

- (i) The Sino-Foreign Joint Venture Private School previously approved by the Shanghai Education Commission is a stand-alone case. The foreign sponsor of the approved school was a renowned high school with a long history in offering International Baccalaureate (IB) curriculum in the US and therefore that school satisfies the Qualification Requirement. Most importantly, that school submitted its application to the Shanghai government at the time when the Shanghai government was seeking to introduce a renowned high school from an English speaking country to be the foreign sponsor to a Sino-Foreign Joint Venture Private School;
- (ii) As the Shanghai government is currently orientated towards language diversification in the education industry, the Shanghai Education Commission generally would not consider another high school from English speaking countries to establish another Sino-Foreign Joint Venture Private School in

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Shanghai. Instead, the Shanghai Education Commission is more willing to consider applicants offering curriculum in languages other than English, especially French or German; and

- (iii) In any event, for the time being, the Shanghai Education Commission would only consider foreign sponsors with a long history and excellent reputation due to limited resources of land and potential school campus sites in Shanghai, and that the Shanghai Education Commission would not consider the Group as meeting such requirements.

Notwithstanding the aforesaid, we are committed to working towards meeting the Qualification Requirement, have adopted a specific plan to do so and will continue to expend genuine efforts and financial resources to do so. We have undertaken to make periodic inquiries of relevant PRC educational authorities following the [REDACTED] to understand any regulatory developments and assess whether our level of overseas experience is sufficient 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, including the policy preference of the Shanghai Education Commission and Shanghai government in terms of approving schools offering non-English curriculum. See the paragraph headed “Impact of Qualification Requirement and Contingency Plan to Meet It” in this section for details.

Due to the regulatory restrictions stated above, our preschools and high schools are either in the form of a “Sino-Foreign Joint Venture Private School”, as in the case of Dalian Maple Leaf High School, or in the form of a domestic Chinese preschool or high school, as in the case of our other preschools and high schools.

Dalian Maple Leaf High School was established as a “Sino-Foreign Joint Venture Private School” in 1996 with the approval of the Department of Education of Liaoning Province. According to our PRC Legal Counsel, at that time, there was no law in China that imposed any restrictions on foreign investments in high schools. Dalian Maple Leaf High School, which is owned as to 95% by Maple Leaf Educational Systems Limited and 5% by Dalian Science and Education, by applying for an operating permit after the implementation of the Sino-Foreign Regulation, is exempted from the application of the Qualification Requirement under the Sino-Foreign Regulation, according to our PRC Legal Counsel. However, due to the Sino-Foreign Regulation, we are unable to convert Dalian Maple Leaf High School from a Sino-Foreign Joint Venture Private School into our wholly-owned school. Furthermore, none of our other preschools or high schools can be structured as “Sino-Foreign Joint Venture Private Schools” as neither we nor any of our subsidiaries outside of the PRC operate any preschool or high school or offer preschool or high school education. We therefore do not yet meet the Qualification Requirement that foreign investors in a Sino-Foreign Joint Venture Private School must be educational institutions that already provide education for preschool or high school students under the Sino-Foreign Regulation. As such, our schools that offer preschool or high school education other than Dalian Maple Leaf High School to PRC students are wholly-owned by the Founder’s Sister and controlled by us pursuant to the Contractual Arrangements. Dalian Maple Leaf High School does not need to meet the percentage requirement set forth in the Foreign Ownership Restriction as defined above.

Our PRC Legal Counsel advised that it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement. Furthermore, as noted above, the relevant PRC educational authorities that have jurisdiction over some regions where we offer preschool and high school education informed us that, other than the above-mentioned school in Shanghai, no Sino-Foreign Joint Venture Private School has been approved in their respective jurisdictions since the Sino-Foreign Regulation became effective on September 1, 2003.

Our PRC Legal Counsel has opined that, despite the Company not meeting the Qualification Requirement, the Contractual Arrangements in relation to the operation of preschools and high schools are valid, legal and binding and do not contravene PRC laws and regulations. According to our PRC Legal Counsel, under PRC laws and regulations, the preschools and high schools have been legally established and the failure to meet the Qualification Requirement does not render our preschool and high school businesses as illegal operations in the PRC. Even though no positive regulatory assurance has been obtained from relevant PRC regulatory authorities



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with respect to the use of the Contractual Arrangements in the education industry, and it is impracticable to obtain such assurance, no relevant PRC regulatory authorities have ever issued any regulations, rules or notices to prohibit the use of such Contractual Arrangements in the education industry.

### **Impact of Qualification Requirement and Contingency Plan to Meet It**

Under the Sino-Foreign Regulation, foreign investment in high schools in the PRC is required to be in the form of cooperation between Chinese educational institutions and foreign educational institutions and subject to the Foreign Ownership Restriction, foreign investors can only hold less than 50% interest in a Sino-Foreign Joint Venture Private School. If the Qualification Requirement is removed but the Foreign Ownership Restriction Requirement remains, the Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private School and that portion of investment must be below 50%. The Company will, therefore, partially unwind the Contractual Arrangements and, in particular, directly hold an interest of less than 50% (for example 49%). However, the Company will not be able to control such school without the Contractual Arrangements in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction remains, regardless of whether the Qualification Requirement is removed, the Company will still rely on contractual arrangements to establish control over the schools.

The Company has signed a written undertaking that, if the PRC regulatory environment changes and both the Qualification Requirement and the Foreign Ownership Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), it will unwind the contractual arrangements so that we are able to directly operate our schools without using the Contractual Arrangements or include only the domestic interests under the contractual arrangements. Under the Sino-Foreign Regulation, foreign investment in high schools in the PRC is required to be in the form of cooperation between Chinese educational institutions and foreign educational institutions, which means that foreign investors may only operate high schools through joint ventures with PRC incorporated educational institutions. Therefore the Company and its subsidiaries, as foreign investors, are ineligible to operate high schools by themselves. If the Foreign Ownership Restriction is removed and the Company meets the Qualification Requirement, the Company or its subsidiaries will be able to hold majority interests in Sino-Foreign Joint Venture Private Schools, but the Sino-Foreign Regulation still dictates that there be a domestic interest in the school. Under such circumstances, the Company plans to hold the maximum percentage of equity interests permissible by the relevant laws and regulations in the relevant schools directly, subject to the approval of relevant government authorities. As for the remaining minority domestic interests which the Company intends to consolidate, the Company will have to control them pursuant to the Contractual Arrangements. For the avoidance of doubt, if the Foreign Ownership Restriction is removed, the Company is able to meet the Qualification Requirement, and the Sino-Foreign Regulation is amended such that a foreign investor is able to hold 100% of the equity interest of a school in the PRC, the Company would be allowed to directly hold 100% of the interests in the schools. Our PRC Legal Counsel has advised that in the event that the Group needs to unwind the contractual arrangements for a particular school, a simple termination agreement executed among the Company and other parties under the relevant contractual arrangements terminating the contractual arrangements with respect to that school shall be sufficient from a PRC legal perspective. However, our PRC Legal Counsel noted that if the Foreign Ownership Restriction is removed but the Qualification Requirement remains (and assuming there are no other changes in the relevant PRC laws and regulations), it may be necessary for us to continue to operate our preschools and high schools using the Contractual Arrangements while at the same time working towards meeting the Qualification Requirement. To unwind the Contractual Arrangements when the Company cannot satisfy the Qualification Requirement may contravene the relevant PRC laws and regulations.

In order to prepare for the potential contingency noted above where the Foreign Ownership Restriction is removed but the Qualification Requirement remains, we have adopted a specific plan and begun to take concrete steps which we, in conjunction with our PRC Legal Counsel, reasonably believe are meaningful endeavors to demonstrate compliance with the Qualification Requirement.

## CONTRACTUAL ARRANGEMENTS

As of the Latest Practicable Date, we had taken the following concrete steps to implement our plan. We negotiated with the local government in South Korea to explore an school expansion opportunity in Suncheon City, namely, the Maple Leaf International Academy (the “**Korean School**”). In relation to the Korean School, we had invested approximately US\$1.3 million up until May 31, 2014. If we can establish the Korean School, we plan to operate it as our international school in South Korea so that it would help us satisfy the Qualification Requirement.

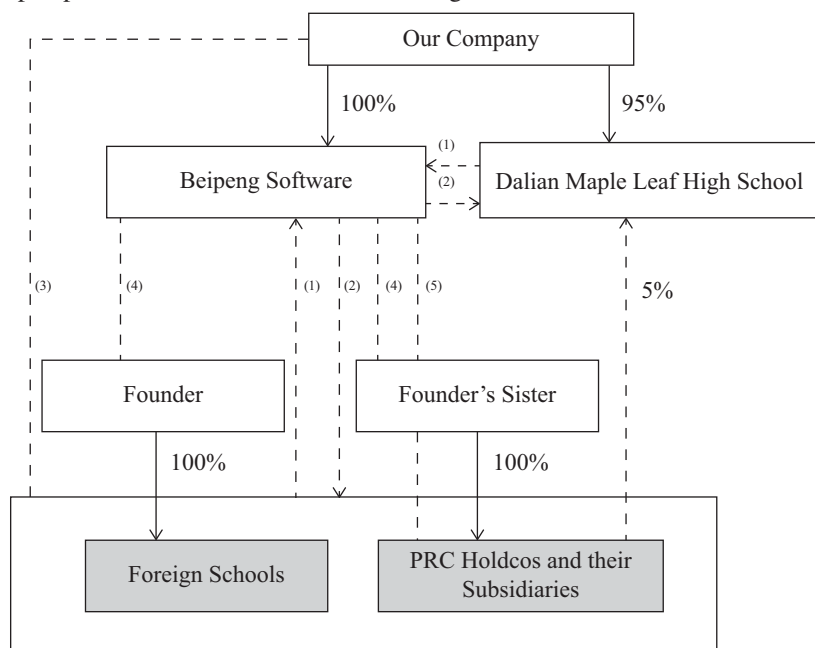
In the opinion of our PRC Legal Counsel, if the Foreign Ownership Restriction is removed but the Qualification Requirement remains and assuming the Korean School or another entity established by us gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future, we will be able to operate our schools in the PRC directly through the Korean School or such other entity.

Furthermore, we have undertaken to the [REDACTED] that we will:

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

## CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our consolidated affiliated entities to our Group stipulated under the Contractual Arrangements:



### Notes:

1. Payment of service fees, see the section headed “Contractual Arrangements — Exclusive Management Consultancy and Business Cooperation Agreements” in this [REDACTED].
2. Provision of services, see the section headed “Contractual Arrangements — Exclusive Management Consultancy and Business Cooperation Agreements” in this [REDACTED].
3. Exclusive call option to acquire all or part of the equity interest in the Consolidated Affiliated Entities, see the section headed “Contractual Arrangements — Call Option Agreements” in this [REDACTED].
4. Power of attorney to exercise all shareholders’ rights in the Consolidated Affiliated Entities, see the section headed “Contractual Arrangements — Powers of Attorney” in this [REDACTED].
5. Pledge of all the equity interest in the PRC Holdcos, see the section headed “Contractual Arrangements — Equity Pledge Agreement” in this [REDACTED].
6. “\_\_\_\_\_” denotes direct legal and beneficial ownership in the equity interest.
7. “-----” denotes Contractual Arrangements.

■ denotes our consolidated affiliated entities.

## CONTRACTUAL ARRANGEMENTS

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A description of each of the specific agreements that comprise the Contractual Arrangements, which superseded an earlier set of agreements signed in 2007 and 2010, is set out below. Each of the Contractual Arrangements described below involving Dalian Maple Leaf High School is limited to the 5% domestic shareholding interest that Dalian Science and Education holds in Dalian Maple Leaf High School only.

### *Exclusive Management Consultancy and Business Cooperation Agreements*

Pursuant to the exclusive management consultancy and business cooperation agreements (i) among Beipeng Software, Dalian Educational Group and any of its subsidiaries and schools and the Founder’s Sister entered into on May 11, 2014, (ii) among Beipeng Software and Dalian Maple Leaf High School entered into on May 11, 2014 and (iii) among Beipeng Software, Wuhan Foreign School, Dalian Foreign School and the Founder entered into on August 22, 2014 (the “**Exclusive Management Consultancy and Business Cooperation Agreements**”), each of which superseded all previous agreements among the parties with respect to subject matters thereof, Beipeng Software has the exclusive right to provide, or designate any third party to provide each of our consolidated affiliated entities and Dalian Maple Leaf High School with intellectual property development and licensing services as well as comprehensive technical and educational consultancy services. Such services include educational software and course materials, research and development, employee training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resource and internal information management, network development, upgrade and ordinary maintenance services, sales of proprietary products, and software and trademark and know-how licensing and other additional services as the parties may mutually agree from time to time. Without Beipeng Software’s prior written consent, none of the consolidated affiliated entities or Dalian Maple Leaf High School may accept services covered by the Exclusive Management Consultancy and Business Cooperation Agreements from any third party.

Beipeng Software owns all intellectual property rights arising out of the performance of this agreement. Our consolidated affiliated entities and Dalian Maple Leaf High School agree to pay service fees equal to 100% of their net income after deducting the relevant reserved funds as required by relevant PRC laws and regulations to Beipeng Software and adjust the service fees after good faith negotiations. For the financial years ended August 31, 2011, 2012, 2013 and the nine months ended May 31, 2014, the amount of fees Beipeng Software could have charged under all of the Exclusive Management Consultancy and Business Cooperation Agreements was RMB20.5 million, RMB20.3 million, RMB22.8 million and RMB11.4 million, respectively. The Exclusive Management Consultancy and Business Cooperation Agreements will not expire unless the parties mutually agree to terminate.

Furthermore, in order to prevent the leakage of assets and values of the consolidated affiliated entities to their respective shareholders, under the Exclusive Management Consultancy and Business Cooperation Agreements, without the prior written approval from Beipeng Software, the consolidated affiliated entities and Dalian Maple Leaf High School shall not enter into any transaction (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation, including but not limited to (i) the provision of any guarantee to any third party or the creation of any encumbrances in relation to its assets; (ii) the entering into of any loan or debt obligations owing to any third party; (iii) the disposal or acquisition of any assets (including but not limited to intellectual properties) with a value higher than RMB500,000.

In addition, under the Exclusive Management Consultancy and Business Cooperation Agreements, without the prior written consent of Beipeng Software, none of the consolidated affiliated entities or Dalian Maple Leaf High School shall change or remove the members of its board of directors who are appointed by Beipeng Software in accordance with the memorandum and articles of association of each of the consolidated affiliated entities and Dalian Maple Leaf High School. Beipeng Software also has the right to appoint the school principals, financial controllers and other senior managers of the consolidated affiliated entities and Dalian Maple Leaf High School. Beipeng Software has absolute control over the distribution of dividends or any other amounts to the shareholders of the consolidated affiliated entities and Dalian Maple Leaf High School as the consolidated affiliated entities, Dalian Maple Leaf High School and their shareholders have undertaken not to make any

## CONTRACTUAL ARRANGEMENTS

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distribution without Beipeng Software’s prior written consent. Beipeng software also has the right to periodically receive or inspect the accounts of the consolidated affiliated entities and Dalian Maple Leaf High School and the financial results of the consolidated affiliated entities and Dalian Maple Leaf High School can be consolidated into our Group’s financial information as if they were our Group’s subsidiaries.

### *Call Option Agreements*

Under the two call option agreements (i) by and among our Company, Dalian Educational Group and the Founder’s Sister dated May 11, 2014 and (ii) by among our Company, Dalian Science and Education and the Founder’s Sister dated May 11, 2014 (the “**PRC Holdco Call Option Agreements**”), the Founder’s Sister, unconditionally and irrevocably agreed to grant us or our designated third party an exclusive option to purchase part or all of the equity interests in the PRC Holdcos, as the case may be, for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, under circumstances in which our company or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of the PRC Holdcos. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, the Founder’s Sister shall return the amount of purchase price she has received to each of the PRC Holdcos, our Company or our designated third party. Our Company has the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the current regulatory restrictions on foreign investment in the educational business will be removed in the future, the likelihood of which we are not in a position to know or comment on at the Latest Practicable Date.

Under the two call option agreements (i) by and among our Company, the Founder and Dalian Foreign School dated May 11, 2014 and (ii) by and among our Company, the Founder and Wuhan Foreign School dated August 22, 2014 (the “**Foreign School Call Option Agreements**”, and together with the “**PRC Holdco Call Option Agreements**”, the “**Call Option Agreements**”), the Founder unconditionally and irrevocably agreed to grant us or our designated third party an exclusive option to purchase from the Founder part or all of his interests in our Foreign Schools, as the case may be, for nil consideration or the minimum amount of consideration permitted by the applicable PRC laws and regulations under circumstances in which our Company or our designated third party requires to own all or part of such interests held by the Founder to the extent permitted under PRC laws and regulations. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, the Founder shall return the amount of purchase price he has received to each of the Foreign Schools, our Company or our designated third party. Our Company has the sole discretion to decide when to exercise the option and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the current government approval policy and practice on the change of sponsor of foreign national schools will become clear, the likelihood of which we are not in a position to know or comment on at the Latest Practicable Date.

Each of the Call Option Agreements supersedes all previous agreements among the parties with respect to the subject matters thereof, and each of which is for an indefinite term commencing on May 11, 2014 and August 22, 2014, respectively and being the date of the Call Option Agreements, until it is terminated (i) upon the exercise of the exclusive option by the Company or its designated third party to purchase from the Founder’s Sister or the Founder all of their respective interests in the PRC Holdcos and the Foreign Schools, or (ii) upon any agreement reached among the parties thereto in relation to the termination of the Call Option Agreement.

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

## CONTRACTUAL ARRANGEMENTS

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In the event that the registered shareholders of the consolidated affiliated entities receive any profit distribution or dividend from the consolidated affiliated entities, the registered shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company. If the Company exercises this option, all or any part of the equity interests of the consolidated affiliated entities acquired would be transferred to the Company and the benefits of equity ownership would flow to the Company and its shareholders.

### *Equity Pledge Agreements*

Pursuant to the equity pledge agreements entered into by and among Beipeng Software, Dalian Educational Group and the Founder’s Sister dated May 26, 2014, and by and among Beipeng Software, Dalian Science and Education and the Founder’s Sister dated May 26, 2014 (the “**Equity Pledge Agreements**”), the Founder’s Sister, unconditionally and irrevocably pledged all of the equity interests in the PRC Holdcos, respectively, to Beipeng Software to guarantee performance of the obligations of the PRC Holdcos and their respective subsidiaries and schools under the Exclusive Management Consultancy and Business Cooperation Agreements and performance of her obligations under the Call Option Agreements and Powers of Attorney with Beipeng Software. Under the Equity Pledge Agreements, the Founder’s Sister has agreed that, without the prior written consent of Beipeng Software, she will not transfer or dispose the pledged equity interests or create or allow any encumbrance on the pledged equity interests that would prejudice Beipeng Software’s interest. The equity pledge is required to be registered under the relevant laws and regulations. We filed the Equity Pledge Agreements, the identification card of the shareholder, the business licenses of the consolidated affiliated entities and other relevant documents with the corresponding local administration bureau for industry and commerce and completed the registrations for the two equity pledges. The equity pledge registration of Dalian Educational Group was completed on May 30, 2014 with the Dalian Administration Bureau for Industry and Commerce. The equity pledge registration of Dalian Science and Education was completed on May 28, 2014, with the Dalian Administration Bureau for Industry and Commerce of Dalian Economic and Technical Development Zone. Our PRC Legal Counsel has confirmed that the Equity Pledge Agreements have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations. The Equity Pledge Agreements shall remain valid until (i) all the contractual obligations of the PRC Holdcos, their respective subsidiaries and schools and the Founder’s Sister are satisfied in full under the Exclusive Management Consultancy and Business Cooperation Agreements, the Call Option Agreements and Powers of Attorney; or (ii) the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreements, the Call Option Agreements and Powers of Attorney, whichever is later.

There is no equity pledge arrangement between the Founder and the Company. Even if we were to make an equity pledge arrangement with the Founder, such arrangement would be unenforceable under PRC laws and regulations, as interests in schools are not pledgeable under PRC laws and any equity pledge arrangements with respect to interests in schools cannot be registered with the relevant PRC regulatory authorities. Only legally established foreign institutions, foreign invested enterprises, PRC branches of international organizations and foreign individuals who are legally residing in the PRC are permitted to operate and be sponsors of a foreign national school under the relevant PRC laws and regulations. An entity held by a PRC citizen or a domestic enterprise cannot be a sponsor of a foreign national school. Therefore, the Founder cannot hold his interest in the Foreign Schools through a PRC holding company. To further enhance the Company’s security over the Foreign Schools, the Company has taken measures to ensure that the company seals of the Foreign Schools are properly secured, are within the full control of the Company and cannot be used by the Founder without its permission. Such measures include arranging for the company seals of the Foreign Schools to be kept in the safe custody of the Finance Department and setting up lines of authority for using the company seals, financial chops and business registration certificates such that the company seals, financial chops and business registration certificates can only be used under direct authorization of the Company.



## CONTRACTUAL ARRANGEMENTS

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### *Powers of Attorney*

The Founder’s Sister has executed an irrevocable power of attorney dated May 11, 2014 (the “**PRC Holdco Power of Attorney**”) appointing Beipeng Software, or any person designated by Beipeng Software, as her attorney-in-fact to appoint directors and vote on her behalf on all matters of the PRC Holdcos requiring shareholder approval under the articles of associations of each entity and under the relevant PRC laws and regulations. The power of attorney remains effective as long as the Founder’s Sister remains a shareholder of Dalian Educational Group and Dalian Science and Education, unless Beipeng Software requests to replace the appointed designee under the PRC Holdco Power of Attorney.

The Founder, with respect to our Foreign Schools, has executed an irrevocable power of attorney dated May 11, 2014 (the “**Foreign School Power of Attorney**”, and together with the “**PRC Holdco Power of Attorney**”, the “**Powers of Attorney**”) appointing Beipeng software, or any person designated by Beipeng Software, as his attorney-in-fact to appoint directors and vote on his behalf or on behalf of such directors to vote on all matters of our Foreign Schools requiring director approval under the articles of associations of each entity and under the relevant PRC laws and regulations. The power of attorney remains effective as long as the Founder retains interests in, and remains a director of, our Foreign Schools, unless Beipeng Software requests to replace the appointed designee under the Foreign School Power of Attorney.

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

The articles of association of our Foreign Schools each state that the directors whom are appointed by the investors of the schools, in a board of directors’ meeting, have the power to approve the operating strategy and investment plan, elect principals and other senior management and approve their compensation, and review and approve the annual budget and earning distribution plan for each entity. Therefore, through the irrevocable power of attorney arrangement, we and our wholly-owned PRC subsidiary, Beipeng Software, have the ability to exercise effective control over our Foreign Schools through our appointing directors and director votes.

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

Those of our powers to direct the activities of our consolidated affiliated entities that most significantly impact these entities’ economic performance include:

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

### *Dispute Resolution*

In the event of any dispute with respect to the construction and performance of the provisions, each of the Exclusive Management Consultancy and Business Cooperation Agreements, Call Option Agreements and Equity Pledge Agreements stipulates that the parties shall negotiate in good faith to resolve the dispute. In the event the

## CONTRACTUAL ARRANGEMENTS

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parties fail to reach an agreement on the resolution of such a dispute, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties.

The dispute resolution clause of each of the Contractual Arrangements also provide that the arbitral tribunal may award remedies over the shares or land assets of the consolidated affiliated entities and Dalian Maple Leaf High School, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the consolidated affiliated entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and the PRC (being the place of incorporation of the consolidated affiliated entities and Dalian Maple Leaf High School) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of the consolidated affiliated entities and Dalian Maple Leaf High School.

However, our PRC Legal Counsel has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the consolidated affiliated entities or Dalian Maple Leaf High School pursuant to current PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable under the current PRC laws.

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

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

Because the remedies that the China International Economic and Trade Arbitration Commission is empowered to award do not include injunctive relief or winding up orders, under PRC law, Beipeng Software can only seek similar but not identical remedies, such as cessation of infringements or return of property, from the China International Economic and Trade Arbitration Commission. Alternatively, Beipeng Software may seek similar remedies from a competent court, such as interim measures (e.g., asset preservation) over the assets or shares of the consolidated affiliated entities and Dalian Maple Leaf High School and winding up orders against the consolidated affiliated entities under appropriate circumstances.

## CONTRACTUAL ARRANGEMENTS

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

### *Succession*

The provisions set out in the Contractual Arrangements are also binding on the successors of the shareholders of the consolidated affiliated entities, as if the successor was a signing party to the Contractual Arrangements. Although the Contractual Arrangements do not specify the identity of successors to such shareholders, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Beipeng Software or the Company can enforce its right against the successors. Further, pursuant to the Powers of Attorney, in the event of death or any other event which causes the inability of the Founder or Founder’s Sister to perform their day-to-day obligations, the successor of the Founder or Founder’s Sister is to inherit any of the rights and obligations of the Founder or the Founder’s Sister subject to him or her being bound by the provisions of the Powers of Attorney.

Therefore, our PRC Legal Counsel is of the view that (i) the Contractual Arrangements provide protection to the Group even in the event of death of the shareholders of the consolidated affiliated entities; and (ii) the death of the such shareholders would not affect the validity of the Contractual Arrangements, and Beipeng Software or the Company can enforce its right under the Contractual Arrangements against the successors of such shareholders.

### *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 the Company and the Founder’s Sister, the sole shareholder of the PRC Holdcos. Pursuant to the PRC Holdco Call Option Agreements, the Founder’s Sister, agreed to grant us or our designated third party an exclusive option to purchase part or all of the equity interests in the PRC Holdcos, under circumstances in which our company or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of the PRC Holdcos. Under the irrevocable Power of Attorney executed by the Founder’s Sister, she appointed Beipeng Software, or any person designated by Beipeng Software, as her attorney-in-fact to appoint directors and vote on her behalf on all matters of the PRC Holdcos requiring shareholder approval under the articles of associations of each of the PRC Holdcos and under the relevant PRC laws and regulations. Furthermore, we have internal procedures to minimize the Founder’s Sister’s influence on the business operations of the PRC Holdcos. She is not a member of its senior management team and is not authorized to approve any business or governance issues of the PRC Holdcos. She also does not have physical possession of or control over the corporate stamps of the PRC Holdcos. The Founder’s Sister does not have any equity interest in the Company. She is not a Director and has no executive role with the Company or its subsidiaries (including Beipeng Software) and thus does not have any right to participate in the decision-making process at any level within the Company and the Group (save for the PRC Holdcos, with respect to which she has entered into the Power of Attorney appointing Beipeng Software, or any person designated by Beipeng Software, as her attorney-in-fact to exercise any and all rights that she has).

Similarly, there are mechanisms in place to protect against the spouses of each of the Founder and the Founder’s Sister from exercising any control or influence over the consolidated affiliated entities. The spouses of each of the Founder and the Founder’s Sister executed an irrevocable undertaking on May 11, 2014 (the “**Spouse’s Undertakings**”) whereby the spouses expressly and irrevocably (i) acknowledge the entry into of the Contractual Arrangements by the Founder and the Founder’s Sister, respectively; (ii) undertake that they shall not take any actions that are in conflict with purpose and intention of the Contractual Arrangements, including but not limited to acknowledging that any equity interests held by the shareholders do not fall within the scope of their community properties; and (iii) confirm that their consent and approval is not required for the implementation of the Contractual Arrangements, any amendments thereto or the termination thereof.

## CONTRACTUAL ARRANGEMENTS

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The Founder and the Founder’s Sister have undertaken that during the period that the Contractual Arrangements remain effective, (i) unless otherwise agreed to by Beipeng Software in writing, they would 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 the consolidated affiliated entities or any of its affiliates; and (ii) any of their actions or omissions would not lead to any conflict of interest between them and Beipeng Software (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interests (where Beipeng Software has the sole absolute discretion to determine whether such conflict arises), they agree to take any appropriate actions as instructed by Beipeng Software or its designee.

Based on the above, the 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 the Group and the Founder’s Sister and such measures are sufficient to protect the Group’s interest in the PRC Holdcos.

### *Loss Sharing*

None of the agreements constituting the Contractual Arrangements provide that the Company or Beipeng Software, is obligated to share the losses of the consolidated affiliated entities or provide financial support to the consolidated affiliated entities. Further, each of the PRC Holdcos is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or Beipeng Software, as the primary beneficiary of the consolidated affiliated entities, is not expressly required to share the losses of the consolidated affiliated entities or provide financial support to the consolidated affiliated entities. Despite the foregoing, given that our Group conducts its businesses in the PRC through the consolidated affiliated entities which hold the requisite PRC licenses and approvals, and that the consolidated affiliated entities’ financial condition and results of operations are consolidated into our Company’s financial statements and results of operations under the applicable accounting principles, our Company’s business, financial condition and results of operations would be adversely affected if the 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 Beipeng Software and the Company resulting from any loss suffered by the consolidated affiliated entities.

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

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

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### *Liquidation*

According to the Exclusive Management Consultancy and Business Cooperation Agreements and the Call Option Agreements, the shareholders of the consolidated affiliated entities and Dalian Maple Leaf High School undertake to appoint a committee designated by Beipeng Software as the liquidation committee upon the winding up of the consolidated affiliated entities and Dalian Maple Leaf High School 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 and Dalian Maple Leaf High School shall be transferred to Beipeng Software after such liquidation pursuant to PRC laws.

### *Insurance*

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

### *Our Confirmation*

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

## LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

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

- (i) each of Beipeng Software, the consolidated affiliated entities and Dalian Maple Leaf High School 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 Founder and the Founder’s Sister, is a natural person with full civil and legal capacity. Each of Beipeng Software, the consolidated affiliated entities, Dalian Maple Leaf High School, the Founder and the Founder’s Sister has obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements.
- (ii) as at the date of issuing their PRC opinion, no PRC laws explicitly prohibit contractual arrangements in the private education industry in China and none of the content or the execution of the Contractual Arrangements violates any provisions of PRC laws. Parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them constitutes “concealment of illegal intentions with a lawful form;
- (iii) none of the Contractual Arrangements violates any provisions of the articles of association of the consolidated affiliated entities, Dalian Maple Leaf High School and Beipeng Software;
- (iv) each of the Contractual Arrangements is binding on the assignees or successors of the parties thereto. In the event of bankruptcy of any of the consolidated affiliated entities or Dalian Maple Leaf High School, Beipeng Software or the Company is entitled to enforce its rights against the assignees or successors of any of the shareholder of the consolidated affiliated entities;
- (v) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that the Call Option Agreements are subject to approval by MOFCOM or its branch, and registration with the local administration bureau for industry and commerce upon the exercise by the Company of its rights under the Call Option Agreements to acquire all or part of the equity interests in the consolidated affiliated entities. On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and the CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定, the “M&A Rules”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Pursuant to the M&A Rules, the acquisition of a PRC domestic enterprise by a Foreign Investor (as defined in the M&A Rules) is subject to approval by, and registration with the relevant PRC regulatory authorities. In



## CONTRACTUAL ARRANGEMENTS

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the event that our Company exercises of its rights under the Call Option Agreements to acquire all or part of the equity interests in the consolidated affiliated entities, it will need to obtain the approval of relevant PRC regulatory authorities pursuant to the M&A Rules.

- (vi) neither Beipeng Software nor our Company is obligated to share the losses of the consolidated affiliated entities, Dalian Maple Leaf High School, the Founder or the Founder’s Sister or provide financial support to the consolidated affiliated entities and Dalian Maple Leaf High School. Each of the consolidated affiliated entities is a limited liability company or school and shall be solely liable for its own debts and losses with assets and properties owned by it;
- (vii) each of the Contractual Arrangements is enforceable under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
  - a. the Contractual Arrangements provide that any dispute shall be submitted to the China International Economic and Trade Arbitration Centre for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing. They also provide that the arbitrator may award interim remedies over the shares or land assets of the consolidated affiliated entities and Dalian Maple Leaf High School or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the consolidated affiliated entities and Dalian Maple Leaf High School; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and the PRC (being the place of incorporation of the consolidated affiliated entities) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of the consolidated affiliated entities and Dalian Maple Leaf High School. However, our PRC Legal Counsel has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the consolidated affiliated entities or Dalian Maple Leaf High School pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and
  - b. the Contractual Arrangements provide that the shareholders of the consolidated affiliated entities and Dalian Maple Leaf High School undertake to appoint a committee designated by Beipeng Software as the liquidation committee upon the winding up of the consolidated affiliated entities and Dalian Maple Leaf High School to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC Laws.

We have been advised by our PRC Legal Counsel, 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 Counsel. We have been further advised by our PRC Legal Counsel 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:

- (i) revoking the business and operating licenses of Beipeng Software and the consolidated affiliated entities;
- (ii) restricting or prohibiting related party transactions between Beipeng Software and the consolidated affiliated entities;
- (iii) imposing fines or other requirements with which we, Beipeng Software or the consolidated affiliated entities may find difficult or impossible to comply;
- (iv) requiring us, Beipeng Software or the consolidated affiliated entities to restructure the relevant ownership structure or operations; and
- (v) restricting or prohibiting the use of any proceeds from the [REDACTED] to finance our business and operations in China.

## CONTRACTUAL ARRANGEMENTS

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The imposition of any of these penalties could have a material adverse effect on our ability to conduct our business. See the sections headed “Risk Factors — Risks Relating to Our Contractual Arrangements — If the PRC government finds that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, we could be subject to severe penalties and our business may be materially and adversely affected” and “Risk Factors — Risks Relating to Doing Business in China — Uncertainties with respect to the PRC legal system could materially and adversely affect us” in this [REDACTED].

### Accounting Aspects of the Contractual Arrangements

#### *Consolidation of Financial Results of the Consolidated Affiliated Entities*

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

Under the Exclusive Management Consultancy and Business Cooperation Agreements, it was agreed that, in consideration of the services provided by Beipeng Software, each of the consolidated affiliated entities and Dalian Maple Leaf High School will pay service fees to Beipeng Software. The service fees, subject to Beipeng Software’s adjustment, are equal to 100% of the net income after deducting the relevant reserved funds as required by relevant laws and regulations of the consolidated affiliated entities and Dalian Maple Leaf High School. Beipeng Software may adjust the service fees at its discretion and allow the consolidated affiliated entities and Dalian Maple Leaf High School to retain sufficient working capital to carry out any growth plans. Beipeng software also has the right to periodically receive or inspect the accounts of the consolidated affiliated entities and Dalian Maple Leaf High School. Accordingly, Beipeng Software has the ability, at its sole discretion, to extract substantially all of the economic benefit of the consolidated affiliated entities and Dalian Maple Leaf High School through the Exclusive Management Consultancy and Business Cooperation Agreements.

In addition, under the Exclusive Management Consultancy and Business Cooperation Agreements, Beipeng Software has absolute contractual control over the distribution of dividends or any other amounts to the shareholders of the consolidated affiliated entities as Beipeng Software’s prior written consent is required before any distribution can be made. In the event that the registered shareholders of the consolidated affiliated entities receive any profit distribution or dividend from the consolidated affiliated entities, the registered shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the Company.

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

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