



中国宇华教育集团有限公司

China YuHua Education Corporation Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6169



GLOBAL OFFERING

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



BofA Merrill Lynch



Joint Bookrunners and Joint Lead Managers



東方證券(香港)
ORIENT SECURITIES (HONG KONG)

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



CHINA YUHUA EDUCATION CORPORATION LIMITED

中国宇华教育集团有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

| | | |
|--------------------------------------------------|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Number of Offer Shares under the Global Offering | : | 750,000,000 Shares (subject to the Over-allotment Option) |
| Number of Hong Kong Public Offer Shares | : | 75,000,000 Shares (subject to reallocation) |
| Number of International Offering Shares | : | 675,000,000 Shares (subject to reallocation and the Over-allotment Option) |
| Maximum Offer Price | : | HK\$2.54 per Share plus brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% (payable in full on application, subject to refund) |
| Nominal value | : | HK\$0.00001 per Share |
| Stock code | : | 6169 |

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



BofA Merrill Lynch



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, 21 February 2017 and, in any event, not later than Monday, 27 February 2017. The Offer Price will be not more than HK\$2.54 and is currently expected to be not less than HK\$1.98. If, for any reason, the Offer Price is not agreed by Monday, 27 February 2017 between the Joint Global Coordinators (for itself and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor), the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Public Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on Tuesday, 28 February 2017. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (i) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

16 February 2017

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in English in the South China Morning Post and in Chinese in Hong Kong Economic Times.

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| Latest time to complete electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾ | 11:30 a.m. on Tuesday, 21 February 2017 |
| Application lists of the Hong Kong Public Offering open ⁽³⁾ | 11:45 a.m. on Tuesday, 21 February 2017 |
| Latest time to lodge White and Yellow Application Forms | 12:00 noon on Tuesday, 21 February 2017 |
| Latest time to give electronic application instructions to HKSCC ⁽⁴⁾ | 12:00 noon on Tuesday, 21 February 2017 |
| Latest time to complete payment of White Form eIPO applications by effecting Internet banking transfer(s) or PPS payment transfer(s) | 12:00 noon on Tuesday, 21 February 2017 |
| Application lists of the Hong Kong Public Offering close | 12:00 noon on Tuesday, 21 February 2017 |
| Expected Price Determination Date ⁽⁵⁾ | Tuesday, 21 February 2017 |

(1) Announcement of:

- the Offer Price;
- an indication of the level of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Public Offer Shares

to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.yuhuachina.com on or before⁽⁶⁾ ... Monday, 27 February 2017

(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at www.hkexnews.hk and our Company's website at www.yuhuachina.com (see the section headed "How to Apply for Hong Kong Public Offer Shares — 11. Publication of Results" in this prospectus) from Monday, 27 February 2017

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk⁽⁷⁾ and our Company's website at www.yuhuachina.com⁽⁸⁾ from Monday, 27 February 2017

Results of allocations for the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID" function Monday, 27 February 2017

Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁶⁾ Monday, 27 February 2017

Dispatch of White Form e-Refund payment instructions/refund cheques on or before⁽⁹⁾ Monday, 27 February 2017

Dealings in Shares on the Stock Exchange to commence on Tuesday, 28 February 2017

Notes:

(1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.

EXPECTED TIMETABLE⁽¹⁾

- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Tuesday, 21 February 2017, the application lists will not open on that day. See the section headed “How to Apply for Hong Kong Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Public Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Tuesday, 21 February 2017, and, in any event, not later than Monday, 27 February 2017, or such other date as agreed between parties. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) by Monday, 27 February 2017, or such other date as agreed between parties, the Global Offering will not proceed and will lapse.
- (6) Share certificates are expected to be issued on Monday, 27 February 2017 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Tuesday, 28 February 2017. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.
- (7) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.yuhuachina.com.
- (8) None of the websites or any of the information contained on the website forms part of this prospectus.
- (9) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.

The above expected timetable is a summary only. You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Public Offer Shares” in this prospectus for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Public Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.

CONTENTS

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Public Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of a public offering and the offering and sale of the Hong Kong Public Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Global Offering.

| | <u>Page</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Expected Timetable | i |
| Contents | iii |
| Summary | 1 |
| Definitions | 13 |
| Glossary of Technical Terms | 23 |
| Forward-looking Statements | 25 |
| Risk Factors | 26 |
| Waivers from Compliance with the Listing Rules and Exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance | 58 |
| Information about this Prospectus and the Global Offering | 64 |
| Directors and Parties Involved in the Global Offering | 68 |
| Corporate Information | 73 |
| Industry Overview | 75 |
| History, Reorganisation and Corporate Structure | 89 |
| Business | 99 |
| Contractual Arrangements | 137 |
| Regulations | 160 |
| Relationship with our Controlling Shareholders | 181 |
| Connected Transactions | 184 |
| Directors and Senior Management | 189 |
| Substantial Shareholders | 196 |

CONTENTS

| | <u>Page</u> |
|----------------------------------------------------------------------------------------------------------------------|-------------|
| Share Capital | 197 |
| Cornerstone Investor | 199 |
| Financial Information | 201 |
| Future Plans and Use of Proceeds | 235 |
| Underwriting | 237 |
| Structure of the Global Offering | 246 |
| How to Apply for Hong Kong Public Offer Shares | 254 |
| Appendix I Accountants' Report | I-1 |
| Appendix II Unaudited Pro Forma Financial Information | II-1 |
| Appendix III Property Valuation Report | III-1 |
| Appendix IV Summary of the Constitution of our Company and Cayman Companies Law | IV-1 |
| Appendix V Statutory and General Information | V-1 |
| Appendix VI Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection | VI-1 |

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We were the largest provider of private education from kindergarten to university in China by student enrolments in the 2015/2016 school year, according to the Frost & Sullivan Report. We had 48,220 students enrolled at our schools for the 2015/2016 school year, giving us a market share of approximately 0.11% in the fragmented PRC private education industry according to the Frost & Sullivan Report. Our University, Zhengzhou Technology and Business University, had 25,063 students enrolled in the 2015/2016 school year, while our 24 “YuHua” branded private schools for K-12 on 16 campuses had an aggregate of 23,157 students enrolled in the same school year. With our significant scale and extensive experience in the private education industry, we believe we are well-placed to benefit from growth and consolidation within the fragmented private education industry. Our Group does not own any equity interest in our PRC Holdcos, which are the holding entities of our schools. We maintain and exercise control over our consolidated affiliated entities (including our PRC Holdcos and our schools) through the Contractual Arrangements, which allow us to obtain the economic benefits of our consolidated affiliated entities.

All of our schools are located in Henan Province, a province that has the largest registered population and generated GDP of RMB3.7 trillion in 2015, the fifth largest among all provinces in China, according to the Frost & Sullivan Report. The favourable demographics of Henan Province have facilitated the growth of our school network from our inception in 2001 with one single high school to one University and 24 K-12 schools across nine cities with 48,220 students in the 2015/2016 school year. We intend to continue to strengthen our leading position in Henan Province as well as to selectively expand to the surrounding regions of Henan Province. We believe our advanced and established management system has supported our previous business expansion and, together with the growing recognition of our “YuHua” brand, will continue to help us successfully replicate our operating model in new markets.

Our University education and K-12 education are designed to serve different target groups and achieve distinct learning outcomes. Our University offers comprehensive tertiary level education aimed at equipping our students with the practical knowledge and skills to prosper in their careers. Our University has established a strong reputation and achieved the fastest growth among the five largest private higher education institutions in terms of student enrolment in the PRC over its seven years of development. According to the Frost & Sullivan Report, our University had the third highest student enrolments in the 2015/2016 school year among private higher education institutions in China. In February 2016, our University ranked second in terms of overall strength in the Independent College category of the PRC university rankings published by the China University Alumni Association. Our University’s Initial Employment Rate was 91.3%, 91.0% and 83.3% in 2013, 2014 and 2015, respectively. In contrast, the Initial Employment Rate of colleges and universities in China as a whole was 77.4%, 77.5% and 77.7% in 2013, 2014 and 2015, respectively, according to the Frost & Sullivan Report. We attribute our high employment rate to our strong focus on career services, the high quality of our curriculum that adapts to changes in industry demands and our close collaboration with prospective employers.

Our K-12 schools provide education from kindergarten to high school, allowing us to attract students at an early age and create a stable and sustainable student pipeline. We emphasise the well-rounded development of our students and have structured our curriculum to ensure the high quality of our education and inspire and encourage our students to explore their individual interests. Our K-12 schools are also committed to maximising our students’ opportunities to enter top-tier universities in China and reputable colleges and universities abroad. For example, for the Gaokao administered in 2014, 2015 and 2016, approximately 17.7%, 11.4% and 14.2% of our

SUMMARY

participating high school students were admitted into Tier One Universities in China, respectively, including Peking University, Tsinghua University and Fudan University, among others. This compares to approximately 8.1%, 8.2% and 9.1%, respectively, of the graduating high school students of Henan Province admitted to first tier universities (which include all Tier One Universities) in China for the same periods, according to the Frost & Sullivan Report. Since our inception in 2001, our high schools had a total of 12 students who achieved the highest score at the provincial or municipal level in the Gaokao, more than any other private school operator in Henan Province. Those students were recognised as Zhuangyuan (狀元), which is known as the highest academic achievement in the Gaokao. We believe our students' accomplishments are viewed as a strong endorsement of our teaching quality and have greatly enhanced our reputation. Our high school graduates have also previously been admitted to well-recognised colleges and universities overseas, including the University of California, Berkeley, the University of Nottingham and the University of Sydney.

We have experienced significant growth in our student enrolments, revenue, gross profit and Adjusted Net Profit over the Track Record Period. Our overall student enrolment grew from 35,431 for the 2013/2014 school year to 48,220 for the 2015/2016 school year. Our revenue increased from RMB599.3 million for the year ended 31 August 2014 to RMB697.7 million for the year ended 31 August 2015, and further to RMB781.3 million for the year ended 31 August 2016. Our gross profit increased from RMB266.8 million for the year ended 31 August 2014 to RMB318.3 million for the year ended 31 August 2015, and further to RMB406.2 million for the year ended 31 August 2016. Our profit for the year decreased from RMB207.8 million for the year ended 31 August 2014 to RMB91.2 million for the year ended 31 August 2015, and then increased to RMB311.7 million for the year ended 31 August 2016. Our Adjusted Net Profit increased from RMB207.8 million for the year ended 31 August 2014 to RMB245.1 million for the year ended 31 August 2015, and further to RMB322.1 million for the year ended 31 August 2016. For discussions of Adjusted Net Profit, see the section headed "Financial Information — Non-IFRS Measure" in this prospectus.

Education Philosophy

Our fundamental educational objectives are to foster modern talent with leadership and lifelong learning capabilities and nurture great minds to contribute to the future development of the Chinese nation ("培養具有領導才能和自主學習能力的現代化人才，為中華民族的偉大復興貢獻力量"). As an educational service provider, we believe we are entrusted to nurture the future of our society, and we aim to provide our educational services in a manner consistent with the values and attitudes in which we believe. The curriculums for our University and K-12 schools not only accommodate the eagerness of our students to achieve academic excellence, but also emphasise well-rounded development.

Our Schools

As of 31 August 2016, we had 25 schools, including one university and 24 K-12 schools, through which we offer private education with comprehensive educational programmes from kindergarten through university. In response to the strong demand of high-quality education in Henan Province, we proactively expanded our school network during the Track Record Period. The following table sets forth the numbers of our schools as of the dates indicated:

| | As of 31 August | | |
|--------------------------|-----------------|-------------------|-------------------|
| | 2014 | 2015 | 2016 |
| University | 1 | 1 | 1 |
| Grade 1-12 Schools | 11 | 16 ⁽¹⁾ | 16 ⁽²⁾ |
| Kindergartens | 6 | 8 | 8 |
| Total | 18 | 25 | 25 |

SUMMARY

Notes:

- (1) Includes the Affiliated High School of Peking University, Henan Branch, Gongyi Campus located in Gongyi, Henan Province, which we operated from September 2014 to August 2015. It was sold to an Independent Third Party pursuant to a transfer agreement we entered into in August 2015, which became effective in September 2015.
- (2) Includes the high school in Luohe YuHua Elite School campus, which had been established but not yet commenced operation as of 31 August 2016. It commenced operation in September 2016.

All of our schools have elected to be private schools of which the sponsors do not require reasonable returns. Private schools whose sponsors do not require reasonable returns are entitled to the same preferential tax treatment as public schools. Therefore, all of our schools are currently eligible to enjoy an exemption from enterprise income tax. Tax treatments that apply to our schools may change after the Decision of the Standing Committee of the National People's Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) comes into effect on 1 September 2017, depending on whether we decide to operate our schools as for-profit private schools or non-profit private schools. See the section headed "Regulations — PRC Laws and Regulations Relating to Tax" in this prospectus for more details.

The following table sets forth the number of our schools located in each city of Henan Province that we operated as of 31 August 2016:

| | As of 31 August 2016 |
|------------------------|---------------------------------|
| Zhengzhou | 5 |
| Jiaozuo | 4 |
| Luohe | 4 |
| Jiyuan | 3 |
| Xuchang | 3 |
| Kaifeng | 2 |
| Xingyang | 2 |
| Hebi | 1 |
| Xinxiang | 1 |
| Total | 25 |

Prior Cooperation With Henan Polytechnic University

Leveraging our experience in the private education industry accumulated in the early years of our operations, we entered the private higher education market in September 2009 by partnering with Henan Polytechnic University to establish Wanfang College, the predecessor of our University. As our University had established a well-regarded reputation for providing high quality education and recorded continuous revenue growth, we believed we could further improve the profitability of our University by positioning it as a stand-alone tertiary education provider and ceasing our cooperation with Henan Polytechnic University. As a result, in July 2015, we entered into the HPU Termination Agreement with Henan Polytechnic University to termination our cooperation. Pursuant to the HPU Termination Agreement, we made payments of an aggregate of RMB232.0 million to Henan Polytechnic University consisting of annual fees and a one-off termination fee, and our obligation to pay a future annual fee that equals 18% of the total tuition fees collected from students enrolled in bachelor's degree programmes of our University to Henan Polytechnic University in each school year ceased. After the termination of our cooperation with Henan Polytechnic University, we are able to capture the margins of our University that we previously ceded to Henan Polytechnic University and we believe the gross margin improvement resulted therefrom will benefit our Group and our Shareholders as a whole in the long run. Following the termination of cooperation with Henan Polytechnic University, our University changed its status from an Independent College affiliated with Henan Polytechnic University to a Private HEI owned by our Group in 2016 and changed its name from Wanfang College to Zhengzhou Technology and Business University upon the approval of the MOE. The

SUMMARY

status change of our University has no material tax or regulatory implications on our business. Such status change has not affected our operational model and financial performance during the Track Record Period and we do not expect it will affect our operational model and financial performance in the future. For more details, see the section headed “Business — Overview of Our Schools — Prior Cooperation with Henan Polytechnic University” on page 114 of this prospectus.

Prior Cooperation with the Affiliated High School of Peking University

Before we completed the unification of the branding of our schools under “YuHua (宇華)” in the second quarter of 2016, we operated certain schools of ours under the brand name “the Affiliated High School of Peking University” (北京大學附屬中學) pursuant to the PKU Cooperation Agreement. As our business continued to expand, we believed operating all of our schools under one unified brand name that we own will allow us to streamline our marketing efforts in promoting our schools in new markets and further boost our growth. Therefore, in September 2014, we decided to phase-out the brand “Affiliated High School of Peking University” and rebrand all those relevant schools as “YuHua (宇華)”, which is our own brand name that was introduced in 2012. For more details, see the section headed “Business — Overview of Our Schools — Prior Cooperation with the Affiliated High School of Peking University” on page 115 of this prospectus.

Tuition Fees

Tuition fees are generally received prior to the beginning of each school year. For the 2015/2016 school year, the listed tuition fees charged for bachelor’s degree programmes and junior college diploma programmes of our University were RMB13,100 ~ RMB15,100 and RMB8,900, respectively, which was generally higher than the average tuition level of private universities in Henan Province. The listed tuition fees, including boarding fees which range from RMB1,000 to RMB2,000, if any, of our high schools, middle schools, primary schools and kindergartens were RMB19,500~RMB33,500, RMB12,000~RMB33,500, RMB14,000~RMB34,000 and RMB16,000~RMB32,500, respectively, for the 2015/2016 school year.

Our Students

We seek passionate and creative students who want to take advantage of the opportunities we offer for growth in the classroom and in our community. The following table sets forth a breakdown of our student enrolment for each type of our schools as of the dates indicated:

| | Student Enrolment for the School Year⁽¹⁾ | | |
|--------------------------|------------------------------------------------------------|-------------------|-------------------|
| | 2013/2014* | 2014/2015* | 2015/2016* |
| University | 19,568 | 23,692 | 25,063 |
| Grade 1-12 schools | 13,948 | 17,491 | 20,400 |
| Kindergartens | 1,915 | 2,396 | 2,757 |
| Total | 35,431 | 43,579 | 48,220 |

Note:

* Except as specified otherwise in this prospectus, we use 31 August 2014, 31 August 2015 and 31 August 2016 to present our business operating data for the 2013/2014 school year, 2014/2015 school year and 2015/2016 school year, respectively.

(1) The student enrolment information during the Track Record Period is based on the official records of the relevant PRC education authority and the internal records of our schools.

Our Teachers

We believe that our team of experienced and dedicated teachers has been crucial to our success. As an operator of private schools, we believe that we are able to provide better incentives to independently recruit qualified teachers who fit our hiring criteria and can thrive in our schools. Teachers are the key to maintaining high-quality educational programmes and services as well as maintaining our brand and reputation. As of 31 August 2016, we had 2,455 teachers, among which 1,855 teachers were employed by our K-12 schools and the rest were employed by our University. During the Track Record Period, we maintained a low teacher turnover rate.

SUMMARY

Our Customers and Suppliers

Our customers primarily consist of our students and their parents. Our suppliers primarily comprise meal catering companies, suppliers for text books, uniforms and teaching equipment vendors.

OUR COMPETITIVE STRENGTHS

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

- we are the largest provider of private education from kindergarten to university in China;
- our outstanding reputation underpins our high business visibility, providing a strong platform for our business growth;
- the courses and curriculum we offer cater to the educational needs of both our University and K-12 students and students' families;
- our centralised management system, unique corporate culture and effective management skills enable us to successfully replicate our highly scalable business model in new markets; and
- we have an experienced management team with a long and proven track record in the private education industry in China.

OUR STRATEGIES

We aspire to become a pre-eminent leader in private education in China, applying the time-tested expertise we have garnered to provide a growing number of students with the knowledge, skills, values and opportunities to prosper in their lives. We also aspire to maintain and strengthen our position as the largest education group offering kindergarten to university private education in China. To achieve this goal, we plan to pursue the following business strategies:

- strategically expand our school network within Henan Province and into other attractive markets;
- further increase the capacity and utilisation rate of our existing schools;
- continue to upgrade the quality of education, enhance our reputation and brand, optimise our pricing and improve our profitability;
- continue to improve the quality of our management and teachers and upgrade the teaching methods; and
- establish cooperation with renowned foreign education institutions and expand our international course offerings.

RISK FACTORS

Our operations and the Global Offering involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us and/or the value of your investment. See the section headed "Risk Factors" on pages 26 to 57 of this prospectus for details of our risk factors, which we strongly urge you to read in full before making an investment in our Shares. Some of the major risks we face include:

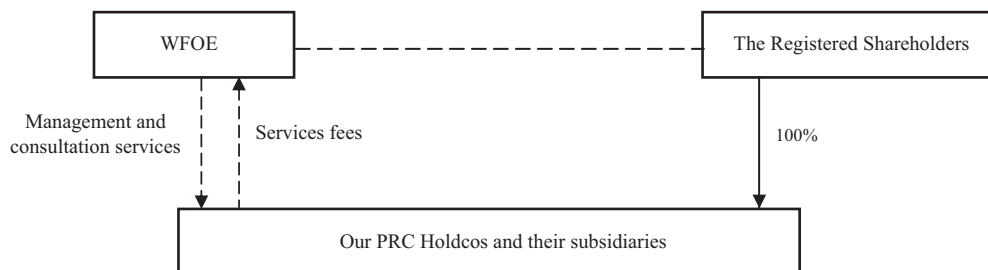
- our business and results of operations depend on the level of tuition we are able to charge and our ability to maintain and raise tuition levels;
- we face intense competition in the PRC education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures;
- we are subject to uncertainties brought about by the Amendment of Law for Promoting Private Education of the PRC;
- we may not be able to execute our growth strategies successfully or effectively, which may hinder our ability to capitalise on new business opportunities;

SUMMARY

- we may not be able to successfully integrate businesses that we acquire, which may cause us to lose the anticipated benefits from such acquisitions and to incur significant additional expenses;
- our business relies on our ability to recruit and retain dedicated and qualified teachers and school personnel;
- our University graduates' employment rate and average starting salaries may decrease and satisfaction with our University may otherwise decline;
- our K-12 education business depends on our ability to promptly and adequately respond to changes in admission requirements for higher-level education and testing materials; and
- our K-12 school students' academic performance may fall and satisfaction with our K-12 educational services may decline.

CONTRACTUAL ARRANGEMENTS

The operation of our schools are subject to various foreign ownership prohibitions or restrictions under PRC laws and regulations. We therefore do not own any equity interest in our PRC Holdcos, which are the holding entities of our schools. In order to enable us to maintain and exercise control over our consolidated affiliated entities (including our PRC Holdcos and our schools), we have adopted the Contractual Arrangements. The Contractual Arrangements allow us to obtain the economic benefits of our consolidate affiliated entities and consolidate their results of operations into our Group's. See the section headed "Contractual Arrangements" in this prospectus for further details. The following simplified diagram illustrates the flow of economic benefits from our PRC Holdcos to us under the Contractual Arrangements:



Notes:

"——>" denotes direct legal and beneficial ownership in the equity interest.

"- - ->" denotes contractual relationship.

"- - -" denotes the control by WFOE over the Registered Shareholders through (1) powers of attorney to exercise all shareholders' rights in our PRC Holdcos, (2) exclusive options to acquire all or part of the equity interests in our PRC Holdcos and (3) equity pledges over the equity interests in our PRC Holdcos.

OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering, our Controlling Shareholders will hold 75% of our issued Shares (assuming the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme) or 71.25% of our issued Shares (assuming the Over-allotment Option is exercised in full and options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), and our ultimate Controlling Shareholder will be Mr. Li. For further details of the Pre-IPO Share Option Scheme (including the options granted thereunder) and the Share Award Scheme, see the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme" in Appendix V to this prospectus.

There is no competition between the business of our Controlling Shareholders (other than their interests in our Group) and our business. Our Directors believe that we are capable of carrying out our business independently of our Controlling Shareholders and their close associates.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our combined financial information for the Track Record Period, extracted from the Accountants' Report set out in Appendix I to this prospectus. The summary financial data set forth below should be read together with our Combined Financial Statements and the related notes, as well as the section headed "Financial Information" beginning on page 195 of this prospectus.

Summary Financial Data from Combined Statements of Comprehensive Income

| | For the year ended 31 August | | |
|------------------------------------------|------------------------------|-----------|-----------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Revenue | 599,337 | 697,706 | 781,331 |
| Cost of revenue | (332,495) | (379,404) | (375,133) |
| Gross profit | 266,842 | 318,302 | 406,198 |
| Operating profit | 225,314 | 115,513 | 337,686 |
| Profit before tax | 207,828 | 91,200 | 311,676 |
| Profit for the year | 207,828 | 91,200 | 311,676 |
| Non-IFRS Measure: | | | |
| Adjusted Net Profit ⁽¹⁾ | 207,828 | 245,070 | 322,056 |

Note:

- (1) Adjusted Net Profit represents profit for the year plus (i) the one-off termination fee paid to Henan Polytechnic University pursuant to the HPU Termination Agreement in July 2015 and (ii) the expenses in relation to the Listing incurred in the year ended 31 August 2016. For details of our prior cooperation with Henan Polytechnic University and the subsequent termination of the cooperation, see the section headed "Business — Overview of our Schools — Prior Cooperation with Henan Polytechnic University" in this prospectus. Adjusted Net Profit is not a measure of performance under IFRS. The use of Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. See the section headed "Financial Information — Non-IFRS Measure" in this prospectus.

The following table sets forth a breakdown of our revenue by segment for the years indicated:

| | For the year ended 31 August | | |
|--------------------|------------------------------|-----------|-----------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| University | 235,930 | 280,202 | 294,551 |
| Grade 1-12 | 331,129 | 374,979 | 435,773 |
| Kindergarten | 32,278 | 42,525 | 51,007 |
| Total | 599,337 | 697,706 | 781,331 |

The following table sets forth a breakdown of our average tuition fees by segment for the years indicated:

| | For the year ended 31 August | | |
|-----------------------------------------------------------------|------------------------------|--------|--------|
| | 2014 | 2015 | 2016 |
| | (RMB) | (RMB) | (RMB) |
| Average tuition fees of University ⁽¹⁾ | 12,057 | 11,827 | 11,752 |
| Average tuition fees of Grade 1-12 schools ⁽¹⁾ | 23,740 | 21,438 | 21,361 |
| Average tuition fees of kindergartens ⁽¹⁾ | 16,855 | 17,748 | 18,501 |

Note:

- (1) Average tuition fees of a segment for a given year is equal to the revenue of such segment for such year divided by the student enrolments for the corresponding school year.

SUMMARY

The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the years indicated:

| | For the year ended 31 August | | | | | |
|------------------------------|------------------------------|---------------------|---------------------------|---------------------|---------------------------|---------------------|
| | 2014 | | 2015 | | 2016 | |
| | Gross profit (RMB'000) | Gross profit margin | Gross profit (RMB'000) | Gross profit margin | Gross profit (RMB'000) | Gross profit margin |
| University | 106,941 | 45.3% | 137,774 | 49.2% | 186,508 | 63.3% |
| Grade 1-12 schools | 146,991 | 44.4% | 162,598 | 43.4% | 197,913 | 45.4% |
| Kindergartens | 12,910 | 40.0% | 17,930 | 42.2% | 21,777 | 42.7% |
| Overall | 263,842 | 44.5% | 318,302 | 45.6% | 406,198 | 52.0% |

Our cost of revenue consists primarily of teaching staff costs and depreciation and amortisation expenses. Our teaching staff costs mainly comprise teachers' salaries and benefits and constitute approximately 19.3%, 21.3% and 23.2% of our total revenue for the years ended 31 August 2014, 2015 and 2016, respectively. The major component of our administrative expenses and selling expenses was administrative staff costs and selling staff costs, respectively. The total amount of administrative staff costs and selling staff costs as a percentage of our total revenue was approximately 4.4%, 5.0% and 5.0% for the years ended 31 August 2014, 2015 and 2016, respectively.

During the Track Record Period, our revenue experienced stable growth due to the expansion of our school network. Our gross profit margin improved during the Track Record Period primarily because we ceased to pay the annual fee to Henan Polytechnic University for our university business and we gradually raised our tuition fees. Our profit for the year ended 31 August 2015 experienced a significant decrease compared to the preceding year primarily due to the payment of a one-time termination fee to Henan Polytechnic University in July 2015.

Selected Financial Data from Combined Statements of Financial Position

| | As of 31 August | | |
|-----------------------------------|-------------------|-------------------|-------------------|
| | 2014 (RMB'000) | 2015 (RMB'000) | 2016 (RMB'000) |
| Current assets | 269,146 | 290,961 | 316,310 |
| Current liabilities | 1,247,614 | 1,163,526 | 885,862 |
| Net current liabilities | 978,468 | 872,565 | 569,552 |
| Total equity | 506,707 | 597,907 | 909,648 |

As of 31 August 2014, 2015 and 2016, we had net current liabilities of RMB978.5 million, RMB872.6 million and RMB569.6 million, respectively. We had net current liabilities as of each of these dates primarily due to (i) the advances from our Controlling Shareholders to finance our capital expenditure and (ii) with respect to the net liabilities position as of 31 August 2015, the payment to Henan Polytechnic University in July 2015 consisting of annual fees and a one-off termination fee.

SUMMARY

Selected Financial Data from Combined Statements of Cash Flow

The following table sets forth a summary of our cash flows for the years indicated:

| | For the year ended 31 August | | |
|--------------------------------------------------------------|------------------------------|-----------|-----------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Net cash generated from operating activities | 445,395 | 168,304 | 420,143 |
| Net cash (used in) investing activities. | (123,807) | (303,660) | (42,068) |
| Net cash from/(used in) financing activities | (266,475) | 30,255 | 227,474 |
| Increase/(decrease) in cash and cash equivalents | 55,113 | (105,101) | 150,601 |
| Cash and cash equivalents at beginning of the year | 204,327 | 259,440 | 154,339 |
| Cash and cash equivalents at the end of the year | 259,440 | 154,339 | 304,986 |

The decrease in our net cash generated from operating activities for the year ended 31 August 2015 was primarily attributable to a one-off termination fee of approximately RMB153.9 million that we paid to Henan Polytechnic University. The increase in our net cash used in investing activities for the year ended 31 August 2015 was primarily due to our construction of teaching facilities in our new school campuses and purchase of investment products. The increase in our net cash from financing activities for the year ended 31 August 2015 was primarily because we borrowed certain bank loans to finance the construction of certain buildings on our University campus and obtained certain advances from our Controlling Shareholders for the payment of the one-off termination fee to Henan Polytechnic University.

Key Financial Ratios

| | As of/for the year ended 31 August | | |
|-----------------------------------------------------|------------------------------------|-------|-------|
| | 2014 | 2015 | 2016 |
| Net profit margin ⁽¹⁾ | 34.7% | 13.1% | 39.9% |
| Adjusted Net Profit margin ⁽²⁾ | 34.7% | 35.1% | 41.2% |
| Return on assets ⁽³⁾ | 11.4% | 4.7% | 15.4% |
| Adjusted return on assets ⁽⁴⁾ | 11.4% | 12.5% | 15.9% |
| Return on equity ⁽⁵⁾ | 41.0% | 15.3% | 34.3% |
| Adjusted return on equity ⁽⁶⁾ | 41.0% | 41.0% | 35.4% |
| Current ratio ⁽⁷⁾ | 0.22 | 0.25 | 0.36 |
| Gearing ratio ⁽⁸⁾ | 0.04 | 0.84 | 0.35 |

Notes:

- (1) Net profit margin equals our net profit for the year divided by revenue for the year.
- (2) Adjusted Net Profit margin equals our Adjusted Net Profit for the year divided by the revenue for the year.
- (3) Return on assets equals net profit for the year divided by the total assets as of the end of the year.
- (4) Adjusted return on assets equals Adjusted Net Profit for the year divided by the total assets as of the end of the year.
- (5) Return on equity equals net profit for the year divided by the total equity amounts as of the end of the year.
- (6) Adjusted return on equity equals Adjusted Net Profit for the year divided by the total equity as of the end of the year.
- (7) Current ratio equals our current assets divided by current liabilities as of the end of the year.
- (8) Gearing ratio equals total interest-bearing bank loans divided by total equity as of the end of the year.

DIVIDENDS

As of the Latest Practicable Date, we did not have a formal dividend policy. As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our consolidated affiliated entities, which are incorporated in the PRC. Our consolidated affiliated entities must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and paying dividends to us. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial

SUMMARY

condition, contractual restrictions and other factors which our Directors consider relevant (including all the applicable PRC laws and regulations which our schools are required to comply with). Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividends shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. There is no assurance that dividends of any amount will be declared to be distributed in any year.

GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 75,000,000 Offer Shares (subject to adjustment) in Hong Kong as described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus; and
- (ii) the International Offering of an aggregate of initially 675,000,000 Shares (subject to adjustment and the Over-allotment Option), (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S (including to professional and institutional investors in Hong Kong).

The Offer Shares will represent 25% of the issued share capital of our Company immediately following the completion of the Global Offering, assuming the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are awarded under the Share Award Scheme. If the Over-allotment Option is exercised in full, and no new Shares will be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme, and the Offer Shares will represent approximately 28.75% of the issued share capital of our Company immediately following the completion of the Global Offering.

RECENT DEVELOPMENTS

Subsequent to 31 August 2016, being the date of our Combined Financial Statements as set out in the Accountants’ Report included in Appendix I to this document and up to the Latest Practicable Date, our business has experienced the following principal developments:

- our new high school on Luohe Yuhua Elite School campus commenced operation in September 2016;
- based on our enrolment data, (i) approximately 24,255 students enrolled in our K-12 schools for the 2016/2017 school year; and (ii) approximately 26,860 students enrolled in our University for the 2016/2017 school year;
- the tuition fee levels for our kindergartens and Grade 1-12 schools for the 2016/2017 school year generally increased from the 2015/2016 school year. See the section headed “Business — Overview of our Schools — Tuition Fees” in this prospectus; and
- we adopted the Pre-IPO Share Option Scheme in September 2016. Under the Pre-IPO Share Option Scheme, certain share options have been granted to certain employees, executives and officers of our Group. After the Listing, the fair value of the pre-IPO share options will be amortised over the relevant vesting period of respective grantees and recognised as expenses, which may increase our staff cost in the future. Our financial results might be materially and adversely affected by an increase in staff costs as a result of the grant of pre-IPO share options. For the principle terms of the Pre-IPO Share Option Scheme, see the section headed “D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share

SUMMARY

Option Scheme” in Appendix V to this prospectus. For the impact of the Pre-IPO Share Option Scheme on our staff cost, see the section headed “Financial Information — Factors Affecting Our Results of Operations – Ability to Control Our Costs and Expenses” in this prospectus.

On 7 November 2016, the Decision of the Standing Committee of the National People’s Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the “**Amendment**”) was promulgated by Order No. 55 of the President of the PRC. The Amendment will come into force on 1 September 2017. The Amendment establishes a new classification system for private schools to be classified by whether they are established and operated for profit-making purposes, and the sponsors of private schools may at their own discretion choose to establish non-profit or for-profit private schools. However, schools sponsors are not allowed to establish for-profit private schools that are engaged in compulsory education. For further details of the Amendment, see the section headed “Regulations — Regulations on Private Education in the PRC — The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education” in this prospectus.

We derive the economic benefits arising from the business of our consolidated affiliated entities (i.e. the PRC Holdcos and our schools) through the WFOE’s provision of services to them and receipt of service fees in return pursuant to the Contractual Arrangements. For further details of operation of the Contractual Arrangements, see the paragraph headed “Contractual Arrangements” above and the section headed “Contractual Arrangements — Operation of the Contractual Arrangements” in this prospectus. According to our PRC Legal Adviser, no current PRC laws or regulations restrict or prohibit WFOE’s contractual rights to receive service fees from our consolidated affiliated entities for the services rendered under the Contractual Arrangements irrespective of whether our schools are being operated as schools of which the sponsors require “reasonable returns” or schools of which the sponsors do not require “reasonable returns” or, after the Amendment taking effect, as for-profit schools or non-profit schools. For further details regarding the legality of the Contractual Arrangements, see the section headed and “Contractual Arrangements — Legality of the Contractual Arrangements” in this prospectus.

Our Directors confirm that there has been no material adverse change in our financial, operational or trading positions or prospects since 31 August 2016, being the date of our Combined Financial Statements as set out in the Accountants’ Report included in Appendix I to this prospectus, and up to the date of this prospectus.

Our net profit may experience a short-term decline after the Listing, primarily due to (i) the increased staff costs as a result of expenses associated with the grant of pre-IPO share options and (ii) the increased tax expenses as a result of the increased effective tax rate attributable to the implementation of the VIE structure upon the Listing.

OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 750,000,000 Shares are issued pursuant to the Global Offering; and (ii) 3,000,000,000 Shares are issued and outstanding following the completion of the Global Offering.

| | Based on an Offer Price of HK\$1.98 per Share | Based on an Offer Price of HK\$2.54 per Share |
|----------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Market capitalisation of our Shares ⁽¹⁾ | HK\$5,940 million | HK\$7,620 million |
| Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾ | HK\$0.81 (RMB0.72) | HK\$0.95 (RMB0.84) |

Notes:

- (1) The calculation of market capitalisation is based on 3,000,000,000 shares expected to be in issue immediately upon completion of the Global Offering.
- (2) The unaudited pro forma adjusted net tangible asset per Share as at 31 August 2016 is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that 3,000,000,000 shares are expected to be in issue immediately upon completion of the Global Offering.

SUMMARY

For the calculation of the unaudited pro forma adjusted net tangible asset value per Share attributed to our Shareholders, see the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus.

LISTING EXPENSES

The total listing expenses (including underwriting commissions) payable by our Company are estimated to be approximately RMB86.8 million, assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$2.26 per Offer Share (being the mid-point of our Offer Price range of HK\$1.98 to HK\$2.54 per Offer Share). These listing expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the Underwriters, for their services rendered in relation to the Listing and the Global Offering.

As of 31 August 2016, the listing expenses (excluding underwriting commissions) incurred by our Company in relation to the Listing were approximately RMB13.7 million, of which approximately RMB10.4 million was charged to our combined statement of comprehensive income and approximately RMB3.3 million was capitalised. We estimate that additional listing expenses of RMB73.1 million (including underwriting commissions, assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$2.26 per Offer Share) will be incurred by our Company, of which approximately RMB23.1 million is expected to be charged to our combined statement of comprehensive income and approximately RMB50.0 million is expected to be charged against equity upon the Listing.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,608.5 million after deducting underwriting commissions and other estimated expenses paid and payable by us in the Global Offering taking into account any additional discretionary incentive fee, assuming an Offer Price of HK\$2.26 per Share, being the mid-point of the indicative Offer Price range of HK\$1.98 to HK\$2.54 per Share. We intend to use the net proceeds we will receive from this offering for the following purposes:

| Use of proceeds | % of the net proceeds | HK\$ million |
|----------------------------------------------------------------------------|-----------------------|--------------|
| Expand our school network | 30 | 482.5 |
| Acquire K-12 schools and universities | 28 | 450.4 |
| Upgrade and expand school facilities and capacity for our existing schools | 25 | 402.1 |
| Supplement our working capital | 10 | 160.9 |
| Repay our bank loans | 7 | 112.6 |

In the event that we receive net proceeds from the Global Offering higher or lower than the estimated amount stated above, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis.

We will not receive any of the net proceeds from the exercise of the Over-allotment Option.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

| | |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Adjusted Net Profit” | a non-IFRS measure that eliminates the effect of certain non-recurring items from our profit for the year. See section headed “Financial Information — Non-IFRS Measure” in this prospectus |
| “affiliate” | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| “Application Form(s)” | WHITE Application Form(s), YELLOW Application Form(s) or GREEN Application Form(s), individually or collectively, as the context so requires, any of them, which is used in relation to the Hong Kong Public Offering |
| “Articles” or “Articles of Association” | the articles of association of our Company adopted on 8 February 2017 with effect from the Listing Date, as amended from time to time, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Companies Law” in Appendix IV to this prospectus |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Baikal Lake Investment” | Baikal Lake Investment Holdings Limited, a company incorporated in the BVI with limited liability on 29 August 2016 and the sole shareholder of GuangYu Investment and one of our Controlling Shareholders |
| “Board” | the board of directors of our Company |
| “business day” | any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business |
| “BVI” | the British Virgin Islands |
| “BVI YuHua” | China YuHua Education Investment Limited, a company incorporated in the BVI with limited liability on 28 April 2016 and a wholly-owned subsidiary of our Company |
| “Cayman Companies Law” | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |
| “Cayman Registrar” | the Registrar of Companies of the Cayman Islands |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |

DEFINITIONS

| | |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “CCASS Clearing Participant” | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant |
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| “CCASS Participant” | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| “China” or “PRC” | the People’s Republic of China and for the purposes of this prospectus only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan |
| “Combined Financial Statements” | the combined financial statements of our Group for the financial years ended 31 August 2014, 2015 and 2016 as included in the section headed “Accountants’ Report” in Appendix I to this prospectus |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Companies (Winding Up and Miscellaneous Provisions) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Company”, “our Company”, or “the Company” | China YuHua Education Corporation Limited 中国宇华教育集团有限公司, an exempted company with limited liability incorporated in the Cayman Islands on 25 April 2016 |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “connected transaction(s)” | has the meaning ascribed to it under the Listing Rules |
| “Contractual Arrangements” | the series of contractual arrangements entered into by, among others, our Company, WFOE, Mr. Li, Ms. Li and our consolidated affiliated entities, details of which are described in the section headed “Contractual Arrangements” in this prospectus |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Li, Baikal Lake Investment and/or GuangYu Investment |
| “CSRC” | the China Securities Regulatory Commission |
| “Director(s)” | the director(s) of our Company |
| “Frost & Sullivan” | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent global market research and consulting company |
| “GDP” | Gross Domestic Product |

DEFINITIONS

| | |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Global Offering” | the Hong Kong Public Offering and the International Offering |
| “Green Application Form(s)” | the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, designated by our Company |
| “Group”, “our Group”, “the Group”, “we”, “us”, or “our” | the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries and consolidated affiliated entities, such subsidiaries and consolidated affiliated entities as if they were subsidiaries and consolidated affiliated entities of our Company at the relevant time |
| “GuangYu Investment” | GuangYu Investment Holdings Limited, a company incorporated in the BVI with limited liability on 21 March 2016 and a Controlling Shareholder of our Company |
| “Hebi Qibin District YuHua Elite Bilingual Kindergarten” | Hebi Qibin District YuHua Elite Bilingual Kindergarten (鶴壁市淇濱區宇華實驗雙語幼兒園), a campus established in September 2011 for private kindergarten and formerly known as “Hebi Qibin District Zhongmei Bilingual Kindergarten” (鶴壁市淇濱區中美雙語幼兒園) |
| “Henan Hantang” | Henan Hantang Education Management Company Limited (河南漢唐教育管理有限公司), a company established with limited liability on 8 August 2016 and a wholly-owned subsidiary of our Company |
| “HKSCC” | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Hong Kong dollars” or “HK dollars” or “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong Public Offer Shares” | the 75,000,000 Shares initially being offered for subscription in the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus) |
| “Hong Kong Public Offering” | the offer of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus |

DEFINITIONS

| | |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Hong Kong Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “Hong Kong Takeovers Code” or “Takeovers Code” | the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| “Hong Kong Underwriters” | the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus |
| “Hong Kong Underwriting Agreement” | the underwriting agreement, dated 15 February 2017, relating to the Hong Kong Public Offering, entered into among, inter alia, the Joint Global Coordinators, the Hong Kong Underwriters and our Company, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering” in this prospectus |
| “HongKong Yuhua” | China HongKong Yuhua Education Limited 中國香港宇華教育有限公司, a company incorporated in Hong Kong with limited liability on 12 May 2016 and a wholly-owned subsidiary of our Company |
| “HPU Cooperation Agreement” | an agreement entered into between Henan Polytechnic University, an Independent Third Party, and YuHua Investment Management on 22 April 2008, as further described in the section headed “Business — Overview of our Schools — Prior Cooperation with Henan Polytechnic University” in this prospectus |
| “HPU Termination Agreement” | an agreement entered into between Henan Polytechnic University and YuHua Investment Management on 18 July 2015, as further described in the section headed “Business — Overview of our Schools — Prior Cooperation with Henan Polytechnic University” in this prospectus |
| “IFRS” | International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board |
| “Independent Third Party(ies)” | any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules |
| “International Offering” | the conditional placing of the International Offering Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from the registration requirement under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus |
| “International Offering Shares” | the 675,000,000 Shares being initially offered for subscription and purchased at the Offer Price under the International Offering together, where relevant, with any additional Shares that may be |

DEFINITIONS

| | |
|-------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | sold pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus |
| “International Underwriters” | the underwriters of the International Offering |
| “International Underwriting Agreement” | the international underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company, the Joint Global Coordinators and the International Underwriters on or about 21 February 2017, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — International Offering” in this prospectus |
| “Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten” | Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten (焦作市城鄉一體化示範區宇華實驗幼兒園), a campus established in September 2011 for private kindergarten and formerly known as “Jiaozuo New District Zhongmei Bilingual Kindergarten” (焦作新區中美雙語幼兒園) |
| “Jiaozuo YuHua Elite School” | Jiaozuo YuHua Elite School (焦作市宇華實驗學校), a campus established in September 2011 for private primary, middle and high school and formerly known as “the Affiliated High School of Peking University, Henan Branch, Jiaozuo Campus” (北京大學附屬中學河南分校焦作校區) |
| “Jiyuan YuHua Elite Bilingual Kindergarten” | Jiyuan YuHua Elite Bilingual Kindergarten (濟源市宇華實驗雙語幼兒園), a campus established in September 2014 for private kindergarten and formerly known as “Jiyuan Zhongmei Bilingual Kindergarten” (濟源市中美雙語幼兒園) |
| “Jiyuan YuHua Elite School” | Jiyuan YuHua Elite School (濟源市宇華實驗學校), a campus established in September 2014 for private primary and middle school and formerly known as “the Affiliated High School of Peking University, Henan Branch, Jiyuan Campus” (北京大學附屬中學河南分校濟源校區) |
| “Joint Bookrunners” | CLSA Limited, Merrill Lynch Far East Limited, CCB International Capital Limited, First Capital Securities Limited and Orient Securities (Hong Kong) Limited for the Hong Kong Public Offering and CLSA Limited, Merrill Lynch International, CCB International Capital Limited and First Capital Securities Limited for the International Offering |
| “Joint Global Coordinators” | CLSA Limited, Merrill Lynch International and CCB International Capital Limited |
| “Joint Lead Managers” | CLSA Limited, Merrill Lynch Far East Limited, CCB International Capital Limited, First Capital Securities Limited and Orient Securities (Hong Kong) Limited for the Hong Kong Public Offering and CLSA Limited, Merrill Lynch International, CCB International Capital Limited and First Capital Securities Limited for the International Offering |

DEFINITIONS

| | |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Kaifeng YuHua Elite School” | Kaifeng YuHua Elite School (開封市宇華實驗學校), a campus established in September 2012 for private primary and middle school and formerly known as “the Affiliated High School of Peking University, Henan Branch, Kaifeng Campus” (北京大學附屬中學河南分校開封校區) |
| “Latest Practicable Date” | 7 February 2017, being the latest practicable date for ascertaining certain information in this prospectus before its publication |
| “Listing” | the listing of the Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Date” | the date, expected to be on or about 28 February 2017, on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange |
| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “Luohe YuHua Elite Bilingual Kindergarten” | Luohe YuHua Elite Bilingual Kindergarten (漯河市宇華實驗雙語幼兒園), a campus established in September 2013 for private kindergarten and formerly known as “Luohe Zhongmei Bilingual Kindergarten” (漯河市中美雙語幼兒園) |
| “Luohe YuHua Elite School” | Luohe YuHua Elite School (漯河市宇華實驗學校), a campus established in September 2013 for private primary and middle school and formerly known as “the Affiliated High School of Peking University, Henan Branch, Luohe Campus” (北京大學附屬中學河南分校漯河校區) |
| “Main Board” | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange |
| “Memorandum” or “Memorandum of Association” | the memorandum of association of our Company adopted on 8 February 2017, with effect from the Listing Date, as amended from time to time |
| “MOE” | the Ministry of Education of the PRC (中華人民共和國教育部) |
| “MOFCOM” | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “MOHRSS” | the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) |
| “Mr. Li” or “Founder” | Mr. Li Guangyu (李光宇), a PRC citizen and the founder, executive Director and chairman of the Board of our Company |
| “Ms. Li” | Ms. Li Hua (李花), a PRC citizen and the daughter of Mr. Li. Ms. Li is also an executive Director, the chief executive officer and the vice chairman of the Board of our Company |
| “NDRC” | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |

DEFINITIONS

| | |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Offer Price” | the final price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Hong Kong Public Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and International Offering Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus |
| “Offer Share(s)” | the Hong Kong Public Offer Shares and the International Offering Shares together, where relevant, with any additional Shares to be sold by our Company pursuant to the exercise of the Over-allotment Option |
| “Over-allotment Option” | the option expected to be granted by the Over-allotment Option Grantor to the International Underwriters, exercisable by the Stabilisation Manager on behalf of the International Underwriters and in consultation with the Joint Global Coordinators for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell up to 112,500,000 Shares (representing in aggregate 15% of the initial Offer Shares) to, among other things, cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering — The International Offering — Over-allotment Option” in this prospectus |
| “Over-allotment Option Grantor” | GuangYu Investment |
| “PBOC” | the People’s Bank of China |
| “PKU Cooperation Agreement” | an agreement entered into between the Affiliated High School of Peking University (北京大學附屬中學), an Independent Third Party, and YuHua Investment Management on 27 March 2001, as further described in the section headed “Business — Overview of our Schools — Prior Cooperation with the Affiliated High School of Peking University” in this prospectus |
| “PKU Termination Agreement” | an agreement entered into between the Affiliated High School of Peking University (北京大學附屬中學), YuHua Investment Management and Zhengzhou YuHua Elite School on 26 September 2014, as further described in the section headed “Business — Overview of our Schools — Prior Cooperation with the Affiliated High School of Peking University” in this prospectus |
| “PRC Holdco(s)” | YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments |
| “Pre-IPO Share Option Scheme” | the share option scheme conditionally approved and adopted by the Board, the principal terms of which are set out in the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme” in Appendix V to this prospectus |

DEFINITIONS

| | |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Price Determination Agreement” | the agreement to be entered into among our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) at or about the Price Determination Date to record and fix the Offer Price |
| “Price Determination Date” | the date, expected to be on or about 21 February 2017 (Hong Kong time) and in any event no later than 27 February 2017, on which the Offer Price is to be fixed by an agreement between our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) |
| “Principal Share Registrar and Transfer Office” | Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands |
| “prospectus” | this prospectus being issued in connection with the Hong Kong Public Offering |
| “QIB” | a qualified institutional buyer within the meaning of Rule 144A |
| “Registered Shareholder(s)” | Mr. Li and Ms. Li, and each of them a Registered Shareholder |
| “Regulation S” | Regulation S under the U.S. Securities Act |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of China |
| “Rule 144A” | Rule 144A under the U.S. Securities Act |
| “SAFE” | the State Administration of Foreign Exchange of the PRC |
| “SEC” | the Securities and Exchange Commission of the United States |
| “Securities and Futures Ordinance” or “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “SFC” | The Securities and Futures Commission of Hong Kong |
| “Shareholder(s)” | holder(s) of our Share(s) |
| “Shares” | ordinary shares in our Company of par value HK\$0.00001 each |
| “Share Award Scheme” | the share award scheme approved and adopted by the sole shareholder of our Company on 8 February 2017, the principal terms of which are set out in the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 2. Share Award Scheme” in Appendix V to this prospectus |
| “Sole Sponsor” | CITIC CLSA Capital Markets Limited |
| “Stabilisation Manager” | CLSA Limited |

DEFINITIONS

| | |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed thereto in section 15 of the Companies Ordinance |
| “substantial shareholder” | has the meaning ascribed to it in the Listing Rules |
| “Track Record Period” | the three financial years ended 31 August 2014, 2015 and 2016 |
| “Underwriters” | the Hong Kong Underwriters and the International Underwriters |
| “Underwriting Agreements” | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| “United States”, “U.S.” or “US” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| “US dollars”, “U.S. dollars” or “US\$” | United States dollars, the lawful currency of the United States |
| “U.S. Securities Act” | United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “VIE” or “VIEs” | variable interest entity or variable interest entities |
| “Wanfang College” | Wanfang College of Science & Technology of Henan Polytechnic University, Zhengzhou campus (河南理工大學萬方科技學院鄭州校區), an Independent College of which we established in September 2009 |
| “WFOE” | Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司), a company established in the PRC with limited liability on 22 July 2016 and a wholly-owned subsidiary of our Company |
| “White Form eIPO” | the application for Public Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the www.eipo.com.hk |
| “White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited |
| “Xingyang YuHua Elite Kindergarten” | Xingyang YuHua Elite Kindergarten (滎陽市宇華實驗幼兒園), a campus established in September 2011 for private kindergarten and formerly known as “Xingyang Zhongmei Bilingual Kindergarten” (滎陽中美雙語幼兒園) |
| “Xingyang YuHua Shengshi Elite School” | Xingyang YuHua Shengshi Elite School (滎陽宇華盛世實驗學校), a campus established in September 2011 for private middle school and formerly known as “Zhengzhou Yizhong Middle School” (鄭州一中實驗初中) |
| “Xinxiang Weibin District YuHua Elite Kindergarten” | Xinxiang Weibin District YuHua Elite Kindergarten (新鄉市衛濱區宇華實驗幼兒園), a campus established in September 2011 for private kindergarten and formerly known as “Xinxiang Weibin District Zhongmei Kindergarten” (新鄉市衛濱區中美幼兒園) |

DEFINITIONS

| | |
|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Xuchang Weidu District YuHua Elite Bilingual Kindergarten” | Xuchang Weidu District YuHua Elite Bilingual Kindergarten (許昌市魏都區宇華實驗雙語幼兒園), a campus established in September 2014 for private kindergarten and formerly known as “Xuchang Zhongmei Bilingual Kindergarten” (許昌中美雙語幼兒園) |
| “Xuchang YuHua Elite School” | Xuchang YuHua Elite School (許昌宇華實驗學校), a campus established in September 2014 for private primary and middle school and formerly known as “the Affiliated High School of Peking University, Henan Branch, Xuchang Campus” (北京大學附屬中學河南分校許昌校區) |
| “YuHua Investment Management” | YuHua Investment Management Co., Ltd. (宇華投資管理有限公司), a limited liability company established in the PRC on 23 November 1993 and one of our PRC Holdcos |
| “Zhengzhou Technology and Business University” or “University” | Zhengzhou Technology and Business University (鄭州工商學院), a Private HEI, or where the context requires, Wanfang College |
| “Zhengzhou YuHua Education Investments” | Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司), a limited liability company established in the PRC on 9 April 2004 and one of our PRC Holdcos |
| “Zhengzhou YuHua Elite Bilingual Kindergarten” | Zhengzhou YuHua Elite Bilingual Kindergarten (鄭州市宇華實驗雙語幼兒園), a campus established in September 2005 for private kindergarten and formerly known as “the Bilingual Kindergarten of the Affiliated High School of Peking University, Henan Branch” (北京大學附屬中學河南分校雙語幼兒園) |
| “Zhengzhou YuHua Elite Primary School” | Zhengzhou YuHua Elite Primary School (鄭州市宇華實驗小學), a campus established in September 2005 for private primary school and formerly known as “the Foreign Language Primary School of the Affiliated High School of Peking University, Henan Branch” (北京大學附屬中學河南分校外國語小學) |
| “Zhengzhou YuHua Elite School” | Zhengzhou YuHua Elite School (鄭州市宇華實驗學校), a campus established in September 2001 for private middle and high school and formerly known as “the Affiliated High School of Peking University, Henan Branch” (北京大學附屬中學河南分校) |
| “Zhengzhou Zhongmei Education Investments” | Zhengzhou Zhongmei Education Investments Co., Ltd. (鄭州中美教育投資有限公司), a limited liability company established in the PRC on 21 July 2011 and one of our PRC Holdcos |
| “%” | per cent |

Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as of the date of this prospectus.

The English names of the PRC entities (including schools), PRC laws or regulations, and the PRC governmental authorities referred to in this prospectus are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this prospectus in connection with our Company and our business. Some of these may not correspond to standard industry definitions.

| | |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “compulsory education” | grade one to grade nine education, which all citizens in China must receive according to the Compulsory Education Law of the PRC (中華人民共和國義務教育法) |
| “formal education” | education systems that provide students with the opportunity to earn official certificates from the PRC government |
| “Gaokao” | also known as the National Higher Education Entrance Examination (普通高等學校招生全國統一考試), is an academic examination held annually in the PRC. It is a prerequisite for entrance into almost all higher education institutions at the undergraduate level in the PRC |
| “Grade 1-12” | grade one to grade 12 |
| “high school(s)” | schools that provide education for students in grade 10 through grade 12 |
| “higher education” | an optional final stage of formal learning that occurs after secondary education, which is often delivered at universities, academies, colleges, seminaries and institutes of technologies |
| “Independent College” or “independent college” | (獨立學院) a type of private higher education institution offering undergraduate courses that are run by non-governmental institutions or individuals through cooperation with public universities |
| “Initial Employment Rate” | the percentage of graduates who entered full-time employment contracts, were self-employed or accepted an offer for graduate degree programmes before graduation |
| “K-12” | kindergarten to grade 12 |
| “kindergarten(s)” | educational establishments offering early childhood education to children prior to the commencement of compulsory education |
| “middle school(s)” | schools that provide education for students in grade seven through grade nine |
| “one-child policy” | China’s population control policy implemented by the Population and Family Planning Law of the PRC, according to which a family can have only one child, with certain exceptions |
| “primary school(s)” | schools that provide education for students in grade one through grade six |
| “private education” | the term “private education” used in this prospectus refers to private formal education |
| “private higher education institution” | a PRC higher education institution (民辦高等教育機構) that is operated by non-governmental entity(ies) or individual(s) where public funding is not a major source of capital and has open admission and enrolment to the public. It is able to offer junior college, undergraduate and graduate courses. Private higher education institutions include Private HEIs and Independent Colleges |

GLOSSARY OF TECHNICAL TERMS

| | |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Private HEI” | (民辦普通高校) a type of private higher education institution offering junior college, undergraduate and/or post-graduate course that are operated by non-governmental institutions or individuals and not affiliated with any public university |
| “private school(s)” | schools which are not administered by local, provincial or national governments |
| “public school(s)” | schools administered by local, provincial or national governments |
| “school year” | except for our kindergartens, the school year for all of our schools, which generally starts on or around 1 September of each calendar year and ends on 31 August of the next calendar year |
| “Tier One Universities” | also known as “Key Universities” (重點大學), refers to universities that were listed as participating universities in Project 211 (211工程) and Project 985 (985工程) initiated by the MOE and the PRC government in 1995 and 1988, respectively, with the intent of raising the standards and promoting the development and reputation of higher education in China |
| “Zhongkao” | also known as the High School Entrance Examination, the academic examination held annually in the PRC to distinguish middle school students |

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “aim”, “aspire”, “objective”, “target”, “schedules” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this prospectus), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- our ability to maintain or increase student enrolment in our schools;
- our ability to maintain or increase tuition fees;
- our ability to maintain or increase utilisation of our facilities;
- our capital expenditure programmes and future capital requirements;
- our future general and administrative expenses;
- competition for, among other things, capital, technology and skilled personnel (including teaching staff);
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed “Risk Factors” in this prospectus.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

All forward-looking statements in this prospectus are expressly qualified by reference to this cautionary statement.

RISK FACTORS

An investment in our Shares involves significant risks. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-looking Statements” in this prospectus.

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business and our industry; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to doing business in China; and (iv) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our business and results of operations depend on the level of tuition we are able to charge and our ability to maintain and raise tuition levels.

One of the most significant factors affecting our profitability is the tuition fees we charge at our schools. We derived all of our revenue from tuition fees during the Track Record Period. Our tuition rates are primarily determined based on the demand for our educational programmes, the cost of our operations, the geographic markets where we operate our schools, the tuition charged by our competitors, our pricing strategy to gain market share and general economic conditions in China and the areas in which our schools are located. For the boarding students in our schools, the tuition fees charged also include boarding fees. For a number of our primary school and kindergarten students, the tuition fees charged also include meal fees.

Our tuition rates are also generally subject to the approval from the relevant government pricing authorities in the areas where we operate. Under the Interim Measures for the Fees Collection Management of Private Education Fees (《民辦教育收費管理暫行辦法》) promulgated by the PRC government authorities on 2 March 2005, the types and amounts of fees charged by a private school providing educational qualifications must be approved by the relevant governmental pricing authority. Pursuant to the Interim Measures for the Fees Collection Management of Private Schools of Henan Province (《河南省民辦學校收費管理暫行辦法》) promulgated by the government authorities of Henan Province on 1 August 2005, the standard of tuition fees and boarding fees charged by the private schools for the formal education or the adjustment thereto, shall be reviewed by the governmental education authority based on the written application filed by the private schools and approved by the governmental pricing authority. On 11 June 2015, the People’s Government of Henan Province (河南省人民政府) published the Opinions of the People’s Government of Henan Province on Further Deepening Price Reform (《河南省人民政府關於進一步深化價格改革的意見》), which provides that the government administration should gradually deregulate its control over education related fees charged by private schools and abolish the requirement for record-filing for tuition fees charged by privately-run kindergartens.

However, there can be no assurance that we will be able to maintain or raise the tuition level we charge at our schools in the future due to various reasons, including the failure to obtain necessary approvals, or even if we are able to maintain or raise the tuition level, we cannot assure you that we will be able to attract prospective students to apply for our schools at such increased fee rates. Our business, financial position and results of operations may be materially and adversely affected if we fail to maintain or raise the tuition level or attract sufficient prospective students.

RISK FACTORS

We face intense competition in the PRC education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures.

The education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We compete with public schools and other private schools that offer similar programmes of their own or in partnership with other curriculum providers. We compete with these schools in a range of aspects, including the quality of programme and curriculum offerings, tuition fee levels, school location and premises, qualified teachers and other key personnel. Our competitors may adopt similar or superior curriculums, school support and marketing approaches, with different pricing and service packages that may have greater appeal than our offerings. In addition, some of our competitors may have more resources than we do and may be able to devote greater resources than we can to the development and promotion of their schools and respond more quickly than we can to the changes in student demand, testing materials, admissions standards, market needs or new technologies. In particular, the PRC public education system continues to improve in terms of resources, admission policies and teaching quality and approaches, which may lead to increased competition for us. If admission limitations are relaxed at public schools, more diversified curriculums are offered or the exam-oriented education approach is reformed, public schools may become more attractive to students and student enrolment in our schools may decrease. As such, we may be required to reduce tuition fees or increase capital expenditure in response to competition in order to retain or attract students or pursue new market opportunities. If we are unable to successfully compete for new students, maintain or increase our tuition level, attract and retain competent teachers or other key personnel, enhance the quality of our educational services or control competition costs, our business and results of operations may be materially and adversely affected.

In addition, we also face intense competition with international schools or international programmes offered by other public or private schools. If our students and their parents' interest in the education programmes offered by us decreases, student enrolment in our schools may substantially decrease and we may need to lower our tuition fees to attract more students. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to uncertainties brought by the Amendment of Law for Promoting Private Education of the PRC.

Our business is regulated by, among others, the Law for Promoting Private Education of the PRC. On 7 November 2016, the Decision of the Standing Committee of the National People's Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the “**Amendment**”) was promulgated by Order No. 55 of the President of the PRC. The Amendment will come into force on 1 September 2017. The Amendment establishes a new classification system for private schools to be classified by whether they are established and operated for profit-making purposes, and the sponsors of private schools may at their own discretion choose to establish non-profit or for-profit private schools. Further, schools sponsors are not allowed to establish for-profit private schools that are engaged in compulsory education.

The implementation of the Amendment will further be provided in the implementation regulations that are yet to be published or introduced (the “**Implementation Regulations**”). It remains uncertain as to whether the Implementation Regulations will bring any material adverse impact on our business. There is also significant uncertainty as to the preferential tax treatments or other preferential treatments that our schools will enjoy (whether as non-profit private schools or as for-profit schools if we choose to register certain schools of ours as such) after the Amendment and/or the Implementation Regulations come into force. As the Amendment was only recently promulgated and the Implementation Regulations are yet to be introduced, there may also be uncertainty in terms of the interpretation and enforcement of the Amendment and the Implementation Regulations by the relevant government authorities. There is no assurance that we will be able to operate our business in full

RISK FACTORS

compliance with the Amendment and/or Implementation Regulations as interpreted by the relevant government authorities or at all. Should we fail to fully comply with the Amendment and/or the Implementation Regulations as interpreted by the relevant government authorities, we may be subject to administrative fines or penalties or other negative consequences which could materially and adversely affect our brand name and reputation, and our business, financial condition and results of operations.

We are not able to predict or estimate the potential costs and expenses to adjust our structure according to the Amendment and the Implementation Regulations. In addition, when the Amendment comes into effect and the Implementation Regulations become available, our financial condition, results of operations can be materially and adversely affected should registration of our schools as for-profit schools or non-profit schools incur significant administration and financial costs.

We may not be able to execute our growth strategies successfully or effectively, which may hinder our ability to capitalise on new business opportunities.

We plan to sharpen our competitive edge in Henan Province and further expand our school network in other attractive markets (i) by building and acquiring additional schools; and (ii) through an asset-light approach by cooperating with third party partners. In addition, we plan to further increase the capacity and improve the utilisation rate of existing schools. See the section headed “Business — Our Business Strategies” in this prospectus for more information. We may not succeed in executing our growth strategies due to a number of factors, including failure to do the following:

- increase student enrolment in our existing schools;
- admit all qualified students who would like to enrol in our schools due to the capacity constraints of our school facilities;
- identify cities with sufficient growth potential in which we can establish new schools;
- identify suitable acquisition targets;
- establish cooperation with potential third party partners;
- effectively execute our expansion plans;
- acquire or lease suitable land sites in the cities to which we plan to expand our operations;
- win government support or to partner with local governments in cities where we already have schools or in cities or areas to which we plan to expand our operation;
- effectively market our schools or brand in new markets or promote ourselves in existing markets;
- replicate our successful growth model in new markets or new geographical locations outside Henan Province;
- effectively integrate any future acquisitions into our Group;
- obtain the requisite licences and permits from the authorities necessary to open new schools at our desired locations;
- continue to enhance our course materials or adapt our course materials to changing student needs and teaching methods;
- follow the expected timetable with respect to the development of new schools; and
- achieve the benefits we expect from our expansion.

If we fail to successfully execute our growth strategies, we may not be able to maintain our growth rate and, as a result, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

We may not be able to successfully integrate businesses that we acquire, which may cause us to lose the anticipated benefits from such acquisitions and to incur significant additional expenses.

One of our growth strategies is to grow our business by acquiring additional schools. We believe we face challenges in integrating business operations and management philosophies of acquired schools. The benefits of our future acquisitions depend in significant part on our ability to effectively and timely integrate management, operations, technology and personnel. The acquisition and integration of acquired schools is a complex, time-consuming and expensive process that, without proper planning and implementation, could significantly disrupt our business operations and reputation. The main challenges involved in acquiring and integrating acquired entities include the following:

- ability to find suitable targets;
- retaining qualified teaching staff of any acquired school;
- consolidating educational services offered by the acquired school;
- integrating information technology platforms and administrative infrastructure;
- minimising the diversion of our management's attention from on-going business concerns; and
- ensuring and demonstrating to our students and their parents that the new acquisitions will not result in any adverse changes to our established brand image, reputation, teaching quality or standards.

We may not successfully integrate our operations and the operations of the schools we acquire in a timely manner, or at all, and we may not realise the anticipated benefits or synergies of the acquisitions to the extent, or in the timeframe we anticipated, which may have a material adverse effect on our business, financial condition and results of operations.

Our business relies on our ability to recruit and retain dedicated and qualified teachers and school personnel.

We rely substantially on our teachers for the provision of educational services to our students. Our teachers are therefore critical to maintaining the quality of our programmes and curriculum and to upholding our reputation. As of 31 August 2016, we had a team of 2,455 teachers.

We plan to continue to attract qualified teachers who have a strong command of their respective subject areas and meet our high standards. We seek to hire teachers who are capable of delivering innovative and inspirational classroom instructions. There is a limited number of teachers with the necessary experience to teach our courses. Similarly, the pool of qualified school personnel, such as principals, vice principals and other school administrators, all of whom are crucial to the efficient and smooth operation of the schools we operate, is relatively limited in China and in particular, in Henan Province where our schools operate. There is no guarantee that we can recruit and retain such personnel in the future. As a result, we must provide competitive compensation and benefits packages to attract and retain qualified teachers and other school personnel. In addition, criteria such as commitment and dedication are difficult to ascertain during the recruitment process, particularly as we continue to expand and recruit additional teachers and other school personnel quickly in order to meet rising student enrolment. We must also provide on-going training to our teachers so that they can stay abreast of changes in student demands, admissions and assessment test requirements, admissions standards and other key trends necessary to effectively teach their respective courses.

We may not be able to hire and retain a sufficient number of qualified teachers and qualified school personnel to keep pace with our anticipated growth while maintaining consistent teaching quality and the overall quality of our education programmes across different schools. If we are unable to recruit and retain an appropriate number of qualified teachers and qualified school personnel, the quality of our services or overall education programmes may decrease or be perceived to decrease in one or more of our schools, which may have a material and adverse effect on our reputation, business and results of operations.

RISK FACTORS

Our University graduates' employment rate and average starting salaries may decrease and satisfaction with our University may otherwise decline.

Our University is positioned as a private higher education institution that equips our graduates with the practical skills desired by employers in industries with significant recruiting demands, which enhances the competitive advantages of our students in the job market as they are able to smoothly settle into the working environment and embark on new tasks after graduation. Accordingly, the graduates of our University have achieved relatively high employment rates and average starting salaries, which in turn, attracts increasing number of student applications for our University.

However, we cannot guarantee that our University will continue to be able to design or modify our curriculum to meet the expectations of the students enrolled in our University, prospective employers or trends in the job market. We might not be able to devote the same amount of resources in training our students, enhancing their practical skills and helping them secure jobs as we did during the Track Record Period, or our efforts may not be so effective as they used to be. The graduates of our University may therefore be unable to obtain satisfactory jobs and the employment rates and average starting salaries of our graduates may decrease. Any negative development of our University graduates' employment rate and average starting salaries may harm the reputation of our University and the student enrolment in our University may decrease, which may have a material and adverse impact on our results of operations and financial conditions.

Our K-12 education business depends on our ability to promptly and adequately respond to changes in admission requirements for higher-level education and testing materials.

Our high school students are subject to college level admissions and assessment tests administered by educational authorities in China or relevant educational institutions overseas, depending on where our students choose to apply for higher education. Our middle and primary school students are subject to PRC high school and middle school entrance exams, as applicable. The admission scores for the various universities, high schools or middle schools in China usually change from year to year and so do the admission requirements for overseas universities. Testing materials may also change in terms of focus areas, format and the manner in which such tests are administered. These changes require us to continually update and enhance the courses and course materials we offer and to continually train our students to take standardised tests so as to maximise their performance on these tests. If we fail to adequately prepare our students for admission tests in our everyday classroom teaching and any test preparation courses we offer, our students' admissions rates to PRC and overseas universities, PRC high schools and PRC middle schools, as applicable, may decrease and our programmes and services may become less attractive to students. Furthermore, if we fail to timely develop and introduce new education services and programmes in our schools based on the changing education standards in China and abroad, our ability to attract and retain students may decrease. As a result, our reputation, business, financial condition and results of operations may be materially and adversely affected.

Our K-12 school students' academic performance may fall and satisfaction with our K-12 educational services may decline.

The success of our business depends on our ability to maintain the quality of education we provide, which includes students' satisfactory learning experience, and to ensure the academic performance of our students. Our K-12 schools may not be able to meet students' and parents' expectations for academic performance or help our high school graduates achieve their college admissions goals. A student may not experience the academic improvement that he or she expects and his or her performance may otherwise decline significantly due to reasons beyond our control. There is no assurance that we can provide K-12 school learning experiences that are satisfactory to all of our K-12 school students. Student and parent satisfaction with our K-12 educational programmes may decline. We may also experience negative publicity or a decrease in word-of-mouth referrals. In addition, we cannot ensure that our high school students will be accepted by universities at rates we have

RISK FACTORS

experienced in the past. Any such negative developments could result in students' withdrawal from or unwillingness to apply for our K-12 schools, and therefore have an adverse impact on our reputation. If we fail to continue to attract and admit to our schools students of a suitable standard or at all, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to obtain all necessary approvals, licences and permits and to make all necessary registrations and filings for our education services in the PRC.

We are required to obtain and maintain various approvals, licences and permits and fulfil registration and filing requirements in order to conduct and operate our education and related services. For instance, to establish and operate a school, we are required to obtain, among others, a private school operation permit from the local education bureau and to register with the local civil affairs bureau to obtain a certificate of registration for a privately-run non-enterprise unit, or legal entity. In addition, we need to pass annual inspections conducted by the local civil affairs bureau and local education bureau, obtain a tax registration certificate from the local tax bureau and approval from the local pricing administrative bureau for schools providing formal education. We also need to obtain approval from the local education authorities as to the scale and scope of our University student recruitment activities. While we intend to obtain, using our best efforts, all requisite permits and complete the necessary filings, renewals and registrations on a timely basis for our schools, there is no assurance that we will be able to obtain all required permits given the significant amount of discretion the local PRC authorities may have in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control and anticipation. If we fail to receive required permits in a timely manner or obtain or renew any permits and certificates, we may be subject to fines, confiscation of any gains derived from our noncompliant operations, the suspension of our noncompliant operations or the compensation of any economic loss suffered by our students or other relevant parties, which may materially and adversely affect our business and results of operations. For further details regarding the maintenance of our approvals, licences and permits, see the section headed "Business — Licences and Permits" in this prospectus.

Our business is heavily dependent on the market recognition of reputation and any damage to our reputation would materially and adversely affect our business. Negative publicity concerning our schools or our Group may adversely affect our reputation, business, growth prospect and our ability to recruit qualified teachers and staff.

Our ability to maintain our reputation depends on a number of factors, some of which are beyond our control. As we continue to grow in size and expand our programmes and curriculum offerings, it may become difficult to maintain the quality and consistency of the services we offer, which may lead to diminishing confidence in our brand name.

Numerous factors can potentially impact our reputation, including, but not limited to, levels of student and parent satisfaction with our curriculums, teachers and teaching quality, the grades achieved by our students, the number of our graduate students being accepted into domestic and overseas universities, accidents on campus, teacher or student scandals, negative press, disruptions to our educational services, failure to pass an inspection by a government education authority and loss of certifications and approvals that enable us to award diplomas in our schools and if our reputation is damaged, students' and parents' interest in our schools may decrease and our business could be materially and adversely affected.

We have had negative publicity about our schools in the past, such as the news regarding three students at our University who were injured in an incident outside our University campus by someone who was not our student. We may be subject to additional negative publicity in the future, which, even if untrue, may damage our brand image and reputation, deter prospective students and teachers and take up excessive time of our management and other resources. As a result, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Rebranding certain schools of ours from “the Affiliated High School of Peking University (北京大學附屬中學)” to “YuHua (宇華)” may negatively impact our student enrolments.

Before we completed the unification of our brands under “YuHua (宇華)” in the second quarter of 2016, we had operated a number of our K-12 schools under the brand name “the Affiliated High School of Peking University (北京大學附屬中學)”, pursuant to the PKU Cooperation Agreement. In accordance with the PKU Cooperation Agreement, Peking University granted us a non-exclusive licence to use the brand name, trademark and logo of “the Affiliated High School of Peking University (北京大學附屬中學)” in the operation of our schools. We launched our very first school, the Affiliated High School of Peking University, Henan Branch, under the brand name “the Affiliated High School of Peking University (北京大學附屬中學)” and subsequently established a total of 16 schools in eight campuses using the same brand name. See the section headed “Business — Overview of our Schools — Prior Cooperation with the Affiliated High School of Peking University” in this prospectus for more information. We believe the brand “the Affiliated High School of Peking University (北京大學附屬中學)” played a major role in helping us expand our market share at the earlier stage of our development and operations and continued to have material influence over our students and their parents’ decisions to attend our schools. In September 2014, we decided to phase-out the brand “the Affiliated High School of Peking University (北京大學附屬中學)” and rebrand all those schools as “YuHua (宇華)”, which is our own brand name that was introduced in 2012. The business operations of these schools, such as employees, students recruitment and teacher recruitments, among others, remained continuous and uninterrupted during the re-branding process.

Discontinuation of the operation of our schools under the brand “Affiliated High School of Peking University (北京大學附屬中學)” may result in a diminished interest in attending our schools from potential students and their parents. Our enrolled students may lose confidence in our education quality and brand awareness and choose to transfer to other public or private schools. Any rumour, speculation or negative publicity arising from the phase-out of our use of the brand “Affiliated High School of Peking University (北京大學附屬中學)”, even if unjustified, may also harm our reputation and ability to attract students. If we are not able to successfully execute our rebranding plan and ensure a smooth transition into our new brand “YuHua (宇華)”, our business, financial position and results of operations may be materially and adversely affected.

We have developed our student base primarily through word-of-mouth referrals. However, we cannot assure you that our marketing efforts will be successful or sufficient in promoting the new brand “YuHua (宇華)” or in helping our schools remain competitive. If we are unable to further enhance our reputation and increase market awareness of our programmes and curriculums after adopting the new brand, or if we are required to incur excessive marketing and promotional expenses in order to remain competitive, our business, financial condition and results of operations may be materially and adversely affected. If we are unable to maintain or sustain our brand reputation and recognition, we may also be unable to maintain or increase student enrolment, which may have a material adverse effect on our business, financial condition and results of operations.

Student enrolment in our University may decrease as a result of the termination of cooperation with Henan Polytechnic University.

We entered the HPU Cooperation Agreement with Henan Polytechnic University in 2008, pursuant to which we established Wanfang College, the predecessor of our University. During our cooperation with Henan Polytechnic University, we developed our University’s Zhengzhou campus, which is a stand-alone campus in a different location to Henan Polytechnic University. Pursuant to the HPU Cooperation Agreement, we paid an annual fee based on the total tuition fees collected from students enrolled in bachelor’s degree programmes of our University in each school year since the 2013/2014 school year.

To improve the profitability of our University and to better position it as a stand-alone tertiary education provider, we entered into the HPU Termination Agreement to terminate our cooperation with Henan Polytechnic University, following which our University ceased to have any affiliation with Henan Polytechnic University. Subsequently we changed the name of our University to “Zhengzhou Technology and Business University” and

RISK FACTORS

stopped using the brand of “Wanfang College of Science & Technology” or “Henan Polytechnic University” in our marketing activities or operations. The business operations of our University, such as employees, student recruitment and teacher recruitment, among others, remained continuous and uninterrupted. See the section headed “Business — Overview of our Schools — Prior Cooperation with Henan Polytechnic University” in this prospectus for more information.

Termination of our cooperation with Henan Polytechnic University and operation of our University under the new name “Zhengzhou Technology and Business University” may result in a diminished interest in attending our University from potential students and their parents. We cannot guarantee we will be able to achieve the same degree of growth, if at all, in student enrolment in the future. In addition, the enrolled students of our University may lose confidence in our education quality and brand awareness and choose to transfer to other public or private universities. If we are not able to effectively market our University and increase the brand awareness, we may not be able to maintain or increase our student enrolment, which may have a material adverse effect on our business, financial condition and results of operations.

We generated all of our revenue from Henan Province and from a limited number of schools. We also generated a significant portion of our revenue from our University.

As of 31 August 2016, we operated in nine cities in China, namely, Zhengzhou, Xuchang, Xingyang, Jiyuan, Jiaozuo, Luohe, Kaifeng, Xinxiang and Hebi, all of which are located in Henan Province. Zhengzhou is particularly important to our overall business as it is the home of five of our schools, including the University. For the years ended 31 August 2014, 2015 and 2016, students enrolled in schools located in Zhengzhou accounted for approximately 78.3%, 73.1% and 74.3%, respectively, of our total students and we generated approximately 79.5%, 73.5% and 68.8%, respectively, of our revenue from our schools in Zhengzhou. We expect that our schools in Zhengzhou will continue to generate the majority of our revenue for the foreseeable future. For the years ended 31 August 2014, 2015 and 2016, we generated all of our revenue from our schools in Henan province.

Consequently, we are highly susceptible to factors adversely affecting the PRC private education industry, or us, in any of the limited geographic areas in which our schools are located. If Henan province or any of the cities in which we operate, especially Zhengzhou, experiences an event that materially and negatively affects its education industry or us, such as an economic downturn, a natural disaster or an outbreak of a contagious disease, or if any governmental authorities governing Henan province or any of the cities in which we operate, especially Zhengzhou, adopt regulations that place additional restrictions or burdens on us or on the education industry in general, our business, financial condition and results of operations may be materially and adversely affected.

For the years ended 31 August 2014, 2015 and 2016, we generated approximately 39.4%, 40.2% and 37.7%, respectively, of our revenue from our University. We expect that we will continue to generate a growing portion of our revenue from our University in the foreseeable future. If any of our schools, especially our University, experiences an event that materially and negatively affects its student enrolment, tuition, school operations or reputation in general, our business, financial condition and results of operations may be materially and adversely affected.

We had net current liabilities as of 31 August 2014, 2015 and 2016 and 31 December 2016. We may be exposed to liquidation risks, and our business, financial condition and results of operation may be materially and adversely affected as a result.

As of 31 August 2014, 2015 and 2016 and 31 December 2016, we had net current liabilities of approximately RMB978.5 million, RMB872.6 million, RMB569.6 million and RMB627.4 million, respectively. We had net current liabilities as of each of these dates primarily due to (i) advances from our Controlling Shareholders to finance our capital expenditure and (ii) with respect to the net liabilities position as of 31 August 2015, the

RISK FACTORS

payment to Henan Polytechnic University in July 2015 consisting of annual fees and a one-off termination fee. For additional information on our liquidity position, see the section headed “Financial Information — Current Assets and Liabilities” in this prospectus. We may be exposed to liquidation risks, and our business, financial condition and results of operation may be materially and adversely affected as a result of our net current liability positions.

We cannot assure you that we will be able to obtain adequate financing to meet our future working capital requirements and we may have net current liabilities in the future. The inability to obtain additional short-term bank loans, loans or other additional financing on a timely basis, on acceptable terms or at all would materially and adversely affect our ability to satisfy our working capital requirements. In addition, we cannot assure you that we will be able to obtain additional working capital to execute our growth strategies, or that future expansion of our school network will not materially and adversely impact the current or future level of working capital. Furthermore, as we provide refund to students who withdraw from our schools, if a large number of students withdraw from our schools, our financial position may be adversely impacted.

We plan to expand our school network by building three new high schools, and such expansion may result in increase in depreciation costs and may adversely affect our operating results and financial position.

Historically and during the Track Record Period, we primarily expanded our school network by building our own schools. The depreciation expenses related to our school buildings and facilities recorded under cost of revenue amounted to approximately RMB53.4 million, RMB61.6 million and RMB69.0 million, respectively, for the year ended 31 August 2014, 2015 and 2016.

As part of our business strategies to further expand our school network, we intend to add three new high schools on certain existing school campuses and apply approximately RMB36.0 million out of the net proceeds from the Listing to construct student dormitories and ancillary teaching facilities for those new high schools. For details of the plan, please refer to the section headed “Business — Our Business Strategies — Strategically expand our school network within Henan Province and into other attractive markets” in this prospectus. With the intended constructions, it is expected that we would incur higher capital expenditures over the construction period. We expect our capital expenditure for the year ended 31 August 2017 to be RMB200.0 million therefore, additional depreciation costs will be reflected in our profit and loss, which may adversely affect our financial performance and operating results.

Our historical financial and operating results may not be indicative of our future performance and our financial and operating results may be difficult to forecast.

We have experienced growth in revenue during the Track Record Period. Our historical growth was driven by the increases in the number of students enrolled at our schools and the level of tuition fees we charged. Our financial condition and results of operations may fluctuate due to a number of other factors, many of which are beyond our control, including: (i) our ability to maintain and increase student enrolment at our schools and maintain and raise tuition; (ii) general economic and social conditions and government regulations or actions pertaining to the provision of private education in China and Henan Province; (iii) increased competition and market perception and acceptance of any newly introduced educational programmes in any given year; (iv) expansion and related costs in a given period; (v) shifts in attitude towards private education in China from students and their parents; and (vi) our ability to control our cost of revenue and other operating costs, and enhance our operational efficiency. In addition, we may not be successful in continuing to increase the number of students admitted to the schools we operate due to our limited capacity, and we may not be as successful in carrying out our growth strategies and expansion plans.

Moreover, we may not sustain our past growth rates in future periods, and we may not sustain our profitability on a quarterly, interim or annual basis in the future. Our historical results, growth rates and profitability may not be

RISK FACTORS

indicative of our future performance and you should not rely on them to predict the future performance of our Shares. See the section headed “Financial Information” in this prospectus for further details. The market price and trading volume of our Shares could be subject to significant volatility should our earnings fail to meet the expectations of the investment community. Any of these events could cause the price of our Shares to materially decrease.

Our continuing success depends on our ability to attract and retain our senior management and other qualified personnel.

We provide private K-12 and higher education to our students. Our future success heavily depends on the continuing services of our executive Directors and senior management team, including Mr. Li, our Founder and chairman, Ms. Li, our chief executive officer and executive Director, and the principals at our schools.

If one or more of our executive Directors, senior management and other key personnel are unable or unwilling to continue their employment with us, we may not be able to replace them with qualified personnel in a timely manner, or at all, and our business may be disrupted and our results of operations and financial condition may be materially and adversely affected. Competition for experienced educators in the private education industry in the PRC and in particular, in Central China, is intense and the pool of qualified candidates is very limited. We may not be able to retain experienced senior management members or other qualified personnel in the future. In the event we lose their services, or if any member of our executive Directors or senior management team or other key personnel joins our competitor(s) or forms a competing company, we may not be able to attract and retain our teachers, students, key educators and other professionals, which could have a material and adverse effect on our business, results of operations and financial condition.

We maintain limited insurance coverage.

We maintain various insurance policies, such as school liability insurance to safeguard against risks and unexpected events. However, our insurance coverage is still limited in terms of amount, scope and benefit. In addition, we do not carry property insurance for the properties that are owned by third parties and are not required to do so under applicable PRC laws and regulations. Consequently, we are exposed to various risks associated with our business and operations. See the section headed “Business — Insurance” in this prospectus for more information. We are exposed to risks including, but not limited to, accidents or injuries in our schools that are beyond the scope of our insurance coverage, fires, explosions or other accidents for which we do not currently maintain insurance, loss of key management and personnel, business interruption, natural disasters, terrorist attacks and social instability or any other events beyond our control. The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business-related insurance products. We do not have any business disruption insurance, product liability insurance or key-man life insurance. Any business disruption, litigation or legal proceedings or natural disaster, such as epidemics, pandemics or earthquakes, or other events beyond our control could result in substantial costs and the diversion of our resources. Our business, financial condition and results of operations may be materially and adversely affected as a result.

Accidents or injuries suffered by our students or our employees on or outside our school campuses or by other personnel on our school campuses may adversely affect our reputation and subject us to liabilities.

We could be held liable for the accidents or injuries or other harm to students or other people at our schools, including those caused by or otherwise arising in connection with our school facilities or employees. For example, a high school student of ours committed suicide in 2011 due to depression as a result of family dispute. We could also face claims alleging that we were negligent or we provided inadequate maintenance to our school facilities or supervision of our employees and therefore may be held liable for accidents or injuries suffered by our students or other people at our schools. For example, a primary school student of ours suffered injuries after

RISK FACTORS

he fell out of a classroom window in 2012. In addition, if any of our students or teachers are involved in any act of violence, we could face allegations that we failed to provide adequate security or were otherwise responsible for his or her actions. We may also face reputation risk if our students or employees suffer injuries outside our school campuses. For example, three students of our University were injured in an incident in 2016 outside the campus by someone who was not our student. Such incident may discourage prospective students from applying to or attending our schools. Furthermore, although we maintain certain liability insurance, this insurance coverage may not be adequate to fully protect us from these kinds of claims and liabilities. In addition, we may not be able to obtain liability insurance in the future at reasonable prices or at all. A liability claim against us or any of our employees could adversely affect our reputation and student enrolment and retention. Even if unsuccessful, such a claim could create unfavourable publicity, cause us to incur substantial expenses and divert the time and attention of our management all of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business and reputation could be materially and adversely affected in the event of a food quality incident.

During and subsequent to the Track Record Period, students at our schools purchased and may purchase food from certain canteens operated by our schools or canteens that we outsourced to Independent Third Parties. Although we continue to monitor the meal preparation process and regularly solicit feedback from our students, we cannot assure you that food quality related incidents will not occur in the future. In the event of food quality incidents that result in any serious health violations or medical emergencies, such as mass food poisonings, our business and reputation could be materially and adversely affected.

We are subject to extensive governmental approvals and compliance requirements in relation to the lands, buildings or groups of buildings that we own.

For campuses and school facilities constructed and developed for our schools, we must obtain various permits, certificates and other approvals from the relevant authorities at various stages of property development, including the land use right certificates, planning permits, construction permits, certificates for passing environmental assessments, certificates for passing fire control assessments, certificates for passing construction completion inspections and building ownership certificates.

As of the Latest Practicable Date, we had not yet obtained proper building ownership certificates or certain other requisite certificates or permits for 11 of our 32 owned buildings or groups of buildings and we had not obtained the land use right certificate for parcel of the land we occupy for our University and our Xuchang YuHua Elite School. See the section headed “Business — Properties — Owned Properties” in this prospectus for further details. As a result, our rights to these buildings or groups of buildings and land may be limited or challenged by the relevant government authorities or other third parties. We may also be subject to administrative fines or other penalties due to the lack of the requisite permits, certificates and approvals, which may materially and adversely affect our business operations, divert management attention and other resources and incur significant costs. In particular:

- for the properties that we have put into use without obtaining the land use right certificates, our rights to the land may be challenged by third parties;
- for the properties that we have put into use without obtaining the certificates for passing environmental assessments, we may be subject to a fine no more than RMB100,000 and/or temporary suspension of the usage of the relevant properties before the incident is rectified;
- for the properties that we have put into use without obtaining the certificates for passing fire control assessments, we may be subject to a fine ranging between RMB30,000 to RMB300,000 and/or temporary suspension of the usage of the relevant properties before the incident is rectified;
- for the properties that we have put into use without obtaining the certificates for passing construction completion inspections, we may be subject to a fine ranging between 2% to 4% of the total price of the

RISK FACTORS

construction contract of the affected premises and/or temporary suspension of the usage of the affected premises before the incident is rectified; and

- for the properties that we have put into use or construction activities without obtaining the planning and construction certificates, we may be required to demolish the relevant buildings or groups of buildings and be subject to fines of up to 10% of the construction costs of the buildings or groups of buildings, respectively, or be subject temporary suspension of the usage of the buildings or groups of buildings before we obtain the relevant certificates.

In the event that we lose the rights to any of our land, buildings or groups of buildings, our use of such land, buildings or groups of buildings may be limited, or we may be forced to relocate our schools and incur additional costs, which may result in disruptions to our school operations and materially and adversely affect our business, financial condition and results of operations. We are in the process of applying to the relevant government authorities for the relevant outstanding certificates. However, we cannot guarantee you that we will be able to obtain such outstanding certificates. In addition, we may in the future encounter difficulties in obtaining the relevant permits, certificates and approvals for the construction and development of our new schools, which may negatively affect our growth strategies. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We lease several of our school premises and may not be able to control the quality, maintenance and management of these school premises, nor can we ensure we will be able to find suitable premises to replace our existing school premises in the event our landlords refuse to renew the relevant lease agreements upon the expiry of their terms.

Our schools lease a number of properties from certain related parties and Independent Third Parties. As of the Latest Practicable Date, our schools leased 9 properties. See the section headed “Business — Properties” in this prospectus for further details. Such school premises and school buildings and facilities were developed and are maintained by our landlords. Accordingly, we are not in a position to effectively control the quality, maintenance and management of such premises, buildings and facilities. In the event that the quality of the school premises, buildings and facilities deteriorates, or if any or all of our landlords fail to properly maintain and renovate such premises, buildings or facilities in a timely manner or at all, the operation of our schools could be materially and adversely affected. In addition, if any of our landlords terminates the existing lease agreements, refuses to continue to lease the premises to our schools when such lease agreements expire, or increase rent to the level not acceptable to us, we will be forced to relocate our schools to other locations. We may not be able to find suitable premises for such relocation without incurring significant time and costs, or at all. If this occurs, our business, results of operations and financial condition could be materially and adversely affected.

Our legal right to certain leased properties could be challenged by property owners or other third parties.

As of 31 August 2016, we leased 10 properties, which were used as office and school premises. As of the Latest Practicable Date, we leased 9 properties and we had not been provided with the building ownership certificates by the landlords for two leased properties. As a result, there is a risk that the landlord from whom we lease such property may not have the valid building ownership certificates for the premises they lease to us, or otherwise may not have the right to lease such premises to us. According to our PRC Legal Adviser, in the event those landlords do not have valid building ownership certificates, the relevant lease agreements may be deemed invalid or we may face challenges from property owners or other third parties to the lessor’s rights. If any of our leases were terminated as a result of challenges by third parties to the lessor’s rights, we may be forced to relocate the affected premises and incur significant expenses, which may affect our operations at the school, and could adversely affect our business, financial condition and results of operations.

Furthermore, we have not registered our lease agreements with the relevant government authorities. Under the relevant PRC laws and regulations, we may be required to register and file with the relevant government

RISK FACTORS

authority executed leases. According to our PRC Legal Adviser, while the lack of registration will not affect the validity and enforceability of the lease agreements, a fine ranging from RMB 1,000 to RMB 10,000 may be imposed on the parties for each non-registered lease.

The appraisal values of our properties may be different from their actual realisable values and are subject to uncertainty or change.

The property valuation report set out in the Property Valuation Report set out in Appendix III to this prospectus with respect to the appraised values of our properties is based on various assumptions, which are subjective and uncertain in nature. The assumptions that Asia-Pacific Consulting and Appraisal Limited (“APA”) used in the property valuation report include, among others: (i) buildings under the construction as of the valuation date will be developed and completed in accordance with the latest development proposal; and (ii) the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement that could affect the value of the property interest.

Certain of the assumptions used by APA in reaching the appraised values of our properties may be inaccurate. Hence, the appraised values of our properties should not be taken as their actual realisable values or a forecast of their realisable values. Unexpected changes to our properties and to the national and local economic conditions may affect the values of these properties. You should not place undue reliance on such values attributable to these properties as appraised by APA.

Our student enrolment may be restrained by the capacity of our schools.

Although our schools are able to accommodate more students in light of our current capacities, we may not be able to admit all qualified students who would like to enrol in our schools in the future. Furthermore, without building additional facilities such as classrooms and dormitories, we may not be able to expand our capacity at our current campuses unless we relocate to other facilities in the local area with more space or capacity. If we fail to expand our capacity as quickly as the demand for our services grows, or if we otherwise fail to grow by establishing or acquiring additional schools or campuses, we might not be able to admit more potential students, and our results of operations and business prospects could be adversely affected.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the plans in amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business.

During the Track Record Period, we did not make full contributions to the social insurance plans and the housing provident fund for certain number of our employees (the “**Relevant Employees**”) as required by the relevant PRC laws and regulations. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim or request from the Relevant Employees in this regard. We estimate that the aggregate amount of social insurance payments that we did not make was RMB2.7 million, RMB4.6 million and RMB5.7 million for the years ended 31 August 2014, 2015 and 2016, respectively, and the housing provident fund contributions that we did not make was RMB1.6 million, RMB2.5 million and RMB3.7 million for the same periods, respectively. For more information, see the section headed “Business — Employees” in this prospectus.

We cannot assure you that the relevant local government authorities will not require us to pay the outstanding amount within a prescribed time and impose late fees or fines on us, which may materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

If we fail to protect our intellectual property rights or prevent the loss or misappropriation of our intellectual property rights, we may lose our competitive edge and our brand, reputation and operations may be materially and adversely affected.

Unauthorised use of any of our intellectual property may adversely affect our business and reputation. We rely on a combination of copyrights, trademarks and trade secrets laws to protect our intellectual property rights. Nevertheless, third parties may obtain and use our intellectual property without due authorisation. For instance, we have noticed that certain third-party companies engaging in private education business are operating under the name “YuHua (宇華)” or other names with such kind of similarity that may cause confusion or speculations over whether there is any connection or cooperation between us and those Independent Third Parties, which may harm our brand and reputation and adversely affect our results of operations.

The practice of intellectual property rights enforcement action by Chinese regulatory authorities is in its early stage of development and is subject to significant uncertainty. We may also need to resort to litigation and other legal proceedings to enforce our intellectual property rights. Any such action, litigation or other legal proceedings could result in substantial costs and diversion of our management’s attention and resources and could disrupt our business. In addition, there is no assurance that we will be able to enforce our intellectual property rights effectively or otherwise prevent others from the unauthorised use of our intellectual property. Failure to adequately protect our intellectual property could materially and adversely affect our brand name and reputation, and our business, financial condition and results of operations.

We may face disputes from time to time relating to the intellectual property rights of third parties.

We cannot assure you that materials and other educational content used in our schools and programmes do not or will not infringe intellectual property rights of third parties. There is no guarantee in the future that third parties will not claim that we have infringed on their proprietary intellectual property rights.

Although we plan to defend ourselves vigorously in any such litigation or legal proceedings, there is no assurance that we will prevail in these matters. Participation in such litigation and legal proceedings may also cause us to incur substantial expenses and divert the time and attention of our management. We may be required to pay damages or incur settlement expenses. In addition, in case we are required to pay any royalties or enter into any licensing agreements with the owners of intellectual property rights, we may find that the terms are not commercially acceptable and we may finally lose the ability to use the related content or materials, which in turn could materially affect our educational programmes. Any similar claim against us, even without any merit, could also damage our reputation and brand image. Any such event could have a material and adverse effect on our business, financial condition and results of operations.

The assets held by our schools may not be pledged as collateral in connection with securing bank loans and other borrowings, which reduces the schools’ ability to obtain financing to fund their operations.

According to the PRC Security Law (《中華人民共和國擔保法》) and the PRC Property Law (《中華人民共和國物權法》), mortgages, pledges or other encumbrances should not be created on properties which are used for public welfare facilities. The buildings or groups of buildings that certain schools of ours own and occupy may be considered “public welfare facilities” according to the Law for Promoting Private Education (2003), which provides that private education is considered in the nature of “public welfare” in the PRC. Accordingly, education facilities of schools and kindergartens which are set up for public welfare purposes may not be mortgaged. In such case, those schools’ ability to obtain financing to fund their operations will be limited. Even if security interests are intended to be created based on such properties under any loan agreement to be entered into between any of our schools and potential lenders, such security interests may not be valid or enforceable under the laws and regulations of the PRC, and we cannot preclude the possibility that a government authority, including any PRC court or administrative authority, may consider the security interests created from such facilities to be in violation of PRC laws if we and the lenders have any dispute with regards to the relevant loans

RISK FACTORS

under the applicable loan agreements or if the validity of the pledges are otherwise challenged. In such case, it is likely that such security interests will not be enforceable and we may be requested by our lenders to provide other forms of guarantees or prepay the outstanding balance of the loans immediately, and the business operations of the relevant schools and our financial condition will be materially and adversely affected.

Unauthorised disclosures or manipulation of sensitive personal data, whether through breach of our network security or otherwise, could expose us to litigation or could adversely affect our reputation.

Maintaining our network security and internal controls over access rights is of critical importance because proprietary and confidential student and teacher information, such as names, addresses, and other personal information, is primarily stored in our computer databases located at each of our schools. If our security measures are breached as a result of actions by third parties, employee error, malfeasance or otherwise, third parties may receive or be able to access student records, which could subject us to liabilities, interrupt our business and adversely impact our reputation. Additionally, we run the risk that our employees or third parties could misappropriate or illegally disclose confidential educational information in our possession. As a result, we may be required to expend significant resources to provide additional protection from the threat of these security breaches or to alleviate problems caused by these breaches.

We face risks related to natural disasters, health epidemics or terrorist attacks in China.

Our business could be materially and adversely affected by natural disasters, such as earthquakes, floods, landslides, outbreaks of health epidemics such as avian influenza and severe acute respiratory syndrome, or SARS, and Influenza A virus, such as H5N1 subtype and H5N2 subtype flu viruses, the Ebola virus, the Zika virus, as well as terrorist attacks, other acts of violence or war or social instability in the region in which we operate or those generally affecting China. In particular, as many of our campuses provide on-campus accommodation to our students, teachers and staff, the boarding environment exposes our students, teachers and staff to risks of epidemics or pandemics and makes it more difficult for us to take preventive measures if an epidemic or pandemic were to occur. Any of the above may cause material disruptions to our operations, such as temporary closure of our schools, which in turn may materially and adversely affect our financial condition and results of operations. If any of these occur, our schools and facilities may suffer damage or be required to temporarily or permanently close and our business operations may be suspended or terminated. Our students, teachers and staff may also be negatively affected by such events. In addition, any of these could adversely affect the PRC economy and demographics of the affected region, which could in turn cause significant declines in the number of our students applying to or enrolled in our schools. If any of these events materialise, our business, financial condition and results of operations could be materially and adversely affected.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

The PRC government may find that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected.

Our wholly-owned subsidiary WFOE entered into the Contractual Arrangements pursuant to which it is entitled to receive substantially all of the economic benefits from our consolidated affiliated entities. See the section headed “Contractual Arrangements” in this prospectus for more information.

Foreign investment in the education industry in China is extensively regulated and subject to numerous restrictions. Under the Foreign Investment catalogue (《外商投資產業指導目錄》), foreign investors are prohibited from investing in primary and middle schools in the PRC for students in grades one through nine. Foreign investments in kindergarten education, high school education and higher education are also restricted to cooperation with PRC domestic parties who are required to play a dominant role in the cooperation. Furthermore, under the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the

RISK FACTORS

Fields of Education and Promoting the Healthy Development of Private Education issued by the MOE on 18 June 2012 (《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》), the foreign portion of the total investment in a Sino-foreign joint venture kindergarten or high school is restricted to less than 50%. According to the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》), which was promulgated by the State Council on 1 March 2003 and became effective on 1 September 2003, foreign investors in kindergartens, high schools and higher education must also be foreign education institutions with relevant qualifications and experience. See the section headed “Regulations” in this prospectus for further details.

Accordingly, our subsidiaries in China, being regarded as foreign investments, are currently ineligible to apply for the required education licences and permits in China for the operation of primary and middle schools. In addition, although foreign investment in kindergartens, high schools and universities is not prohibited, our subsidiaries in China are still ineligible to independently operate kindergartens, high schools and universities. Accordingly, we have been and are expected to continue to be dependent on our Contractual Arrangements to operate our education business.

If the Contractual Arrangements that establish the structure for operating our China business are found to be in violation of any PRC laws or regulations in the future or fail to obtain or maintain any of the required permits or approvals, relevant PRC regulatory authorities, including the MOE, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licences of our PRC subsidiary or consolidated affiliated entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiary or consolidated affiliated entities;
- imposing fines or other requirements with which we or our PRC subsidiary or consolidated affiliated entities may not be able to comply;
- requiring us to restructure our operations in such a way as to compel us to establish new entities, re-apply for the necessary licences or relocate our businesses, staff and assets; or
- restricting the use of proceeds from our follow-on public offering or financing to finance our business and operations in China.

If any of the above penalties is imposed on us, our business may be materially and adversely affected.

The Draft Foreign Investment Law proposes sweeping changes to the PRC foreign investment legal regime, which will likely to have a significant impact on businesses in China controlled by foreign invested enterprises primarily through contractual arrangements, such as our business, and our compliance with the Draft Foreign Investment Law depends on the compliance by Mr. Li with the undertakings given by him, which the Stock Exchange has limited power to enforce.

On 19 January 2015, the MOFCOM published the PRC Law on Foreign Investment (Draft for Comment) (《中華人民共和國外國投資法（草案徵求意見稿）》), or the Draft Foreign Investment Law. At the same time, the MOFCOM published an accompanying explanatory note of the Draft Foreign Investment Law that contains important information about the Draft Foreign Investment Law, including its drafting philosophy and principles, main content, plans to transition to the new legal regime and treatment of business in the PRC controlled by foreign invested enterprises, or the FIEs, primarily through contractual arrangements. The Draft Foreign Investment Law is intended to replace the current foreign investment legal regime consisting of three laws: the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》), as well as detailed implementing rules. The Draft Foreign Investment Law proposes significant changes to the PRC foreign investment legal regime and introduced the concept of “actual control” determined by the identity of the ultimate natural person or enterprise that controls the domestic enterprise. If an enterprise is actually controlled by a foreign investor through contractual arrangements, it may be regarded as a FIE and be

RISK FACTORS

restricted or prohibited from investment in certain industries listed on the negative list as published by the PRC government (the “**Negative List**”) unless permission from the competent authority in the PRC is obtained. Nevertheless, as the Negative List has yet to be published, it is unclear whether it will differ from the current list of industries subject to restrictions or prohibitions on foreign investment (including our industry). The Draft Foreign Investment Law also provides that any FIEs operating in industries on the Negative List will require entry clearance and other approvals that are not required of PRC domestic entities. As a result of the entry clearance and approvals, certain FIE’s operating in industries on the negative list may not be able to continue to conduct their operations through contractual arrangements.

Although the Draft Foreign Investment Law was released for consultation purposes, there is substantial uncertainty regarding the Draft Foreign Investment Law, including with respect to its final content, adoption timeline or effective date. While Mr. Li is of Chinese nationality and indirectly able to exercise the voting rights over more than 50% of the issued share capital of our Company and will remain so immediately upon the Listing, we cannot assure that our Company will be deemed as being controlled by a Chinese investor and that the Contractual Arrangements will be deemed as a domestic investment under the Draft Foreign Investment Law. Furthermore, the issues as to the level of “actual control” for being qualified as a domestic enterprise, how existing domestic enterprises that are operated by foreign investors under contractual arrangements are to be handled and what business will be classified as a “restricted business” or a “prohibited business” in the Negative List, are yet to be clarified at this stage. In view of this uncertainty, we cannot determine whether the new foreign investment law, when it is adopted and becomes effective, will have a material impact on our corporate structure and business. In the event that the Contractual Arrangements under which we operate our education business are not treated as a domestic investment and/or that our education business is classified as “prohibited business” in the Negative List under the Draft Foreign Investment Law as finally enacted, such Contractual Arrangements may be deemed as invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of such education business. As we primarily conduct our education business and operate in the PRC, the occurrence of such an event could have a material and adverse effect on our business, financial condition and results of operations such that the financial results of our consolidated affiliated entities would no longer be consolidated into our Group’s financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition.

As a measure to ensure the Contractual Arrangements remain a domestic investment and comply with the Draft Foreign Investment Law, each of Mr. Li, one of our Controlling Shareholders, and Ms. Li, one of our executive Directors, has given an undertaking in favour of our Company that, among other things, he or she will continue to use his or her best efforts to give effect to the Contractual Arrangements. See the section headed “Contractual Arrangements — Development in PRC Legislation on Foreign Investment — Potential measures to maintain control over and receive economic benefits from our consolidated affiliated entities” in this prospectus. Our compliance with the Draft Foreign Investment Law depends on Mr. Li’s and Ms. Li’s continued adherence to the terms of such undertaking. In the event that Mr. Li or Ms. Li breaches the undertaking, the Stock Exchange has limited power to enforce the terms of the undertaking against Mr. Li or Ms. Li and as a result, the Contractual Arrangements may be deemed invalid and illegal and we may be required to unwind the Contractual Arrangements and/or dispose of our consolidated affiliated entities, which could have a material and adverse effect on our business, financial condition and result of operations. In addition, it is uncertain whether the measures to be adopted by us to maintain control over and receive economic benefits from our consolidated affiliated entities alone will be effective in ensuring compliance with the Draft Foreign Investment Law (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, such as suspending trading in our Shares, which may have a material adverse effect on the trading and liquidity of our Shares. For the details of the Draft Foreign Investment Law and the negative list and its potential impact on our Company, and our potential measures to maintain control over and receive economic benefits from our consolidated affiliated entities, see the section headed “Contractual Arrangements — Development in PRC Legislation on Foreign Investment” in this prospectus.

RISK FACTORS

Furthermore, the undertakings given by Mr. Li and Ms. Li may require them to exercise their influence over our Company to prevent us from issuing additional Shares (or securities convertible into Shares) if the effect of any such issuance was to dilute their interest below a level sufficient to represent “control” under the Draft Foreign Investment Law. This may, in turn, impact our ability to finance our future expansion plans or use Shares as consideration for acquisitions or as a form of equity incentive for our management and employees. We also cannot assure you that these undertakings will not serve as a disincentive to parties proposing to acquire a material interest in our Shares or control of our Company, which may have a negative impact on the price and liquidity of our Shares.

The Contractual Arrangements may not be as effective in providing control over our consolidated affiliated entities as direct ownership.

We have relied and expect to continue to rely on the Contractual Arrangements to operate our education business in China. For a description of these Contractual Arrangements, see the section headed “Contractual Arrangements” in this prospectus. These Contractual Arrangements may not be as effective in providing us with control over our consolidated affiliated entities as equity ownership. If we had equity ownership of our consolidated affiliated entities, we would be able to exercise our rights as a direct or indirect shareholder of our consolidated affiliated entities to effect changes in the board of directors of our consolidated affiliated entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, as these Contractual Arrangements stand now, if our consolidated affiliated entities or their shareholders fail to perform their respective obligations under these Contractual Arrangements, we cannot exercise shareholder’s rights to direct such corporate action as the direct ownership would otherwise entail. If the parties under such Contractual Arrangements refuse to carry out our directions in relation to day-to-day business operations, we will be unable to maintain effective control over the operations of our consolidated affiliated entities. If we were to lose effective control over our consolidated affiliated entities, certain negative consequences would result, including our being unable to consolidate the financial results of our consolidated affiliated entities with our financial results. Given that the revenue from our consolidated affiliated entities accounted for all of the total revenue in our Combined Financial Statements for the years ended 31 August 2014, 2015 and 2016, our financial position would be materially and adversely impacted if we were to lose effective control over our consolidated affiliated entities. In addition, losing effective control over our consolidated affiliated entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our consolidated affiliated entities may impair our access to their cash flow from operations, which may reduce our liquidity.

The beneficial owners of our consolidated affiliated entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Mr. Li, our chairman and one of our Controlling Shareholders, and Ms. Li, our executive Director and chief executive officer and daughter of Mr. Li, are the beneficial owners of our consolidated affiliated entities. Therefore, the interests of Mr. Li and Ms. Li as the beneficial owners of our consolidated affiliated entities may differ from the interests of our Company as a whole. We cannot assure you that when conflicts of interest arise, Mr. Li and/or Ms. Li will act in the best interests of our Company or that such conflicts will be resolved in our favour. In the event of any such conflicts of interest, Mr. Li or Ms. Li may potentially breach, or cause our consolidated affiliated entities to breach, or refuse to renew, the existing Contractual Arrangements we have with them. If we cannot resolve any conflict of interest or dispute between us and Mr. Li and/or Ms. Li, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

RISK FACTORS

In addition, although the equity pledge agreements we entered into with Mr. Li and Ms. Li provide that the pledged equity interest shall constitute continuing security for any and all of the indebtedness, obligations and liabilities under all of the principal service agreements, it is possible that a PRC court could take the position that the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements represent the full amounts of the collateral that have been registered and perfected. If this were to happen, the obligations that are supposed to be secured in the equity pledge agreements in excess of the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements could be deemed unsecured debts by the PRC court, which take the last priority among creditors.

Our exercise of the option to acquire the equity interest of our consolidated affiliated entities may be subject to certain limitations and we may incur substantial costs.

Pursuant to the Foreign Investment catalogue and the Sino-Foreign Regulation (《中華人民共和國中外合作辦學條例》), a foreign investor may not invest in primary and middle schools (the “**Foreign Ownership Prohibition**”), and in the case of investing in a Sino-foreign joint venture school offering kindergarten, high school and higher education, must be a foreign education institution with relevant qualifications and experience (the “**Qualification Requirement**”) and hold an interest of less than 50% (the “**Foreign Ownership Restriction**”) with the domestic party playing a dominant role (the “**Foreign Control Restriction**”). If the Foreign Ownership Prohibition, Foreign Ownership Restriction and Foreign Control Restriction are lifted, we may be unable to unwind the Contractual Arrangements before we are in a position to comply with the Qualification Requirement, or if we attempt to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirement we may be ineligible to operate our schools and university and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition and results of operations.

Furthermore, we may incur substantial cost in the exercise of the option to acquire the equity interest of our consolidated affiliated entities. Pursuant to the Contractual Arrangements, WFOE has the exclusive right to require the shareholders of our consolidated affiliated entities to transfer any and all the shares of our consolidated affiliated entities to WFOE and/or a third party designated by it, in whole or in part at any time and from time to time, at the lowest price allowable under PRC laws and regulations at the time of transfer. If the relevant PRC authorities determine that the purchase price for acquiring our consolidated affiliated entities is below the market value, they may require WFOE to pay enterprise income tax for ownership transfer income with reference to the market value. The amount of the tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

Any failure by our consolidated affiliated entities or their respective shareholders to perform their obligations under our Contractual Arrangements would potentially lead to the incurrence of additional costs and the expending of substantial resources on our part to enforce such arrangements, temporary or permanent loss of control over our primary operations or loss of access to our primary sources of revenue.

Under the current Contractual Arrangements, if any of our consolidated affiliated entities or their respective shareholders fail to perform its or his/her respective obligations under these Contractual Arrangements, we may incur substantial costs and resources to enforce such arrangements and rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief and claiming damages.

The Contractual Arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts will be interpreted in accordance with PRC laws and any disputes will be resolved in accordance with PRC legal procedures. Under PRC laws, rulings by arbitrators are final and the parties to a dispute cannot appeal the arbitration results in any court based on the substance of the case. The prevailing party may enforce the arbitration award by instituting arbitration award recognition proceedings with a competent PRC court. The legal environment in the PRC is not as developed as in other

RISK FACTORS

jurisdictions, such as Hong Kong and the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Contractual Arrangements. In the event that we are unable to enforce these Contractual Arrangements, we may not be able to exert effective control over our consolidated affiliated entities for an extended period of time or we may be permanently unable to exert control over our consolidated affiliated entities. If this were to occur, we would be unable to consolidate the financial results of our consolidated affiliated entities with our financial results, which may materially and adversely affect our business, financial condition and results of operations and may decrease the value of our Shareholders' investments in our Company.

In addition to the enforcement costs outlined above, during the course of disputes regarding such enforcement action, we may temporarily lose effective control over our schools in China, which may lead to loss of revenue or potentially lead to the incurrence of additional costs and the expending of substantial resources on our part to operate our business in the absence of effective enforcement of these Contractual Arrangements. If this were to occur, our business, financial condition and results of operations may be materially and adversely affected and the value of our Shareholders' investments in our Company may decrease.

The Contractual Arrangements may be subject to the scrutiny of the PRC tax authorities and additional tax may be imposed, which may materially and adversely affect our results of operation and value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the exclusive management consultancy and business cooperation agreements we have with our consolidated affiliated entities do not represent an arm's-length price and adjust any of those entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, PRC tax authorities may form the view that our subsidiaries or consolidated affiliated entities have improperly minimised their tax obligations, and we may not be able to rectify any such incident within the limited timeline required by PRC tax authorities. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for under-paid taxes, which could materially and adversely affect our business, financial condition and results of operations.

Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission in Beijing, the PRC. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interests and/or assets of our consolidated affiliated entities, injunctive relief and/or winding up of our consolidated affiliated entities. In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, we have been advised by our PRC Legal Adviser that the above-mentioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final winding-up order to preserve the assets of or any equity interest in our consolidated affiliated entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or equity interest in our consolidated affiliated entities in favour of an aggrieved party. 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 the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally do not grant injunctive relief or the winding-up order against our consolidated affiliated entities as interim remedies to preserve the assets or equity interests in favour of any aggrieved party. Our PRC Legal Adviser is also of the view that, even though

RISK FACTORS

the Contractual Arrangements provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favour of an aggrieved party) may not be recognised or enforced by PRC courts. As a result, in the event that any of our consolidated affiliated entities or their shareholders breach 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 consolidated affiliated entities and conduct our education business could be materially and adversely affected. See the section headed “Contractual Arrangements — Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Dispute Resolution” in this prospectus for details regarding the enforceability of the dispute resolution provisions in the Contractual Arrangements as opined by our PRC Legal Adviser.

We rely on dividend and other payments from WFOE to pay dividends and other cash distributions to our Shareholders and any limitation on the ability of WFOE to pay dividends to us would materially and adversely limit our ability to pay dividends to our Shareholders.

Our Company is a holding company and our ability to pay dividends and other cash distributions to our Shareholders, service any debt we may incur and meet our other cash requirements depends significantly on our ability to receive dividends and other distributions from WFOE, our PRC subsidiary. The amount of dividends paid to our Company by WFOE depends solely on the service fees paid to WFOE from our consolidated affiliated entities. However, there are restrictions under PRC laws for the payment of dividends to us by WFOE. For example, relevant PRC laws and regulations permit payments of dividends by WFOE only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, WFOE 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. Consequently, WFOE is restricted 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. The foregoing restrictions on the ability of WFOE to pay dividends to us and the limitations on the ability of consolidated affiliated entities to pay service fees to WFOE could materially and adversely limit our ability to borrow money outside of China or pay dividends to holders of our Shares.

Our consolidated affiliated entities may be subject to limitations on their ability to operate private education business or make payments to related parties.

The principal regulations governing private education in China are the Law for Promoting Private Education (《中華人民共和國民辦教育促進法》), which became effective as of 2003 and was revised in 2013, and the Implementation Rules for the Law for Promoting Private Education (《中華人民共和國民辦教育促進法實施條例》) (the “**Implementation Rules**”). Under these regulations, a private school may elect to be a school that does not require reasonable returns or a school that requires reasonable returns. A private school that does not require reasonable returns cannot distribute dividends to its school sponsors. At the end of each year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. For a private school that requires reasonable returns, this amount is at least 25% of the annual net income of the school, while in the case of a private school that does not require reasonable returns, this amount is at least 25% of the annual increase in the net assets of the school, if any. A private school that requires reasonable returns must publicly disclose such election and additional information required under the regulations. A private school shall consider factors such as the school’s tuition, ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school’s net income that would be distributed to the investors as reasonable returns. All of our schools have elected to be private schools of which the sponsors do not require reasonable returns. However, current PRC laws and regulations do not provide a formula or guidelines for determining the amount of “reasonable returns” which can be distributed. In addition, current PRC laws and regulations do not distinguish between the requirements or restrictions on a private school’s ability to operate its

RISK FACTORS

education business based on its status as a school of which the sponsors require a reasonable returns or a school of which the sponsors do not require reasonable returns.

The Law for Promoting Private Education has been amended by the Decision of the Standing Committee of the National People's Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the “**Amendment**”) on 7 November 2016 and the Amendment will come into effect on 1 September 2017. Pursuant to the Amendment, sponsors of private school may choose to establish non-profit or for-profit private schools and will no longer be required to indicate whether they require reasonable returns or not requiring reasonable returns. Sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law (as defined below) and other relevant laws and regulations. Sponsors of non-profit private schools are not entitled to any distribution of profits or revenue from the non-profit schools they operate and all operation surpluses of the schools shall be used for the operation of the schools. However, the Amendment remains silent on the requirement of the development fund of the non-profit schools or for-profit schools. For further details of the Amendment, see the section headed “Regulations — Regulations on Private Education in the PRC — The Amendment to the Law for Promoting Private Education” in this prospectus.

As a holding company, our ability to pay dividends and other cash distributions to our Shareholders depends solely on our ability to receive dividends and other distributions from WFOE, which in turn depends on the service fees paid to WFOE from our consolidated affiliated entities. Our PRC Legal Adviser advises us that WFOE's right to receive the service fees from our consolidated affiliated entities does not contravene any PRC laws and regulations and that 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. For further details regarding our PRC Legal Adviser's view on the legality of the payment of service fees under the Contractual Arrangements, see the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” in this prospectus.

However, if the relevant PRC government authorities take a different view, they may seek to confiscate any or all of the service fees that have been paid by our schools to WFOE, including retrospectively, to the extent that such service fees are tantamount to “reasonable returns” taken by the sponsors of these schools in violation of PRC laws and regulations. The relevant PRC government authorities may also seek to stop student enrolments at our schools or, in a more extreme situation, revoke the operation permits of these schools, in which case we may, as a preventative measure to avoid such ramifications, change the election made with respect to such schools of which the sponsors require a “reasonable return”, which would in turn result in our schools ceasing to enjoy certain preferential treatment.

If any of our consolidated affiliated entities becomes subject to winding up or liquidation proceedings, we may lose the ability to enjoy certain important assets, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

We currently conduct our operations in China through the Contractual Arrangements. As part of these arrangements, our consolidated affiliated entities hold a majority of the assets that are important to the operation of our business, including operating permits and licences, real estate leases, buildings, groups of buildings and other educational facilities related to the schools. Under irrevocable powers of attorney, Mr. Li and Ms. Li may not unilaterally, without our consent, decide to voluntarily liquidate our consolidated affiliated entities.

If any of these entities goes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our consolidated affiliated entities undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party

RISK FACTORS

creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, our ability to generate revenue and the market price of our Shares.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and government structure. For example, the PRC government has implemented economic reform and measures emphasising the utilisation of market forces in the development of the PRC economy. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

We cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. Stricter credit or lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten credit or lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for our services and our business, financial condition and results of operations may be materially and adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation.

These factors are affected by a number of variables which are beyond our control.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our consolidated affiliated entities; which could materially and adversely affect our liquidity and our ability to fund and expand our business operations.

In utilising the proceeds of the Global Offering in the manner described in the section headed “Future Plans and Use of Proceeds” in this prospectus as an offshore holding company of our PRC subsidiary, we may (i) make loans to our consolidated affiliated entities; (ii) make additional capital contributions to our PRC subsidiary;

RISK FACTORS

(iii) establish new subsidiaries and make additional new capital contributions to these new PRC subsidiaries; and
(iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

- loans by us to WFOE, our subsidiary in China and a foreign-invested enterprise, cannot exceed statutory limits and must be registered with the SAFE, or its local counterparts;
- loans by us to our consolidated affiliated entities, over a certain threshold, must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterparts; and
- capital contribution to our consolidated affiliated entities must be approved by the MOE and the Ministry of Civil Affairs or their respective local counterparts.

We expect that PRC laws and regulations may continue to limit our use of net proceeds from the Global Offering or from other financing sources. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our entities in China. If we fail to receive such registrations or approvals, our ability to use the net proceeds from the Global Offering and to capitalise our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (the “**Stock Option Rules**”, 《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》). Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of the Global Offering. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limited our PRC subsidiaries’ ability to distribute dividends to us, or otherwise materially and adversely affect our business, financial condition and results of operations.

Restrictions on currency exchange under PRC laws may limit our ability to convert cash derived from our operating activities into foreign currencies and may materially and adversely affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from WFOE, our PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations,

RISK FACTORS

conversion of Renminbi is permitted, without prior approval from the SAFE, for current account transactions, including profit distributions, interest payments and expenditures from trade-related transactions, as long as certain procedural requirements are complied with. However, approval from and registration with the SAFE and other PRC regulatory authorities are required where Renminbi is to be converted into foreign currency and remitted out of China for capital account transactions, which includes foreign direct investment and repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. Any existing and future restrictions on currency exchange in China may limit our ability to convert cash derived from our operating activities into foreign currencies to fund expenditures denominated in foreign currencies. If the foreign exchange restrictions in China prevent us from obtaining Hong Kong dollars or other foreign currencies as required, we may not be able to pay dividends in Hong Kong dollars or other foreign currencies to our Shareholders, or pay the salaries of our non-PRC teachers in currencies other than Renminbi. Furthermore, foreign exchange control in respect of the capital account transactions could affect our PRC subsidiaries' ability to obtain foreign exchange or conversion into Renminbi through debt or equity financing, including by means of loans or capital contributions from us.

Fluctuations in exchange rates may result in foreign currency exchange losses and may have a material adverse effect on your investment.

The change in the value of Renminbi against the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. From 1995 until July 2005, the conversion of the Renminbi into foreign currencies in the PRC, including the Hong Kong dollar and U.S. dollar, has been based on fixed rates set by the PBOC. The PRC government, however, has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. On 19 June 2010, the PBOC announced that it intends to further reform the Renminbi exchange rate regime by enhancing the flexibility of the Renminbi exchange rate. Following this announcement, the Renminbi had appreciated from approximately RMB6.83 per U.S. dollar to RMB6.12 per U.S. Dollar as of 15 June 2015. On 11 August 2015, the PBOC further enlarged the floating band for trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar to 2.0% around the closing price in the previous trading session, and Renminbi depreciated against the U.S. dollar by approximately 1.9% as compared to 10 August 2015, and further depreciated nearly 1.6% on the next day. On 30 November 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right ("SDR") and decided that with effect from 1 October 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalisation and Renminbi internationalisation, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar or the U.S. dollar in the future.

Our revenue and costs are mostly denominated in Renminbi and most of our financial assets are also denominated in Renminbi. We rely entirely on dividends and other fees paid to us by our PRC subsidiaries and our consolidated affiliated entities. Our proceeds from the Global Offering will be denominated in Hong Kong dollars. Any significant change in the exchange rates of the Hong Kong dollar against Renminbi may materially and adversely affect the value of and any dividends payable on, our Shares in Hong Kong dollars. For example, a further appreciation of Renminbi against the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert Hong Kong dollars into Renminbi for such purposes. An appreciation of Renminbi against the Hong Kong dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our Hong Kong dollar denominated financial assets into Renminbi, as Renminbi is the functional currency of our PRC subsidiary and consolidated affiliated entities. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the

RISK FACTORS

Hong Kong dollar against Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

Inflation in the PRC could negatively affect our profitability and growth.

The economy of China has been experiencing significant growth, leading to inflation and increased labour costs. According to the National Bureau of Statistics of China, the year-over-year percent change in the consumer price index in China was 1.4% in 2015. China's overall economy and the average wage in the PRC are expected to continue to grow. Future increases in China's inflation and material increases in the cost of labour may materially and adversely affect our profitability and results of operations unless we are able to pass on these costs to our students by increasing tuition.

The legal system of the PRC is not fully developed and there are inherent uncertainties that may affect the protection afforded to our business and our Shareholders.

Our business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us and our Shareholders. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention.

As a Shareholder, you will hold an indirect interest in our operations in China. Our operations in the PRC are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. PRC company law and regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish between minority and controlling shareholders in terms of their rights and protections. As such, our minority Shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

It may be difficult to effect service of process upon us, our Directors or our executive officers that reside in the PRC or to enforce against them or us in the PRC any judgements obtained from non-PRC courts.

The legal framework to which our Group is subject is materially different from the Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. However, according to

RISK FACTORS

the PRC Company Law, shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

On 14 July 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院互相認可和執行當事人協議管轄的民商事案件判決的安排》). Under such an arrangement, where any designated people's court in the PRC or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court in the PRC or Hong Kong court for recognition and enforcement of the judgement. Although this arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

All our senior management members reside in the PRC, and substantially all of our assets, and substantially all of the assets of those persons are located in the PRC. Therefore, it may be difficult for investors to effect service of process upon those persons inside the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

If we are classified as a PRC “resident enterprise”, holders of our Shares may be subject to a PRC withholding tax upon the dividends payable by us and upon gain from the sale of our Shares.

Under the Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and its implementing regulations, an enterprise established outside China with its “de facto management body” within China is considered a “resident enterprise” in China and will be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. The tax authority will normally review factors such as the routine operation of the organisational body that effectively manages the enterprise's production and business operations, locations of personnel holding decision-making power, location of finance and accounting functions and properties of the enterprise. The Enterprise Income Tax Law's implementation regulations define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise”. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (the “**SAT Circular 82**”, 《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) on 22 April 2009. SAT Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located inside China, stating that only a company meeting all the criteria would be deemed having its de facto management body inside China. One of the criteria is that a company's major assets, accounting books and minutes and files of its board and shareholders' meetings are located or kept in the PRC. In addition, the SAT issued a bulletin on 3 August 2011, effective 1 September 2011, providing more guidance on the implementation of SAT Circular 82. This bulletin clarifies matters including residence status determination, post-determination administration and competent tax authorities. Although both SAT Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises and there are currently no further detailed rules or precedents applicable to us governing the procedures and specific criteria for determining “de facto management body” for companies like ours, the determination criteria set forth in SAT Circular 82 and the bulletin may reflect the SAT's general position on how the “de facto management body” test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented with respect to such enterprises, regardless of whether they are controlled by PRC enterprises or PRC individuals.

RISK FACTORS

As all of our senior management members are based in China, it remains unclear as to how the tax residency rule will apply to our case. We do not believe that our Company or any of our Hong Kong or BVI subsidiaries, should be qualified as a “resident enterprise” as each of our offshore holding entities is a company incorporated outside the PRC. As holding companies, each of these entities’ corporate documents, minutes and files of the board and shareholders’ meetings are located and kept outside of the PRC. Therefore, we believe that none of our offshore holding entities should be treated as a “resident enterprise” with its “de facto management bodies” located within China as defined by the relevant regulations for PRC enterprise income tax purposes. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities, there are uncertainties and risks associated with this issue.

Under the Enterprise Income Tax Law, shareholders of a PRC resident enterprise will be subject to a 10% withholding tax upon dividends received from the PRC resident enterprise and on gain recognised with respect to the sale of shares of the resident enterprise. Accordingly, if we are treated as a PRC resident enterprise, our Shareholders may be subject to a 10% withholding tax upon dividends received from us and on gain recognised with respect to the sale of our Shares, unless such withholding tax is reduced by an applicable income tax treaty between China and the jurisdiction of the Shareholder. Any such tax may reduce the returns on your investment in our Shares.

The discontinuation of any preferential tax treatments currently available to us, in particular the tax exempt status of our schools, could materially and adversely affect our results of operations.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The sponsors of all of our schools have elected not to require reasonable returns. As a result, our schools are eligible to enjoy income tax exemption treatment. We have obtained confirmation letters from, and conducted interviews with, the local tax bureaus in the areas where we operate our schools, which confirmed, among other things, that our schools are exempt from PRC enterprise income tax during the Track Record Period. However, there is a possibility that the PRC government may promulgate relevant tax regulations that will eliminate such preferential tax treatment, or the local tax bureaus may change their policy, in each such case, we will be subject to PRC enterprise income tax going forward. Pursuant to the Amendment which will come into effect on 1 September 2017, private schools will be entitled to preferential tax treatments, among which non-profit private schools will be entitled to the same preferential tax treatment as public schools. The taxation policies applicable to for-profit private schools after the Amendment taking effect are yet to be introduced. Therefore, the preferential tax treatment of our schools after the Amendment comes into full force will be subject to (i) the decision we make to operate our schools as for-profit or non-profit schools, and (ii) the tax treatment of the for-profit schools which is expected to be stipulated in the implementation regulations related to the Amendment that are to be introduced. There is no guarantee that the preferential tax treatment that currently applies to our schools will not change after the Amendment comes into effect. In addition, following the execution of the Contractual Arrangements, WFOE will initially be subject to an income tax rate of 9% and value-added tax in China.

These preferential tax treatments may be subject to change and we cannot provide any assurance that the preferential tax rate applicable to WFOE will continue to apply in the future, and WFOE may therefore be required to pay a higher rate of income tax in the future. The discontinuation of any preferential tax treatment currently available to us or the determination of any of the relevant tax authorities that any of the preferential tax treatment we have enjoyed or currently enjoy is not in compliance with the PRC laws would cause our effective tax rate to increase, which would increase our tax expenses and reduce our net profit.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING

The interests of our Controlling Shareholders may differ from your interests and they may exercise their vote to the disadvantage of our minority Shareholders.

Immediately following the completion of the Global Offering, Mr. Li will, through his family trust, indirectly control approximately 75% of our total issued share capital (assuming the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme). Accordingly, Mr. Li will, for the foreseeable future, through his voting control, be able to exercise substantial influence over our operations and business strategy, such as matters related to the composition of our Board of Directors, selection of our senior management, amount and timing of dividends and other distributions, our overall strategic and investment decisions, issuance of securities and adjustment to our capital structure, amendment to our Memorandum and Articles of Association, and other corporate actions requiring approval of our Shareholders, including merger, consolidation or sale of our assets, or any other change of control event that may affect our other Shareholders generally. Such voting control may discourage certain types of transactions, including those involving an actual or potential change of control of our Company. In the event that there is a divergence of our strategic and other interests from those of Mr. Li in the future, Mr. Li may exercise control over our Company in ways that conflict with the interests of our other Shareholders, and minority Shareholders could be disadvantaged.

No public market currently exists for our Shares; the market price for our Shares may be volatile and an active trading market for our Shares may not develop.

No public market currently exists for our Shares. The initial Offer Price for our Shares to the public will be the result of negotiations between our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of the Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including:

- variations in our operating results;
- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- regulatory developments in China affecting us, our industry or our Contractual Arrangements;
- investors' perception of us and of the investment environment in Asia, including Hong Kong and China;
- developments in the education market in China;
- changes in the economic performance or market valuations of other education companies;
- the depth and liquidity of the market for our Shares;
- additions to or departures of, our executive officers and other members of our senior management;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or anticipated sales of additional Shares; and
- the general economy and other factors.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

RISK FACTORS

The liquidity and market price of our Shares following the Global Offering may be volatile.

The market price and trading volume for our Shares may be volatile and subject to wide fluctuations in response to factors such as actual or anticipated fluctuations in our quarterly operating results, changes in financial estimates by securities research analysts, changes in the economic performance or market valuations of other education companies, announcements by us or our competitors of material acquisitions, strategic partnerships, joint ventures or capital commitments, addition or departure of our executive officers and key personnel, fluctuations of exchange rates between the Renminbi and the Hong Kong dollar, intellectual property litigation, release of lock-up or other transfer restrictions on our Shares, and economic or political conditions in China. In addition, the performance, and fluctuation in market prices, of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes of our Shares. Furthermore, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our Shares.

Because the initial public offering price is substantially higher than the pro forma net tangible book value per share, you will experience immediate and substantial dilution.

If you purchase Shares in the Global Offering, you will pay more for each Share than the corresponding amount paid by existing Shareholders for their Shares. As a result, you will experience immediate and substantial dilution upon purchase of the Shares in the Global Offering. In addition, you may experience further dilution to the extent that our Shares are issued upon the exercise of share options.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline.

Although our Controlling Shareholders are subject to restrictions on their sales of Shares within 12 months from the Listing Date as described in the section headed “Underwriting” in this prospectus and pursuant to the undertakings they have given to the Stock Exchange as described in the section headed “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment — Potential measures to maintain control over and receive economic benefits from our consolidated affiliated entities” in this prospectus, future sales of a significant number of our Shares by our Controlling Shareholders in the public market after the Global Offering, or the perception that these sales could occur, could cause the market price of our Shares to decline and could materially impair our future ability to raise capital through offerings of our Shares.

We cannot assure you that our Controlling Shareholders will not dispose of Shares held by them or that we will not issue Shares pursuant to the general mandate to issue shares granted to our Directors as described in the section headed “Statutory and General Information” in Appendix V to this prospectus or otherwise, upon the expiration of restrictions set out above. We cannot predict the effect, if any, that any future sales of Shares by our Controlling Shareholders, or the availability of Shares for sale by our Controlling Shareholders, or the issuance of Shares by the Company may have on the market price of the Shares. Sale or issuance of a substantial amount of Shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

We may need additional capital, and the sale or issue of additional Shares or other equity securities, including pursuant to the Pre-IPO Share Option Scheme and the Share Award Scheme, could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the net proceeds from the Global Offering, we may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing of new school openings, investments in and/or acquisitions of

RISK FACTORS

new education programmes or businesses from third parties, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing through selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in additional dilution to our Shareholders. Furthermore, we may issue Shares pursuant to the Pre-IPO Share Option Scheme and the Share Award Scheme, which would further dilute Shareholders' interests in our Company. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of educational service providers;
- conditions in Hong Kong and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in education in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities or reduce our growth to a level that can be supported by our cash flow, or defer planned expenditures.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than other jurisdictions, you may have difficulties in protecting your Shareholder rights.

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Companies Law and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in other jurisdictions. See the section headed "Summary of the Constitution of our Company and Cayman Companies Law" in Appendix IV to this prospectus.

As a result of all of the above, our public Shareholders may have difficulties in protecting their interests through actions against our management, Directors or major Shareholders.

There will be a gap of several days between pricing and trading of our Shares, and the price of our Shares when trading begins could be lower than the Offer Price.

The initial price to the public of our Shares sold in the Global Offering is expected to be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be not more than five business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer

RISK FACTORS

Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Facts, forecasts and statistics in this prospectus relating to the PRC economy and the education industry may not be fully reliable.

Facts, forecasts and statistics in this prospectus relating to the PRC, the PRC economy, the education industry in China, the PRC kindergarten, primary, middle and high school and higher education market and the private education market in the PRC and Central China are obtained from various sources including official government publications that we believe are reliable, as well as from a report prepared by Frost & Sullivan commissioned by us. However, we cannot guarantee the quality or reliability of these sources. Neither we, the Joint Global Coordinators, the Sponsor, the Underwriters nor our or their respective affiliates or advisers have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this prospectus relating to the PRC, the PRC economy, the education industry in China, the PRC kindergarten, primary, middle and high school and higher education market and the private education market in the PRC and Central China may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from various sources is made. Moreover, these facts, forecasts and statistics involve risks and uncertainties and are subject to change based on various factors, some of which are not under our control, and should not be unduly relied upon. Further, there can be no assurances that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries.

You should read the entire document carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

There may be, subsequent to the date of this document but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the Global Offering and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the Global Offering.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. The Group's management, business operations and assets are primarily based outside Hong Kong. The principal management headquarters and senior management of the Group are primarily based in China. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, the Group and therefore would not be in the best interests of the Company and the Shareholders as a whole. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorised representatives, namely Ms. Li, our chief executive officer and an executive Director, and Mr. Xu Bin, our chief financial officer and joint company secretary, as well as their alternate representative, Ms. Lai Siu Kuen, to be the principal communication channel at all times between the Stock Exchange and the Company. Each of our authorised representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorised representatives are authorised to communicate on our behalf with the Stock Exchange;
- (b) we will implement a policy to provide the contact details of each Director (such as mobile phone numbers, office phone numbers, residential phone numbers, email addresses and fax numbers) to each of the authorised representatives, to their alternate representative and to the Stock Exchange. This will ensure that each of the authorised representatives, the alternate representative and the Stock Exchange will have the means to contact all the Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with the Directors when they are travelling;
- (c) we will ensure that all Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required;
- (d) we have retained the services of a compliance adviser, being Guotai Junan Capital Limited (the “**Compliance Adviser**”), in accordance with Rule 3A.19 of the Listing Rules. The Sole Sponsor submits, on behalf of our Company, that the Compliance Adviser will serve as an alternative channel of communication with the Stock Exchange in addition to the authorised representatives of our Company. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company's authorised representatives and Directors who will provide to the Compliance Adviser such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser's duties. The Compliance Adviser will also provide advice to us in compliance with Rule 3A.23 of the Listing Rules; and
- (e) meetings between the Stock Exchange and the Directors could be arranged through the authorised representatives or the Compliance Adviser, or directly with the Directors within a reasonable time frame.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorised representatives and/or the Compliance Adviser in accordance with the Listing Rules.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Company Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

In assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he or she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company appointed Mr. Xu Bin and Ms. Lai Siu Kuen as joint company secretaries of the Company on 7 September 2016. Ms. Lai Siu Kuen is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Mr. Xu has been the chief financial officer of our Company since 1 January 2016. Our Company believes that Mr. Xu, by virtue of his knowledge and experience in handling corporate administrative matters, is capable of discharging his functions as a joint company secretary. Further, our Company believes that it would be in the best interests of our Company and the corporate governance of the Group to have as its joint company secretary a person such as Mr. Xu who possesses the relevant experience of the Group’s financial, operational and investor relations matters.

Accordingly, while Mr. Xu does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 such that Mr. Xu may be appointed as a joint company secretary of our Company. The waiver was granted for a three-year period on the condition that Ms. Lai, as joint company secretary, will work closely with, and provide assistance to, Mr. Xu in the discharge of his duties as our joint company secretary for an initial period of three years from the date of the Listing. In addition, Mr. Xu will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the Listing Date. We will further ensure that Mr. Xu has access to the relevant training and support that would enhance his

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange. The waiver will be revoked immediately if Ms. Lai ceases to provide assistance to Mr. Xu as the joint company secretary during the three years after the Listing. At the end of the three-year period, we will liaise with the Stock Exchange to enable it to assess whether Mr. Xu, having had the benefit of Ms. Lai's assistance for three years, will have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

See the section headed "Directors and Senior Management" in this prospectus for further information regarding the qualifications of Mr. Xu and Ms. Lai.

CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions of our Company under the Listing Rules following the completion of the Global Offering. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with (i) the announcement and independent shareholders' approval requirements, (ii) the annual cap requirement, and (iii) the requirement of limiting the term of the continuing connected transactions set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, see the section headed "Connected Transactions" in this prospectus.

WAIVER AND EXEMPTION IN RELATION TO THE PRE-IPO SHARE OPTION SCHEME

Under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this prospectus is required to include, among other things, details of the number, description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given (the "**Share Option Disclosure Requirements**").

As of the Latest Practicable Date, our Company had granted options under the Pre-IPO Share Option Scheme to 329 grantees, including Directors, senior management and other connected persons of the Company and other employees of our Group, to subscribe for an aggregate of 180,000,000 Shares, representing 6% of the total number of Shares in issue immediately after completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme) on the terms set out in the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme" in Appendix V to this prospectus.

Our Company has applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules; and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, on the ground that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) given that 329 grantees are involved, strict compliance with such disclosure requirements in setting out full details of all the grantees under the Pre-IPO Share Option Scheme in the prospectus would be costly and unduly burdensome for the Company in light of a significant increase in cost and timing for information compilation, prospectus preparation and printing;

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS
PROVISIONS) ORDINANCE**

- (b) as of the Latest Practicable Date, among all the grantees, 13 grantees were Directors, the senior management or other connected persons of our Company and the remaining 316 grantees are only employees of our Group, strict compliance with the Share Option Disclosure Requirements to disclose names, addresses, and entitlements on an individual basis in this prospectus will require substantial number of pages of additional disclosure that does not provide any material information to the investing public;
- (c) given the nature of the business of the Company, it is extremely important for the Company to recruit and retain talents and the success of the Company's long-term development plan will very much depend on the loyalty and contribution of the grantees;
- (d) the Pre-IPO Share Option Scheme forms a critical component in the compensations of the employees of the Group, and the information relating to the share options granted to the grantees is highly sensitive and confidential to the Group;
- (e) the full disclosure of the details of the grantees (which include their addresses) as well as the share options granted to each of them, would provide the Group's competitors with the Group's employees' compensation details and facilitate their soliciting activities which could adversely impact the Group's ability to recruit and retain valuable personnel;
- (f) the full disclosure on the share options granted to each of the grantees would also allow the employees of the Group to gain access to the others' compensation, which could negatively affect the employees' morale, give rise to negative internal competitions, and lead to an increase in the costs for recruitment and retention;
- (g) the grant and exercise in full of the options under the Pre-IPO Share Option Scheme will not cause any material adverse impact in the financial position of our Company;
- (h) non-compliance with the above disclosure requirements would not prevent the Company from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of the Company; and
- (i) material information relating to the options under the Pre-IPO Share Option Scheme will be disclosed in this prospectus, including the total number of Shares subject to the Pre-IPO Share Option Scheme, the exercise price per Share, the potential dilution effect on the shareholding and impact on earnings per Share upon full exercise of the options granted under the Pre-IPO Share Option Scheme. The Directors consider that the information that is reasonably necessary for the potential investors to make an informed assessment of the Company in their investment decision making process has been included in this prospectus.

In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application will not prejudice the interests of the investing public.

The Stock Exchange has agreed to grant to our Company a waiver under the Listing Rules on condition that:

- (a) on an individual basis, full details of the options granted under the Pre-IPO Share Option Scheme to each of the Directors, the senior management and the other connected persons of the Company will be disclosed in the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme" in Appendix V to this prospectus as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS
PROVISIONS) ORDINANCE**

- (b) for the remaining grantees (being the other grantees who are not Directors, the senior management or the other connected persons of the Company), disclosure will be made, on an aggregate basis, of (1) their aggregate number of grantees and number of Shares underlying the options under the Pre-IPO Share Option Scheme, (2) the consideration paid for the grant of the options under the Pre-IPO Share Option Scheme and (3) the exercise period and the exercise price of the options granted under the Pre-IPO Share Option Scheme;
- (c) there will also be disclosure in this prospectus for the aggregate number of Shares underlying the options under the Pre-IPO Share Option Scheme and the percentage of our Company's total issued share capital represented by such number of Shares as of the Latest Practicable Date;
- (d) the dilutive effect and impact on earnings per Share upon the full exercise of the options under the Pre-IPO Share Option Scheme will be disclosed in the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme" in Appendix V to this prospectus;
- (e) a summary of the major terms of the Pre-IPO Share Option Scheme will be disclosed in the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme" in Appendix V to this prospectus;
- (f) the particulars of the waiver will be disclosed in this prospectus;
- (g) a full list of all the grantees (including those persons whose details have already been disclosed in this prospectus) who have been granted the options under the Pre-IPO Share Option Scheme, containing all the particulars as required under the Share Option Disclosure Requirements, will be made available for public inspection in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI to this prospectus;
- (h) further information relating to the grantees who have been granted options is provided to the Stock Exchange; and
- (i) the grant of certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting the Company from the disclosure requirements provided in paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

The SFC has agreed to grant to our Company the certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on condition that:

- (a) on an individual basis, full details of the options under the Pre-IPO Share Option Scheme granted to each of our Directors, the senior management of our Group and the other connected persons of the Company will be disclosed in the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme" in Appendix V to this prospectus as required by paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) for the remaining grantees (being the other grantees who are not Directors, the senior management or the other connected persons of the Company), disclosure will be made of, on an aggregate basis, (1) their aggregate number of grantees and the number of Shares underlying the options under the Pre-IPO Share Option Scheme, (2) the consideration (if any) paid for the grant of the options under the Pre-IPO Share Option Scheme and (3) the exercise period and the exercise price for the options granted under the Pre-IPO Share Option Scheme;

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS
PROVISIONS) ORDINANCE**

- (c) a full list of all the grantees (including those persons whose details have already been disclosed in this prospectus) who have been granted the options under the Pre-IPO Share Option Scheme, containing all the particulars as required in paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, will be made available for public inspection in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” in Appendix VI to this prospectus;
- (d) the particulars of the exemption will be disclosed in this prospectus; and
- (e) further information relating to the grantees who have been granted options is provided to the SFC.

Further details of the Pre-IPO Share Option Scheme are set forth in the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

The Offer Price is expected to be fixed among the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, 21 February 2017 and, in any event, not later than Monday, 27 February 2017 (unless otherwise determined between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor)). If, for whatever reason, the Offer Price is not agreed between the Joint Global Coordinators and our Company on or before Monday, 27 February 2017, the Global Offering will not become unconditional and will lapse immediately.

See the section headed "Underwriting" in this prospectus for further information about the Underwriters and the underwriting arrangements.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The application procedures for the Hong Kong Public Offer Shares are set forth in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SELLING RESTRICTIONS ON OFFERS AND SALE OF SHARES

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus and on the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and the Shares which may be granted under the Share Award Scheme).

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 28 February 2017. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and Stabilisation are set out in the section headed “Structure of the Global Offering” in this prospectus. Assuming that the Over-allotment Option is exercised in full, the Over-allotment Option Grantor may be required to sell up to an aggregate of 112,500,000 existing Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARE REGISTRAR AND STAMP DUTY

Our principal register of members will be maintained in the Cayman Islands by our principal registrar, Maples Fund Services (Cayman) Limited, in the Cayman Islands, and our Hong Kong register will be maintained by the Hong Kong Share Registrar in Hong Kong.

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

We have instructed our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, and it has agreed, not to register the subscription, purchase or transfer of any Shares in the name of any particular holder unless and until the holder delivers a signed form to our Hong Kong Share Registrar in respect of those Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Cayman Companies Law and our Articles;
- agrees with us and each of our Shareholders that the Shares are freely transferable by the holders thereof; and
- authorises us to enter into a contract on his or her behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding and dealing in the Shares or exercising any rights attached to them. It is emphasised that none of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of the Shares resulting from the subscription, purchase, holding or disposal of the Shares or exercising any rights attached to them.

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this prospectus includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all. Unless otherwise indicated, (i) the translation between Renminbi and Hong Kong dollars was made at the rate of RMB0.88354 to HK\$1.00, the exchange rate prevailing on 3 February 2017 published by the PBOC for foreign exchange transactions and (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.7582 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Federal Reserve Board on 3 February 2017.

TRANSLATION

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

inconsistency between the names of any of the entities mentioned in this English prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

For further information on our Directors, see the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS

| Name | Address | Nationality |
|------|---------|-------------|
|------|---------|-------------|

Executive Directors

| | | |
|----------------|-------------------------------------------------------------------------------------------------------------|-----|
| Mr. Li Guangyu | 3/F (East), Unit 1, Block 7, Beida Huayuan 3 Mazhuang Street Zhengdong New District, Zhengzhou PRC | PRC |
|----------------|-------------------------------------------------------------------------------------------------------------|-----|

| | | |
|------------|-------------------------------------------------------------------------------------------------------------|-----|
| Ms. Li Hua | 6/F (West), Unit 1, Block 3, Beida Huayuan 3 Mazhuang Street Zhengdong New District, Zhengzhou PRC | PRC |
|------------|-------------------------------------------------------------------------------------------------------------|-----|

| | | |
|-----------------|-------------------------------------------------------------------------------------------------------------|-----|
| Ms. Qiu Hongjun | 6/F (East), Unit 1, Block 3, Beida Huayuan 3 Mazhuang Street Zhengdong New District, Zhengzhou PRC | PRC |
|-----------------|-------------------------------------------------------------------------------------------------------------|-----|

Independent non-executive Directors

| | | |
|--------------|---------------------------------------------------------------------------------|-----|
| Mr. Chen Lei | Flat 4-502, Block B19 19 Yuquan Road Shijingshan District, Beijing PRC | PRC |
|--------------|---------------------------------------------------------------------------------|-----|

| | | |
|-----------------|------------------------------------------------------------------------------------------------|-----|
| Mr. Xia Zuoquan | Flat 23A, Block D Jinxu Huayuan, Overseas Chinese Town Nanshan District, Shenzhen PRC | PRC |
|-----------------|------------------------------------------------------------------------------------------------|-----|

| | | |
|------------------|----------------------------------------------------------------------------------------------|-----|
| Mr. Zhang Zhixue | No. 106, Block A50 Zhongguanyuan Peking University Haidian District, Beijing PRC | PRC |
|------------------|----------------------------------------------------------------------------------------------|-----|

PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|---------------------|--------------------------------------------------------------------------------------------|
| Sole Sponsor | CITIC CLSA Capital Markets Limited 18/F, One Pacific Place 88 Queensway Hong Kong |
|---------------------|--------------------------------------------------------------------------------------------|

| | |
|----------------------------------|----------------------------------------------------------------------|
| Joint Global Coordinators | CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong |
|----------------------------------|----------------------------------------------------------------------|

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Bookrunners

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
Central
Hong Kong

Hong Kong Public Offering

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Merrill Lynch Far East Limited
55/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
Central
Hong Kong

First Capital Securities Limited
Unit 4512, 45/F, The Center
99 Queen's Road Central
Central
Hong Kong

Orient Securities (Hong Kong) Limited
28th and 29th Floor
100 Queen's Road Central
Hong Kong

International Offering

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
Central
Hong Kong

First Capital Securities Limited
Unit 4512, 45/F, The Center
99 Queen's Road Central
Central
Hong Kong

Joint Lead Managers

Hong Kong Public Offering

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Merrill Lynch Far East Limited
55/F Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
Central
Hong Kong

First Capital Securities Limited
Unit 4512, 45/F, The Center
99 Queen's Road Central
Central
Hong Kong

Orient Securities (Hong Kong) Limited
28th and 29th Floor
100 Queen's Road Central
Hong Kong

International Offering

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
Central
Hong Kong

First Capital Securities Limited
Unit 4512, 45/F, The Center
99 Queen's Road Central
Central
Hong Kong

Auditors and Reporting Accountants

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Legal Advisers to the Company

As to Hong Kong and U.S. laws:
Skadden, Arps, Slate, Meagher & Flom and affiliates
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Tian Yuan Law Firm
10/F, CPIC PLAZA
28 Fengsheng Lane, Xicheng District
Beijing 100032
PRC

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

Legal Advisers to the Sole Sponsor and the Underwriters

As to Hong Kong and U.S. laws:
Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| | As to PRC law: Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road Chaoyang District Beijing, 100025 PRC |
| Industry Consultant | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Suite 1014-1018 Tower B 500 Yunjin Road Shanghai PRC |
| Property Valuer | Asia-Pacific Consulting and Appraisal Limited Room 1501(112), 15F, SPA Centre 53-55 Lockhart Road Wanchai Hong Kong |
| Compliance Adviser | Guotai Junan Capital Limited 27/F Grand Millennium Plaza 181 Queen's Road Central Hong Kong |
| Receiving Bank | Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road, Kowloon Hong Kong |

CORPORATE INFORMATION

| | |
|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Registered Office | The offices of Maples Corporate Services Limited PO Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands |
| Head Office and Principal Place of Business in China | No. 21, 4/F, Block 10 3 Mazhuang Street Zhengdong New District Zhengzhou, PRC |
| Principal Place of Business in Hong Kong | 36/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong |
| Company's Website | <u>www.yuhuachina.com</u> (The information on the website does not form part of this prospectus) |
| Joint Company Secretaries | Mr. Xu Bin 71 Xidan Shoupa Hutong Xicheng District, Beijing PRC Ms. Lai Siu Kuen (FCIS, FCS) 36/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong |
| Authorised Representatives | Ms. Li Hua 6/F (West), Unit 1, Block 3, Beida Huayuan 3 Mazhuang Street Zhengdong New District, Zhengzhou PRC Mr. Xu Bin 71 Xidan Shoupa Hutong Xicheng District, Beijing PRC |
| Audit Committee | Mr. Chen Lei (Chairman) Mr. Xia Zuoquan Mr. Zhang Zhixue |
| Remuneration Committee | Mr. Zhang Zhixue (Chairman) Ms. Li Hua Mr. Xia Zuoquan |
| Nomination Committee | Mr. Li Guangyu (Chairman) Mr. Xia Zuoquan Mr. Zhang Zhixue |
| Compliance Adviser | Guotai Junan Capital Limited 27/F Grand Millennium Plaza 181 Queen's Road Central Hong Kong |

CORPORATE INFORMATION

Hong Kong Share Registrar

Computershare Hong Kong Investor Services
Limited
Shops 1712-1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai
Hong Kong

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

Principal Banker

China Construction Bank Corporation
Jinshui Road Branch of Zhengzhou
No. 29, Jinshui Road
Zhengzhou, Henan Province
PRC

INDUSTRY OVERVIEW

*Certain information and statistics set out in this section and elsewhere in this prospectus relating to the normal full-time education industry in China are derived from various government and other publicly available sources, and from the market research report prepared by Frost & Sullivan, an independent industry consultant which was commissioned by us (the “**Frost & Sullivan Report**”). The information extracted from the Frost & Sullivan Report should not be considered as a basis for investments in the Offer Shares or as opinion of Frost & Sullivan as to the value of any securities or the advisability of investing in our Company. We believe that the sources of such information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. Our Directors have further confirmed, after making reasonable enquires and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the Frost & Sullivan Report or any of the other reports which may qualify, contradict or have an impact on the information in this section. No independent verification has been carried out on such information and statistics by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other parties involved in the Global Offering or their respective directors, officers, employees, advisers, agents, and no representation is given as to the accuracy or completeness of such information and statistics. Accordingly, you should not place undue reliance on such information and statistics.*

SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the PRC private education market, the PRC private higher education market and the private fundamental education market in PRC and Central China (collectively, the “**Target Research Markets**”).

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the Target Research Markets. Primary research involved discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and Frost & Sullivan’s proprietary database.

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China’s economy is likely to maintain steady growth in the next decade, (ii) China’s social, economic and political environment is likely to remain stable in the forecast period from 2016 to 2020, and (iii) market drivers, such as Chinese families’ focus on children’s education, support from PRC central and local governments, improved investment in private education in China and the increase of household income and wealth, are likely to drive the Target Research Markets. For the projection of total market size, Frost & Sullivan plotted available historical data against macroeconomic data as well as data with respect to related industry drivers.

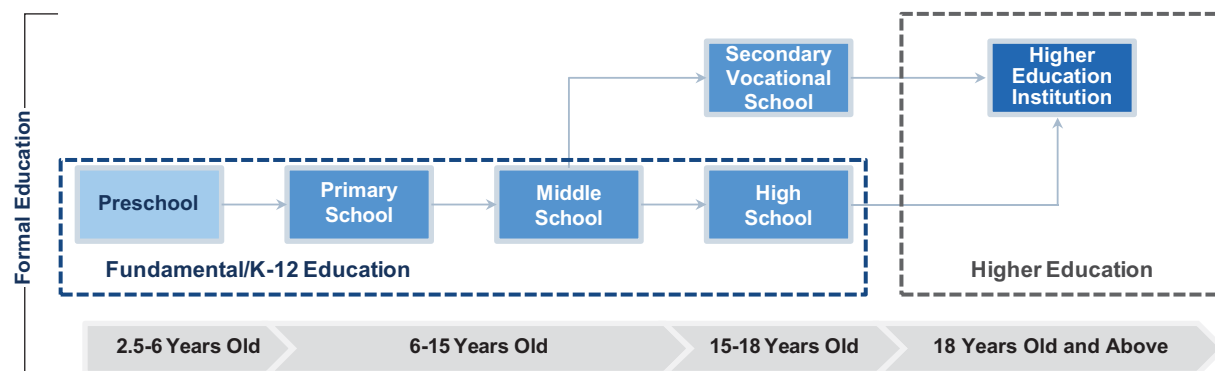
Frost & Sullivan is also of the view that: (i) there are inherent limitations in the methodology used by it, including potential information gaps where interviewees have refused to divulge confidential data or figures and incomplete statistics or unconscious omission of industry participants due to latent ownership or highly fragmented characteristics for the market; and (ii) other methodologies may have yielded substantially different outcomes with respect to the identity of the top private education groups and the estimates of their respective student enrolment and market shares contained in the Frost & Sullivan Report, particularly due to the highly fragmented nature of the PRC private education industry. Consequently, prospective investors are cautioned not to place undue reliance on the rankings, student enrolment and market share estimates contained in this prospectus.

INDUSTRY OVERVIEW

Frost & Sullivan is an independent global consulting firm, which was founded in New York in 1961. It offers industry research and market strategies, and provides growth consulting and corporate training. We are contracted to pay a fee of RMB460,000 to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section, as well as in the sections headed “Summary”, “Risk Factors”, “Business”, “Financial Information” and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industries in which we operate.

OVERVIEW OF PRC PRIVATE EDUCATION INDUSTRY

In general, the PRC education industry can be categorised into formal education and informal education. Unlike the informal education system, the formal education system provides students with the opportunity to earn official certificates from the PRC government. The PRC formal education industry primarily consists of fundamental education (also known as K-12 education) and higher education. Unless specified otherwise in this prospectus, the PRC private education industry discussed only refers to the PRC private formal education industry. The following diagram illustrates the composition of the PRC private education industry which is similar to the composition of the PRC public education industry:



Source: Frost & Sullivan

In response to a shortfall in state funds for education in late 1970s and early 1980s, the PRC first allowed private education in the early 1980s, with PRC private education experiencing rapid growth in the 1990s. Since then, the PRC private education became an important force in the PRC education system. Generally, private schools in the PRC have a higher level of operational independence. While most private schools in the PRC follow the required curriculum system as public schools do, they tend to have more diverse and broader curriculum offerings and a greater degree of flexibility in terms of the level of tuition fees they charge.

The PRC private education industry has exhibited strong growth over the past five years, primarily driven by favourable policies and regulations on private education and rising personal consumption in the PRC. According to the Frost & Sullivan Report, total revenue generated by the PRC private education industry was RMB287.9 billion in 2015, compared to RMB174.0 billion in 2011, representing a CAGR of approximately 13.4%. The total revenue generated by the PRC private education industry is expected to increase from RMB287.9 billion in 2015 to RMB494.8 billion in 2020, representing a CAGR of approximately 11.4%, according to the Frost & Sullivan Report.

OVERVIEW OF THE PRIVATE HIGHER EDUCATION INDUSTRY IN CHINA

The private higher education industry in China experienced rapid growth and entered into regulated development in the 1990s as the PRC regulatory authorities began to implement a regulatory framework to govern private higher education, according to the Frost & Sullivan Report. Private higher education institutions in China can be

INDUSTRY OVERVIEW

divided into two categories: Private HEIs (民辦普通高校) and Independent Colleges (獨立學院). In accordance with applicable PRC relevant regulations, Private HEIs refer to higher education institutions established by non-state organisations or individuals with non-state funds; while Independent Colleges refer to colleges which only engage in undergraduate education and are established through cooperation between normal higher education institutions engaging in undergraduate or graduate education and non-state organisations or individuals with non-state funds. Private HEIs generally can offer junior college, undergraduate and/or post-graduate programmes and are operated independently while Independent Colleges may offer undergraduate programmes and are normally affiliated to public universities. Private HEIs and Independent Colleges are different from public higher education institutions mainly due to the fact that public higher education institutions are generally operated by the PRC national or local governments and their major source of capital is PRC state expenditure on education.

Both Private HEIs and Independent Colleges are governed by the Higher Education Law of the PRC (中華人民共和國高等教育法) and the Law for Promoting Private Education of the PRC (中華人民共和國民辦教育促進法) and its implementation regulations. Private HEIs are also governed by the Several Provisions on the Administration of Non-state-operated Colleges and Universities (民辦高等學校辦學管理若干規定) which was issued by the MOE on 3 February 2007 and subsequently amended on 10 November 2015. Independent Colleges are more specifically governed by the Measures for the Establishment and Administration of Independent Colleges (獨立學院設置與管理辦法), which was promulgated on 22 February 2008 and amended on 10 November 2015.

The main difference between Private HEIs and Independent Colleges is that Independent Colleges are established through cooperation between normal higher education institutions and qualified non-state organisations or individuals. The cooperation parties shall enter into a cooperation agreement setting out the key terms of the cooperation, such as each party's total planned investment, investment method, the rights and obligations as well as the amount or calculation method of annual fees to be paid to the normal higher education institutions. In terms of the Independent College's operations, the normal higher education institutions normally provide the necessary intellectual property rights, such as their names, logos and trademarks, as well as certain education and teaching resources, which the non-state organisations or individuals provide, among others, capital, land use rights and teaching facilities. In addition, very few Private HEIs offer post-graduate programmes. The programmes offered by Private HEIs and Independent Colleges primarily include bachelor's degree programmes, which normally take four years of full-time study to complete, and junior college diploma programmes, which normally take three years of full-time study to complete. The tuition fees charged for the bachelor's degree programmes are generally higher than the tuition fees charged for the junior college diploma programmes.

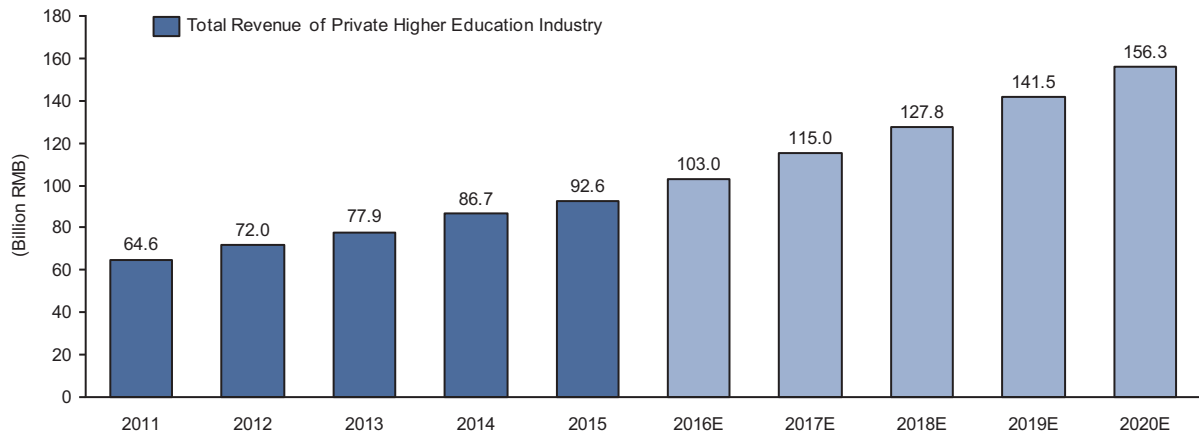
Market Size of the PRC Private Higher Education Industry

According to the Frost & Sullivan Report, from 2011 to 2015, the total number of private higher education institutions in China increased from approximately 698 to 734, among which the total number of Private HEI increased from 389 to 459.

INDUSTRY OVERVIEW

In addition, total revenue generated by the PRC private higher education industry was RMB92.6 billion in 2015, compared to RMB64.6 billion in 2011, representing a CAGR of approximately 9.4%, and is expected to reach RMB156.3 billion in 2020. The following chart illustrates the total revenue generated by the PRC higher education industry from 2011 to 2015, and the forecast of revenue from 2016 to 2020:

Total Revenue of Private Higher Education Industry (China), 2011–2020E

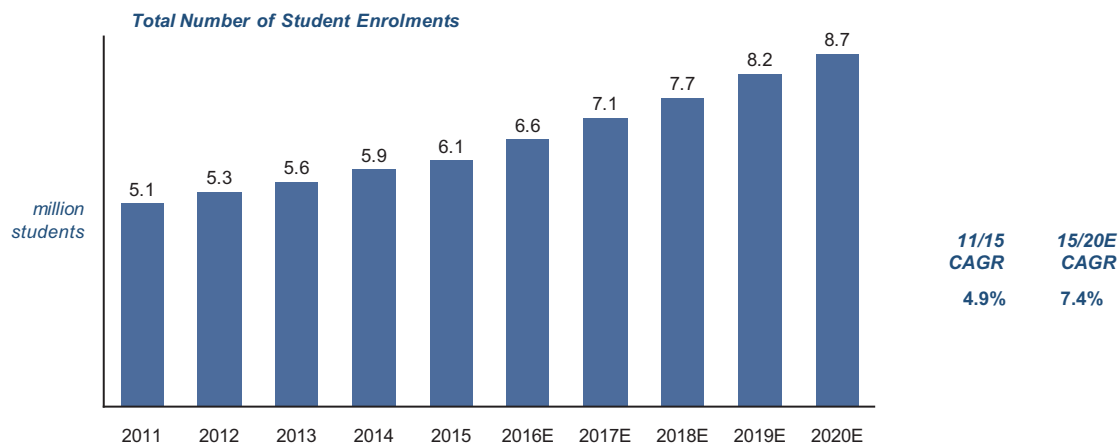


Source: Frost & Sullivan

Student Enrolment in the PRC Private Higher Education Industry

Increasing wealth and greater demand for higher education and academic qualifications have contributed to the growth of the PRC higher education sector. According to the Frost & Sullivan Report, total number of student enrolment in the PRC private higher education increased from 5.1 million in 2011 to 6.1 million in 2015, representing a CAGR of approximately 4.9%. It is expected that the total number of student enrolments in the PRC private higher education will reach 8.7 million in 2020, according to the Frost & Sullivan Report. The following chart illustrates the total number of student enrolments in the PRC higher education industry from 2011 to 2015, and the forecast from 2016 to 2020:

Total Number of Student Enrolments in Private Higher Education (China), 2011–2020E

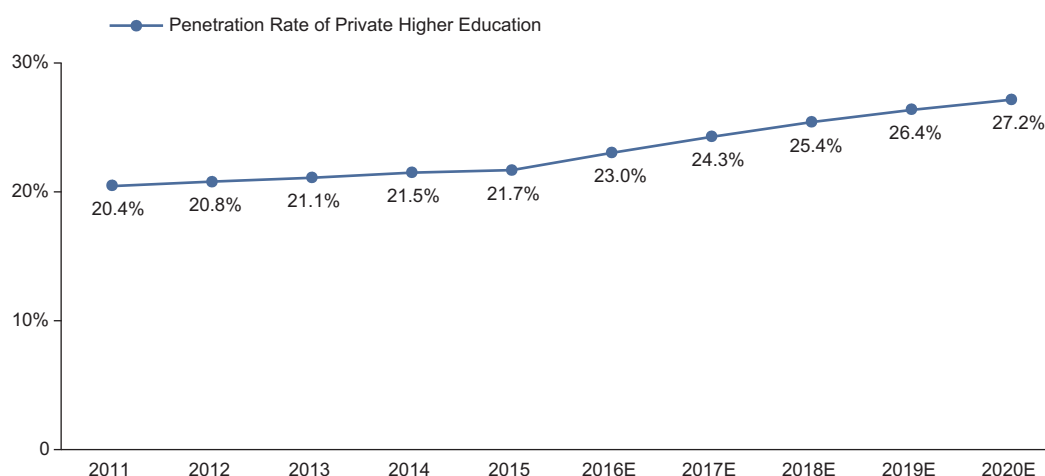


Source: Frost & Sullivan

INDUSTRY OVERVIEW

Based on the Frost & Sullivan Report, the penetration rate of PRC private higher education has increased from 20.4% in 2011 to 21.7% in 2015, and is expected to reach 27.2% in 2020. The increase indicates an increasing number of students attending private universities or colleges. The following chart illustrates the penetration rate of private higher education by number of student enrolments from 2011 to 2015, and the forecast from 2016 to 2020:

Penetration Rate of Private Higher Education by Number of Student Enrolments (China), 2011–2020E



Source: Frost & Sullivan

Market Drivers and Development Trends in the PRC Private Higher Education Industry

The development of the private higher education market in the PRC is driven primarily by (i) increasing household wealth and demand for higher education in the PRC, (ii) growing market demands for more technical talent in all areas; and (iii) increasing diversification and educational quality in the private higher education in the PRC, according to the Frost & Sullivan Report.

The developmental trends of the private higher education industry in the PRC mainly include (i) increasing number of private higher education institutions, (ii) differentiation and specialisation of the private junior colleges and other education organisations that provides practical trainings, and (iii) capacity and qualification upgrade of the PRC private higher education institutions, according to the Frost & Sullivan Report.

OVERVIEW OF PRC PRIVATE FUNDAMENTAL EDUCATION INDUSTRY

PRC fundamental education includes four stages of education, namely preschool education, primary school education, middle school education and high school education. While public schools have traditionally played a dominate role in the fundamental education industry, the private fundamental education is becoming an important force in the Chinese fundamental education system based in part on growing support from the government.

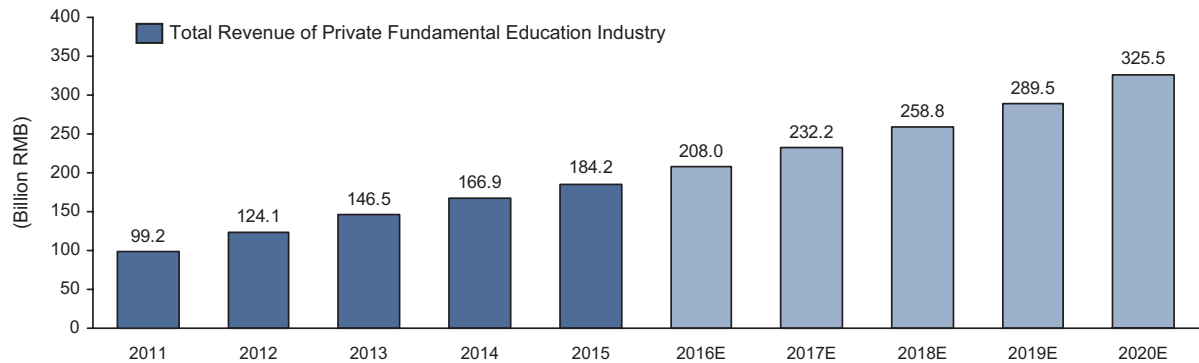
Market Size and Trends in the PRC Private Fundamental Education Industry

According to the Frost & Sullivan Report, the total revenue generated by the PRC private fundamental education industry was RMB184.2 billion in 2015, compared to RMB99.2 billion in 2011, representing a CAGR of approximately 16.7%. The rapid growth in total revenue of the PRC private fundamental education industry was the result of the increased student enrolments in private schools which was primarily driven by Chinese parents' increasing desire to send their children to private schools for better education. According to the Frost & Sullivan Report, total revenue generated by the PRC private fundamental education industry is expected to reach RMB325.5 billion in 2020.

INDUSTRY OVERVIEW

The following chart illustrates the total revenue generated by the PRC private fundamental education industry from 2011 to 2015, and the forecast of revenue from 2016 to 2020:

Total Revenue of Private Fundamental Education Industry (China), 2011–2020E

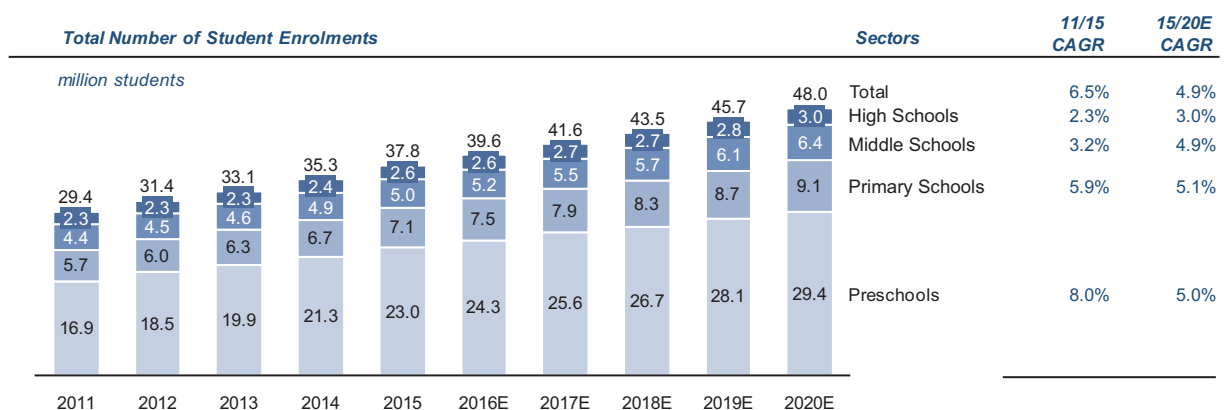


Source: Frost & Sullivan

Student Enrolment in the PRC Private Fundamental Education Industry

According to the Frost & Sullivan Report, over the past years the number of students who have enrolled in private schools offering fundamental education has experienced a stable growth. The total number of students enrolled in PRC private schools offering fundamental education increased from 29.4 million in 2011 to 37.8 million in 2015, representing a CAGR of approximately 6.5%. The total number of students enrolled in private schools is expected to increase to 48.0 million in 2020, at a CAGR of approximately 4.9%. The driving factors underlying the expected future growth include favourable government policies, support for private schools and increased demand for private school fundamental education from parents. The diagram below sets forth the number of students enrolled in private fundamental education in China from 2011 to 2015, as well as a forecast of student enrolment from 2016 to 2020:

Total Number of Student Enrolments of Private Fundamental Education (China), 2011–2020E

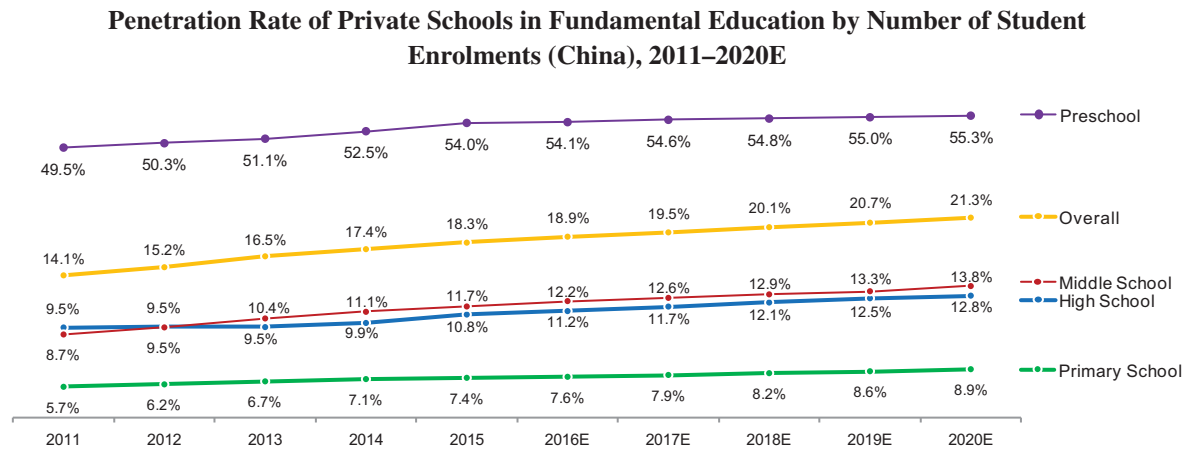


Source: Frost & Sullivan

According to the Frost & Sullivan Report, the penetration rate of private schools in the overall PRC fundamental education system, which represents the number of students enrolled in private schools as a percentage of the total number of students enrolled in the schools in the PRC fundamental education system, increased from 14.1% in 2011 to 18.3% in 2015, indicating a higher preference for private schools over public schools among students.

INDUSTRY OVERVIEW

The penetration rate is expected to reach 21.3% in 2020. The diagram below sets forth the penetration rate of private schools offering fundamental education in the PRC from 2011 to 2015, as well as a forecast of the penetration rate from 2016 to 2020:



Source: Frost & Sullivan

Tuition and Miscellaneous Fees for Private Schools Offering Fundamental Education

According to the Frost & Sullivan Report, tuition and miscellaneous fees of private schools offering fundamental education are usually higher than those of public schools offering fundamental education, primarily because public schools rely on state funding to support their operations whereas private schools mostly rely on private investment, tuition and miscellaneous fees. In 2015/2016 school year, the average annual tuition and miscellaneous fees per student in private kindergartens, primary schools, middle schools and high schools in the PRC were estimated to be approximately RMB3,235, RMB2,567, RMB3,289 and RMB7,719, respectively, according to the Frost & Sullivan Report. According to the Frost and Sullivan Report, the average tuition fees, including miscellaneous fees, per student for bachelor's degree programme and junior college diploma programme of the private universities in Henan Province were RMB10,840 and RMB7,060, respectively. Further, premium private schools that offer more diversified curriculums and have better facilities normally charge higher levels of tuition fees than this average.

OVERVIEW OF THE PRIVATE FUNDAMENTAL EDUCATION INDUSTRY IN CENTRAL CHINA

Central China, which includes Henan, Hubei and Hunan Provinces, had a total population of 221.2 million in 2015, which is expected to reach 224.6 million in 2020, according to the Frost & Sullivan Report. This densely populated region of China is undergoing a rapid urbanisation process. From 2011 to 2015, the urban population of Central China grew from 97.7 million to 112.2 million, at a CAGR of approximately 3.5%, which is higher than that of the PRC generally, according to the Frost & Sullivan Report. In view of the local governments' plan for further urbanisation, it is estimated that the urban population of Central China will reach 133.6 million in 2020, which will drive the demand for education, according to the Frost & Sullivan Report.

In addition, in line with the stable growth in per capital disposable income of urban households and per capital annual living expenditure of urban households in Central China, the per capita expenditure on education in Central China grew from RMB597 in 2011 to RMB1,038 in 2015, at a CAGR of approximately 14.8%, according to the Frost & Sullivan Report. Frost & Sullivan estimates that the per capita annual living expenditure on education in Central China will reach RMB1,456 in 2020, at a CAGR of approximately 7.0%, due to increased family wealth and growing willingness of parents to spend on better education resources.

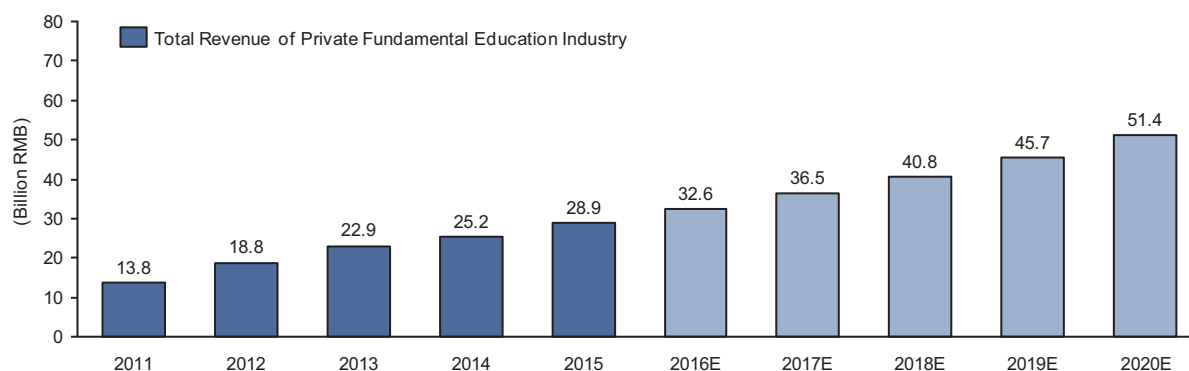
INDUSTRY OVERVIEW

Market Size of the Private Fundamental Education Industry in Central China

According to the Frost & Sullivan Report, the total revenue generated by the private fundamental education industry in Central China was RMB28.9 billion in 2015, compared to RMB13.8 billion in 2011, representing a CAGR of approximately 20.4%. This increase in total revenue was mainly driven by (i) rapid economic growth in Central China and increased urbanisation; (ii) growing household income level and wealth, which allows parents to increase their investment in their children's education; (iii) increased social awareness of the benefits of attending private schools and (iv) favourable regulatory and policy environment that has become conducive to the development of the private fundamental education in Central China. In addition, the total revenue to be generated by the private fundamental education industry in Central China is expected to reach RMB51.3 billion in 2020, according to the Frost & Sullivan Report.

The following chart illustrates the total revenue generated by the private fundamental education industry in Central China from 2011 to 2015, and the forecast of revenue from 2016 to 2020:

Total Revenue of Private Fundamental Education Industry (Central China), 2011–2020E



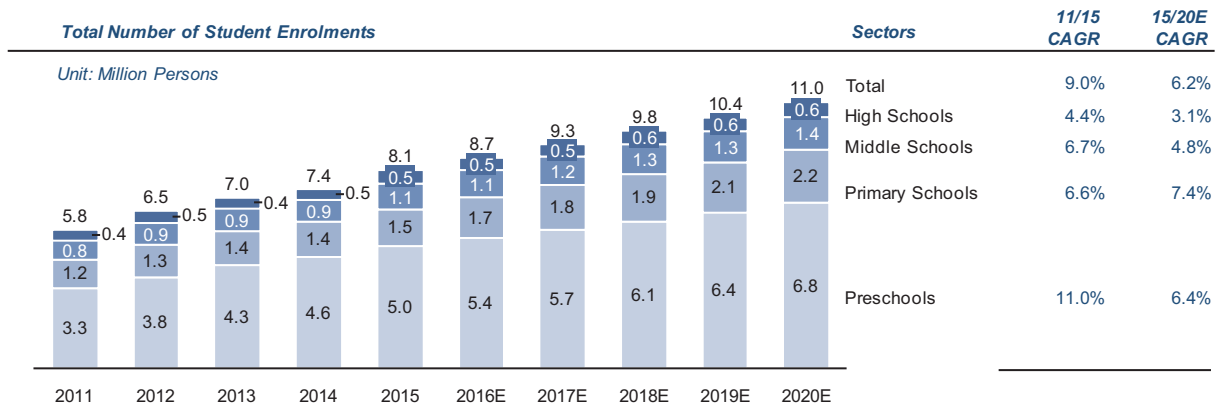
Source: Frost & Sullivan

Student Enrolment in the Private Fundamental Education Industry in Central China

According to the Frost & Sullivan Report, the total number of students enrolled in the private fundamental education schools in Central China increased from 5.8 million in 2011 to 8.2 million in 2015, representing a CAGR of approximately 9.1%, and is expected to reach 11.0 million in 2020. The growth in student enrolment was mainly attributable to the growth of kindergarten student enrolment, which increased from 3.3 million in 2011 to 5.0 million in 2015, representing a CAGR of approximately 11.1%, mainly as a result of higher birth rate in the region during the same period. The increase in student enrolment is also contributed by accelerated economic development and increased urbanisation, which increased parents' disposable income for investment in private education for their children. The diagram below sets forth the number of students enrolled in private fundamental education in Central China from 2011 to 2015, as well as a forecast of student enrolment expected from 2016 to 2020.

INDUSTRY OVERVIEW

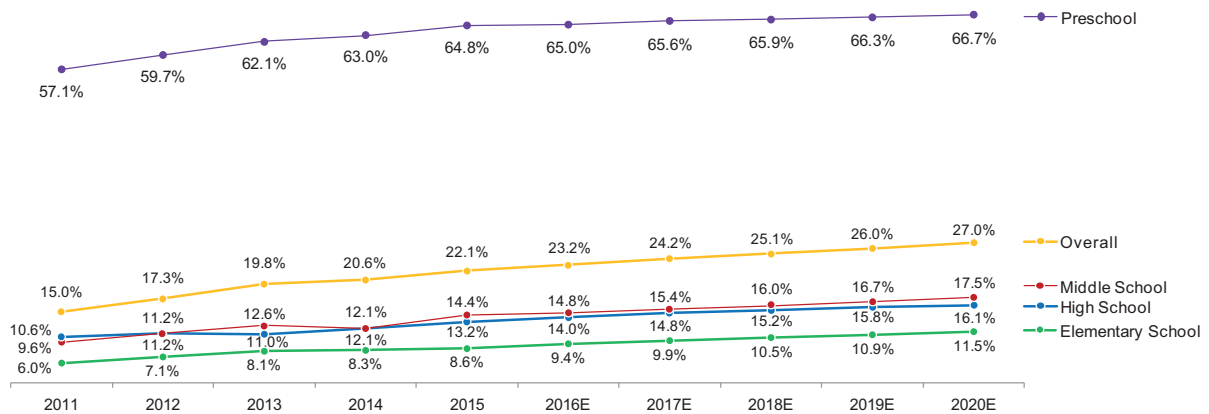
Total Number of Student Enrolments of Private Fundamental Education (Central China), 2011–2020E



Source: Frost & Sullivan

According to the Frost & Sullivan Report, the penetration rate of private schools in the overall fundamental education system in Central China has increased over the past five years. Student enrolment in private schools increased from 15.0% of total fundamental school enrolment in 2011 to 22.1% in 2015, indicating more students have chosen to attend private schools rather than public ones. The penetration rate is expected to reach 27.0% in 2020, according to the Frost & Sullivan Report. Among the three provinces in Central China, Henan Province had the highest penetration rate of 24.3% in 2015, primarily due to its largest school-age population and more limited public education resources. The following diagram illustrates the penetration rate of private schools in the private fundamental education industry in Central China in terms of student enrolment from 2011 to 2015, and a forecast of penetration rates from 2016 to 2020.

Penetration Rate of Private Schools in Fundamental Education by Number of Student Enrolments (Central China), 2011–2020E



Source: Frost & Sullivan

Drivers and Development Trends of the Private Fundamental Education Market in Central China

The development of the private fundamental education market in Central China is driven primarily by the strong support from the PRC central government and local governments in the development of private education. Since the promulgation of the *National Medium-to-Long Term Educational Reform and Development Plan (2010-2020)* (國家中長期教育改革和發展計劃綱要 (2010年-2020年)) in 2010, the Chinese government has issued a series of policies and regulations to encourage and promote the development of private education. For example, the 12th Five-Year Plan for National Economic and Social Development (國民經濟和社會發展第十二個五年規劃綱要)

INDUSTRY OVERVIEW

issued by the National People's Congress (i) encouraged the private capital to flow into the education business and called for equal treatment to private schools and public schools, (ii) called for enhanced legal protection on the development of private education, and (iii) advocated international cooperation between Chinese schools and their foreign counterparts to further improve the internationalisation of the Chinese education industry.

In addition, the continuous growth of the school-age population in Central China as well as the limited public education resources and the increased household income and greater demand for high quality education in Central China are also the driving factors behind the development of the private fundamental education market in Central China, according to the Frost & Sullivan Report.

The developmental trends of the private fundamental education industry in Central China mainly include (i) the increased penetration of private fundamental education in Central China as a result of the increasing emphasis on the well-rounded development of the children by their parents; (ii) strong demand for private education in Central China due to the continuing growth of the school-age population; (iii) rise of more strong local brands and increasing importance of school reputation in Central China as local brands are expected to rapidly develop and undergo increasing consolidation; and (iv) differentiation and internationalisation of private fundamental education in Central China.

OVERVIEW OF THE PRIVATE FUNDAMENTAL EDUCATION INDUSTRY IN HENAN PROVINCE

Henan Province has the largest registered population and generated the fifth largest GDP of RMB3.7 trillion among all provinces in China, according to the Frost & Sullivan Report. Based on its large population base, Henan has been one of the largest private fundamental education markets in China in terms of total student enrolment. According to the Frost & Sullivan Report, the students enrolled in the private schools providing fundamental education were approximately 4.7 million in 2015.

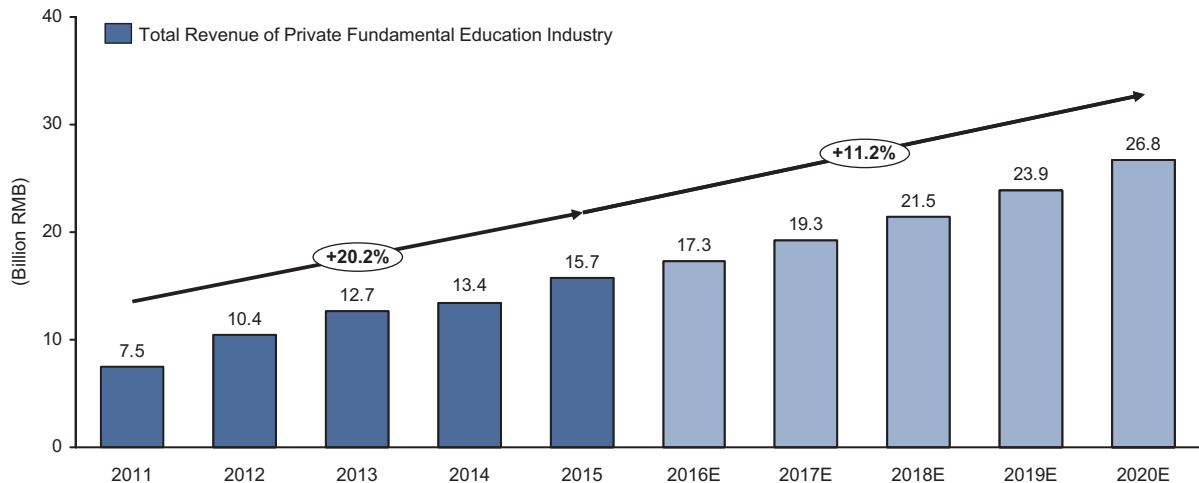
Market Size of the Private Fundamental Education Industry in Henan Province

According to the Frost & Sullivan Report, total revenue generated by the private fundamental education industry in Henan Province was RMB15.7 billion in 2015, compared to RMB7.5 billion in 2011, representing a CAGR of approximately 20.2%. This increase in total revenue was mainly driven by the rising tuition fees and growth of student enrolments due to the insufficient public education resources in Henan Province. In addition, the total revenue to be generated by the private fundamental education industry in Henan Province is expected to reach RMB26.8 billion in 2020, according to the Frost & Sullivan Report.

INDUSTRY OVERVIEW

The following chart illustrates the total revenue generated by the private fundamental education industry in Henan Province from 2011 to 2015, and the forecast of total revenue from 2016 to 2020:

Total Revenue of Private Fundamental Education Industry (Henan Province), 2011–2020E

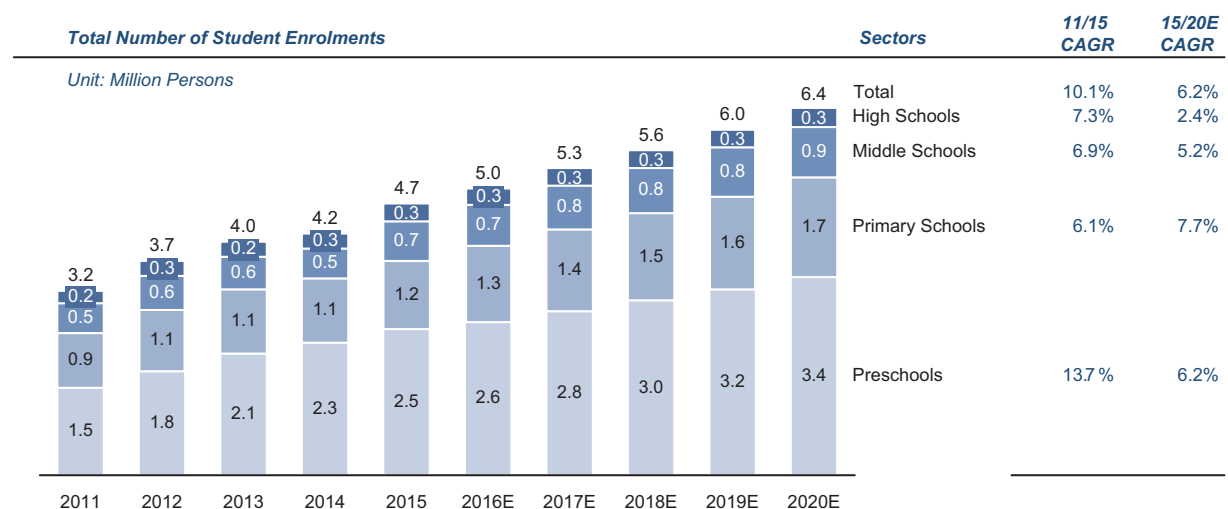


Source: Frost & Sullivan

Student Enrolment in the Private Fundamental Education Industry in Henan Province

According to the Frost & Sullivan Report, the total number of students enrolled in the private fundamental education in Henan Province increased from 3.2 million in 2011 to 4.7 million in 2015, representing a CAGR of approximately 10.1%, and is expected to reach 6.4 million in 2020. The growth in student enrolment was mainly attributable to the growth of preschool student enrolment, which increased from 1.5 million in 2011 to 2.5 million in 2015, representing a CAGR of approximately 13.7%. The stable increase in student enrolment is also contributed by the large yet growing population base in Henan Province. The diagram below sets forth the number of students enrolled in private fundamental education in Henan Province from 2011 to 2015, as well as a forecast of student enrolment expected from 2016 to 2020.

Total Number of Student Enrolments of Private Fundamental Education (Henan Province), 2011–2020E

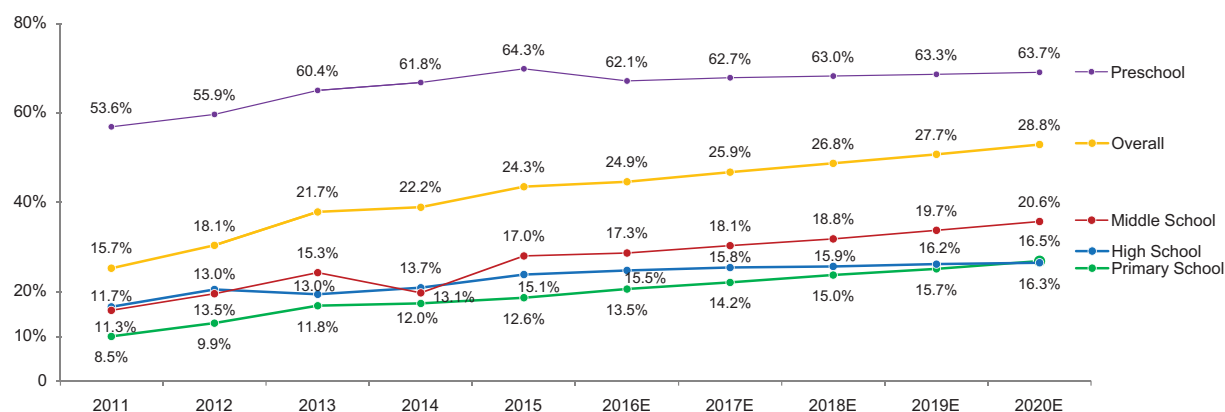


Source: Frost & Sullivan

INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, the penetration rate of private schools in the overall fundamental education system in Henan Province has increased over the past five years. Student enrolment in private schools increased from 15.7% of total fundamental school enrolment in 2011 to 24.3% in 2015, indicating more students have chosen to attend private schools rather than public schools. The penetration rate is expected to reach 28.8% in 2020, according to the Frost & Sullivan Report. The following diagram illustrates the penetration rate of private schools in the private fundamental education industry in Henan Province in terms of student enrolment from 2011 to 2015, and a forecast of penetration rates from 2016 to 2020.

Penetration Rate of Private Schools in Fundamental Education by Number of Student Enrolments (Henan Province), 2011–2020E



Source: Frost & Sullivan

COMPETITIVE LANDSCAPE

Competitive Landscape of the PRC Private Full-coverage Education Market

According to the Frost & Sullivan Report, the private education market in the PRC is highly fragmented. Full-coverage education refers to education covering kindergarten to university. Very few market players are able to provide full-coverage education services. With a total number of 48,220 students, we were the largest market player in terms of student enrolment in the 2015/2016 school year among the players with full-coverage education services in the PRC private education industry. The following table illustrates the ranking of the top five market players with full-coverage private education services in 2015/2016 school year:

Student Enrolments of Leading Players with Full-Coverage Private Education Services (China), 2015/2016 School Year

| Rank | Market Players | Student Enrolments (Thousand Students) |
|------|------------------|----------------------------------------|
| 1 | Our Group | 48.2 |
| 2 | Company A | 42.7 |
| 3 | Company B | 32.7 |
| 4 | Company C | 30.0 |
| 5 | Company D | 21.9 |

Source: Frost & Sullivan

Competitive Landscape of the Private Higher Education Industry in China

According to the Frost & Sullivan Report, China's private formal higher education market is highly fragmented. In 2015, the total number of private formal higher educational institutions reached 734, and the operations of higher educational institutions are relatively less local market-based than fundamental education, because

INDUSTRY OVERVIEW

China's Gaokao and admission system is a nationwide system whereby cross-region admission and enrolment is a common practice.

According to the Frost & Sullivan Report, our University was the third largest private higher education institution in China, in terms of student enrolment in 2015/2016 school year. The following table illustrates the ranking and market share of the five largest private universities in China in 2015/2016 school year:

Student Enrolments of Leading Private Higher Education Institutions (China), 2015/2016 School Year

| Rank | Market Players | Student Enrolments (Thousand Students) | Market Share |
|------|-----------------------|-------------------------------------------|--------------|
| 1 | University/College I | 31.4 | 0.51% |
| 2 | University/College J | 27.5 | 0.45% |
| 3 | Our University | 25.1 | 0.41% |
| 4 | University/College K | 24.0 | 0.39% |
| 5 | University/College L | 23.4 | 0.38% |

Source: Frost & Sullivan

Competitive Landscape of the Private Fundamental Education Market in Central China

By the end of 2015, the top five market players in the private fundamental education market in Central China together held 1.2% market share in terms of student enrolment. With a total number of 23,157 students enrolled in the private fundamental education, we were the largest market player in terms of student enrolment in the private fundamental education market in Central China in 2015, accounting for approximately 0.3% market share. The following table illustrates the ranking of the top five market players in the private fundamental education market in Central China in 2015/2016 school year:

Student Enrolments of Leading Players in Private Fundamental Education Market (Central China), 2015/2016 School Year

| Rank | Market Players | Student Enrolments (Thousand Students) | Market Share |
|------|------------------|-------------------------------------------|--------------|
| 1 | Our Group | 23.2 | 0.28% |
| 2 | Company E | 22.6 | 0.28% |
| 3 | Company F | 19.5 | 0.24% |
| 4 | Company G | 16.8 | 0.21% |
| 5 | Company H | 14.2 | 0.17% |

Source: Frost & Sullivan

ENTRY BARRIERS FOR THE PRC PRIVATE EDUCATION INDUSTRY

According to the Frost & Sullivan Report, the PRC private education industry has fairly high entry barriers. In particular, the high school market has relatively higher entry barriers, because students and parents place more emphasis on the reputation and education quality of the high schools due to the imminent needs of applying for universities. Therefore, full-coverage private education operators with reputable high schools will have more competitive advantages in the full-coverage private education market, as students tend to enrol in the primary schools operated by such operators at an early age to secure seats of the high schools within the same school systems in the future. Specific entry barriers are set forth below:

- **Approvals of the government:** School operators of private schools in the PRC are required to obtain and maintain a series of approvals, licences and permits issued by the relevant PRC governmental authorities. There are laws and regulations issued by the central and local governments regulating various matters of private school operations. The process to obtain approval is lengthy and complex, which becomes a natural barrier for the industry, especially for new school operators. Companies with track records of running private schools may therefore have advantages in applying for approvals for the government;

INDUSTRY OVERVIEW

- ***Brand awareness and source of students:*** For private schools, brand awareness is critical because it is one of the most important factors that parents and students consider when choosing schools. A private school with a long operating history and well-established reputation is more attractive to parents and students than new schools. Establishing brand awareness and reputation takes time and experience;
- ***Qualified teachers:*** The quality of education hinges largely on the quality of the teachers. Due to the demand for smaller class sizes and a general shortage of qualified and experienced teachers, school operators who wish to expand their existing schools or establish new schools are faced with pressure to attract and retain high-quality teachers. In addition, qualified teachers are usually more attracted to public schools and well-established private schools;
- ***Sufficient initial capital and long-term investment:*** The establishment of a school in the PRC requires a large initial capital investment for the acquisition of the land use rights and the construction of a campus and school facilities, as well as other related expenses. The establishment of a school also requires an on-going long-term investment commitment in addition to the initial capital outlay. Thus, school operators' ability to secure sufficient capital is critical; and
- ***Availability of land and relevant facilities:*** The availability of land and relevant facilities remains a challenge for new market entrants as a result of tight supply of available land in certain cities and regions in the PRC and the rising rental costs. A sufficient area of land and adequate school facilities are basic requirements to operate schools and have a direct impact on the class size and quality of education that school operators can offer. Based on the foregoing, considerable time and resources are required for school operators to establish new schools in a new location.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OVERVIEW

We established our first school, Zhengzhou YuHua Elite School, in 2001 under the name “the Affiliated High School of Peking University, Henan Branch” pursuant to the PKU Cooperation Agreement. Our Founder, Mr. Li, funded our first school with his own financial resources accumulated from operating a trading business. In 2005, we expanded to offer primary and kindergarten education through the establishment of Zhengzhou YuHua Elite Primary School and Zhengzhou YuHua Elite Bilingual Kindergarten. In 2009, we began offering higher education through Wanfang College in cooperation with Henan Polytechnic University (河南理工大學), which we subsequently converted to Zhengzhou Technology and Business University in 2016. In 2014, we entered into the PKU Termination Agreement to terminate the use of “the Affiliated High School of Peking University” brand name in connection with the rebranding of our schools as “YuHua”. We operated one university and 24 private schools for grades K-12 in 16 campuses as of the Latest Practicable Date. Approximately 48,220 students were enrolled in our schools in the 2015/2016 school year.

KEY MILESTONES

| Year | Event |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| 2001 | Our first school, Zhengzhou YuHua Elite School, began operation under the name “the Affiliated High School of Peking University, Henan Branch” |
| 2005 | Our first primary school and kindergarten, Zhengzhou YuHua Elite Primary School and Zhengzhou YuHua Elite Bilingual Kindergarten, began operation |
| 2009 | We began offering higher education services as our university, Wanfang College, commenced operations under our Group |
| 2011 | We expanded our operation outside Zhengzhou |
| 2012 | We began our centralised management of our “YuHua” brand name |
| 2014 | We entered into the PKU Termination Agreement to terminate the use of “the Affiliated High School of Peking University” brand name ⁽¹⁾ |
| 2016 | The MOE released approval for the conversion of the Zhengzhou Technology and Business University from Wanfang College ⁽²⁾ |

Notes:

- (1) See the section headed “Business — Overview of our Schools — Prior Cooperation with the Affiliated High School of Peking University” in this prospectus and the paragraph headed “— Prior Cooperation with the Affiliated High School of Peking University” in this section for further details.
- (2) See the section headed “Business — Overview of our Schools — Prior Cooperation with Henan Polytechnic University” in this prospectus and the paragraph headed “— Prior Cooperation with Henan Polytechnic University” in this section for further details.

OUR CONSOLIDATED AFFILIATED ENTITIES

Our PRC Holdcos

The following table sets out the details of our PRC Holdcos as of the Latest Practicable Date:

| Company | Establishment date | Registered capital | Principal business activities |
|------------------------------------------|--------------------|--------------------|---------------------------------------------------------|
| YuHua Investment Management | 23 November 1993 | RMB50,000,000 | Education investment (universities) |
| Zhengzhou YuHua Education Investments | 9 April 2004 | RMB50,000,000 | Education investment (primary, middle and high schools) |
| Zhengzhou Zhongmei Education Investments | 21 July 2011 | RMB50,000,000 | Education investment (kindergartens) |

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

YuHua Investment Management

YuHua Investment Management was established as a limited liability company under the laws of the PRC under the name “Hainan Yangpu Shuangxing International Trading Company Limited” (海南省洋浦雙星國際貿易有限公司) and with an initial registered share capital of RMB5,000,000. YuHua Investment Management changed its name to its current name on 19 February 2000, and was held as to 80% by Mr. Li and as to 20% by Ms. Liu Chunhua (劉春華) (the spouse of Mr. Li) from 16 February 2000 to 12 June 2016. Ms. Liu Chunhua transferred all her equity interests in YuHua Investment Management to Ms. Li for nil consideration on 12 June 2016. As of the Latest Practicable Date, YuHua Investment Management held, and was the sponsor of, Zhengzhou Technology and Business University.

Zhengzhou YuHua Education Investments

Zhengzhou YuHua Education Investments was established as a limited liability company under the laws of the PRC by Mr. Li and Ms. Liu Chunhua with an initial registered share capital of RMB20,000,000. Ms. Liu Chunhua transferred all her equity interests in Zhengzhou YuHua Education Investments for nil consideration on 19 April 2016. As of the Latest Practicable Date, Zhengzhou YuHua Education Investments held, and was the sponsor of, 16 schools.

Zhengzhou Zhongmei Education Investments

Zhengzhou Zhongmei Education Investments was established as a limited liability company under the laws of the PRC by Mr. Li, Ms. Li and Ms. Liu Chunhua with an initial registered share capital of RMB50,000,000. Ms. Liu Chunhua transferred all her equity interests in Zhengzhou Zhongmei Education Investments for nil consideration on 31 March 2016. As of the Latest Practicable Date, Zhengzhou Zhongmei Education Investments held, and was the sponsor of, eight kindergartens.

Mr. Li, Ms. Li and Ms. Liu Chunhua have been acting in concert under the instruction of Mr. Li since the establishment of the Group so that the PRC Holdcos have been throughout the Track Record Period and continue to be under the ultimate control of Mr. Li. Since the incorporation of the PRC Holdcos, all shareholders’ resolutions of the PRC Holdcos have been passed unanimously. Such concert party arrangement was confirmed by Mr. Li, Ms. Li and Ms. Liu Chunhua in writing on 18 August 2016.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our Schools

The date of commencement of operation and registered capital as of the Latest Practicable Date of each of our 25 schools are shown below:

| Campus | Commencement date of operation ⁽¹⁾ | Registered capital as of the Latest Practicable Date |
|------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------|
| University | | |
| Zhengzhou Technology and Business University ⁽²⁾ | September 2009 | RMB100,000,000 |
| High School | | |
| Zhengzhou YuHua Elite School | September 2001 | RMB20,000,000 |
| Jiaozuo YuHua Elite School | September 2011 | RMB10,000,000 |
| Luohe YuHua Elite School | September 2016 ⁽³⁾ | RMB10,000,000 |
| Middle School | | |
| Zhengzhou YuHua Elite School | September 2001 | RMB20,000,000 |
| Xingyang YuHua Shengshi Elite School | September 2011 | RMB1,000,000 |
| Jiaozuo YuHua Elite School | September 2011 | RMB10,000,000 |
| Kaifeng YuHua Elite School | September 2012 | RMB3,000,000 |
| Luohe YuHua Elite School | September 2013 | RMB10,000,000 |
| Xuchang YuHua Elite School | September 2014 | RMB3,000,000 |
| Jiyuan YuHua Elite School | September 2014 | RMB1,000,000 |
| Primary School | | |
| Zhengzhou YuHua Elite Primary School | September 2005 | RMB10,000,000 |
| Jiaozuo YuHua Elite School | September 2011 | RMB10,000,000 |
| Kaifeng YuHua Elite School | September 2012 | RMB3,000,000 |
| Luohe YuHua Elite School | September 2013 | RMB10,000,000 |
| Xuchang YuHua Elite School | September 2014 | RMB3,000,000 |
| Jiyuan YuHua Elite School | September 2014 | RMB1,000,000 |
| Kindergarten | | |
| Zhengzhou YuHua Elite Bilingual Kindergarten | September 2005 | RMB5,000,000 |
| Xingyang YuHua Elite Kindergarten | September 2011 | RMB1,000,000 |
| Xinxiang Weibin District YuHua Elite Kindergarten | September 2011 | RMB1,000,000 |
| Hebi Qibin District YuHua Elite Bilingual Kindergarten | September 2011 | RMB1,000,000 |
| Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten | September 2011 | RMB1,000,000 |
| Luohe YuHua Elite Bilingual Kindergarten | September 2013 | RMB1,000,000 |
| Xuchang Weidu District YuHua Elite Bilingual Kindergarten | September 2014 | RMB1,000,000 |
| Jiyuan YuHua Elite Bilingual Kindergarten | September 2014 | RMB1,000,000 |

Notes:

- (1) The date of commencement of operation refers to the date on which the university or school began classes.
- (2) Zhengzhou Technology and Business University was formerly known as Wanfang College. The date of commencement of operation of Zhengzhou Technology and Business University refers to the date of commencement of operation of Wanfang College.
- (3) As of 31 August 2016, the high school of Luohe YuHua Elite School had not commenced its operation. Its operation commenced in September 2016.

PRIOR COOPERATION WITH THE AFFILIATED HIGH SCHOOL OF PEKING UNIVERSITY

Before completion of the unification of the branding of our schools under “YuHua” in the second quarter of 2016, we marketed and operated certain schools of ours under the brand name “the Affiliated High School of Peking University” pursuant to the PKU Cooperation Agreement which was entered into in 2001. As a step to rebrand these schools as “YuHua” which is our own brand name that has been put into use since September

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

2015, we entered into the PKU Termination Agreement to terminate the use of “the Affiliated High School of Peking University” brand name. We have obtained the relevant approvals from the local education authorities for the change of names of the relevant schools and are in the process of obtaining the requisite updated certificates and permits with the new names. Our PRC Legal Adviser has advised that there is no legal impediment for us to obtaining these certificates and permits. See the section headed “Business — Overview of our Schools — Prior Cooperation with the Affiliated High School of Peking University” in this prospectus for further details of our prior cooperation with the Affiliated High School of Peking University.

PRIOR COOPERATION WITH HENAN POLYTECHNIC UNIVERSITY

On 22 April 2008, YuHua Investment Management entered into the HPU Cooperation Agreement with Henan Polytechnic University, an Independent Third Party. Pursuant to the HPU Cooperation Agreement, YuHua Investment Management established Wanfang College (since renamed Zhengzhou Technology and Business University) on its new, stand alone campus in Zhengzhou, Henan province in 2009.

Since its inception, Zhengzhou Technology and Business University has operated on a stand-alone basis on its own distinct campus, and has been accounted for as a separate business entity to Henan Polytechnic University. On 18 July 2015, YuHua Investment Management entered into the HPU Termination Agreement with Henan Polytechnic University to terminate the HPU Cooperation Agreement and its cooperation with Henan Polytechnic University, following which Zhengzhou Technology and Business University ceased to have any affiliation with Henan Polytechnic University whatsoever.

According to the Opinions of Ministry of Education to Establishment of Ordinary Tertiary Schools of Eleventh Five-year (《教育部關於“十一五”期間普通高等學校設置工作的意見》), the conversion of an independent college into a private higher education institution shall conform with the procedure for establishing a higher education institution. The Higher Education Law of the PRC and Interim Provisions on Establishment of Ordinary Undergraduate Schools (《普通本科學校設置暫行規定》) sets out the procedure for the establishment of an ordinary undergraduate school, which Zhengzhou Technology and Business University has followed in its conversion process. As required by the procedure, the board of directors of Wanfang College filed an application for conversion into a private higher education institution (i.e. Zhengzhou Technology and Business University) with the Henan Provincial Government and the MOE, and the MOE has released such approval to the Henan Provincial Government. Zhengzhou Technology and Business University is in the process of obtaining the new Permit for Operating a Private School (民辦學校辦學許可證) and Registration Certificate of a Privately Run Non-Enterprise Institution (民辦非企業單位登記證). As advised by our PRC Legal Adviser, there is currently no legal impediment for Zhengzhou Technology and Business University to obtaining these permits, and, in the meantime, we remain permitted to operate Zhengzhou Technology and Business University in all respects.

CORPORATE REORGANISATION

In preparation for the Global Offering and in order to streamline our corporate structure, we undertook the following reorganisation (the “**Reorganisation**”):

1. Incorporation of Offshore Group Companies

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 25 April 2016 with an authorised share capital of US\$50,000 divided into 50,000 shares with par value of US\$1.00 each.

On the same day, GuangYu Investment acquired one share from the incorporator at par value. Our Company then issued and allotted an additional 7,999 shares at par value to GuangYu Investment and an aggregate of

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

2,000 shares at par value to five companies which held the shares for GuangYu Investment as nominees. On 7 July 2016, to terminate the nominee arrangement, the five companies transferred their respective interests in the issued share capital of the Company to GuangYu Investment at par value. Upon completion of these transfers, GuangYu Investment owned all of the issued share capital of our Company.

On 7 September 2016, the authorised share capital of our Company was increased by HK\$500,000 divided into 50,000,000,000 Shares. On the same day, our Company allotted and issued 2,250,000,000 Shares to GuangYu Investment for a subscription price of HK\$22,500. Immediately following the allotment and issue of the 2,250,000,000 Shares, our Company repurchased 10,000 shares of par value US\$1.00 each from GuangYu Investment at an aggregate consideration of HK\$22,500 which was paid out of the proceeds of the aforesaid subscription. Immediately following the repurchase, the authorised share capital of our Company was reduced by the cancellation of 50,000 shares of par value of US\$1.00 each and became HK\$500,000 divided into 50,000,000,000 Shares.

BVI YuHua

BVI YuHua was incorporated as a limited liability company under the laws of the BVI on 28 April 2016 with an authorised share capital of US\$50,000 divided into 50,000 shares with par value of US\$1.00 each. On the same day, one share of BVI YuHua was issued and allotted to our Company at par value.

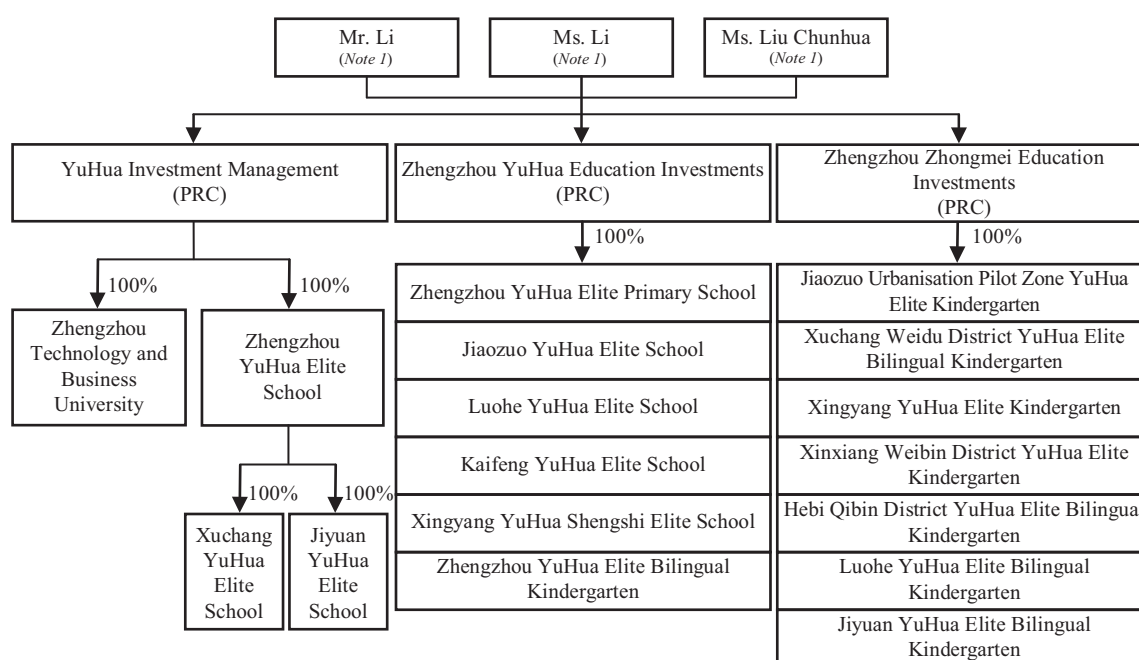
HongKong Yuhua

HongKong Yuhua was incorporated as a limited liability company under the laws of Hong Kong on 12 May 2016 with a share capital of HK\$1,000 divided into 1,000 shares of HK\$1.00 each. BVI YuHua was the sole founding member and the holder of 1,000 shares.

2. Reorganisation within our Consolidated Affiliated Entities

Between March 2016 to June 2016, we undertook the following reorganisation within our consolidated affiliated entities so as to streamline our corporate structure.

The following chart shows the Group structure immediately before the reorganisation within our consolidated affiliated entities:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Note:

- (1) Immediately prior to the Reorganisation, YuHua Investment Management was owned by Mr. Li as to 80% and Ms. Liu Chunhua as to 20%, Zhengzhou YuHua Education Investments was owned by Mr. Li as to 36%, Ms. Li as to 60% and Ms. Liu Chunhua as to 4%, and Zhengzhou Zhongmei Education Investments was owned by Mr. Li as to 60%, Ms. Li as to 20% and Ms. Liu Chunhua as to 20%.

Transfers of equity interests in our PRC Holdcos

Since the establishment of our first school, all three PRC Holdcos have been under the control of Mr. Li, Ms. Li (the daughter of Mr. Li) and Ms. Liu Chunhua (the spouse of Mr. Li). In preparation for the Global Offering, Ms. Liu Chunhua transferred all her equity interests in our PRC Holdcos to Ms. Li for nil consideration. The following table sets out the shareholding structure of all three PRC Holdcos before and after the equity transfers:

| Company | Equity interests before transfer | Equity interests after transfer | Completion date of transfer |
|------------------------------------------|-------------------------------------------------|---------------------------------|-----------------------------|
| YuHua Investment Management | Mr. Li 80% Ms. Liu Chunhua 20% | Mr. Li 80% Ms. Li 20% | 12 June 2016 |
| Zhengzhou YuHua Education Investments | Mr. Li 36% Ms. Li 60% Ms. Liu Chunhua 4% | Mr. Li 36% Ms. Li 64% | 19 April 2016 |
| Zhengzhou Zhongmei Education Investments | Mr. Li 60% Ms. Li 20% Ms. Liu Chunhua 20% | Mr. Li 60% Ms. Li 40% | 31 March 2016 |

Transfers of schools between our PRC Holdcos

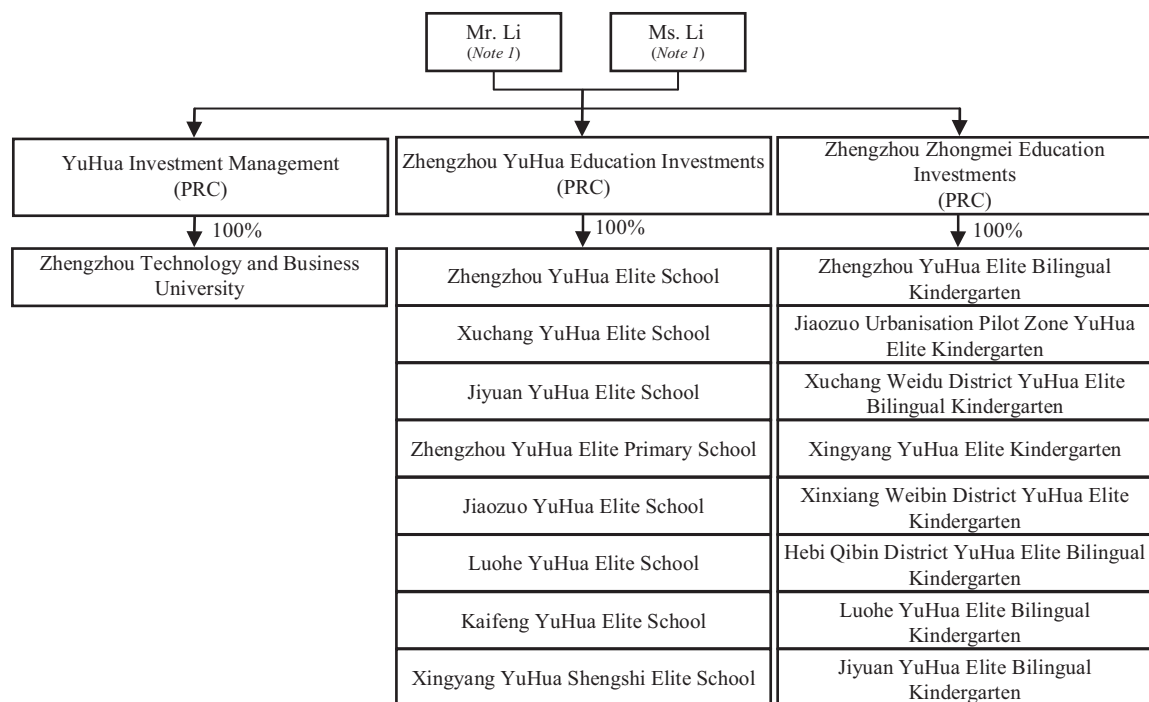
The following were key steps of the transfers of our schools:

- (i) The transfer of Xuchang YuHua Elite School from Zhengzhou YuHua Elite School to Zhengzhou YuHua Education Investments was completed on 10 March 2016 for nil consideration.
- (ii) The transfer of Jiyuan YuHua Elite School from Zhengzhou YuHua Elite School to Zhengzhou YuHua Education Investments was completed on 10 March 2016 for nil consideration.
- (iii) The transfer of Zhengzhou YuHua Elite School from YuHua Investment Management to Zhengzhou YuHua Education Investments was completed on 4 May 2016 for nil consideration.
- (iv) The transfer of Zhengzhou YuHua Elite Bilingual Kindergarten from Zhengzhou YuHua Education Investments to Zhengzhou Zhongmei Education Investments was completed on 7 June 2016 for nil consideration.

According to the Law for Promoting Private Education of the PRC (Amended in 2013) (《中華人民共和國民辦教育促進法》(2013年修訂)), the sponsor of a private school shall initiate the change of sponsor of a private school and obtain approval from the relevant competent education authority. Following the examination and approval by the competent education authority, the private school shall file and register the change of the sponsor with the Ministry of Civil Affairs of the PRC (the “MCA”) or its local counterparts where the private school is registered as a privately run non-enterprise institution (民辦非企業單位). As advised by our PRC Legal Adviser, the transfers of equity interests in our PRC Holdcos, transfers of schools and change of sponsors of the schools transferred as set out above have been duly effected in accordance with all applicable laws and regulations in the PRC.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart shows the structure of our consolidated affiliated entities immediately after the transfers set out above:



Note:

- (1) YuHua Investment Management is owned by Mr. Li as to 80% and Ms. Li as to 20%. Zhengzhou YuHua Education Investments is owned by Mr. Li as to 36% and Ms. Li as to 64%. Zhengzhou Zhongmei Education Investments is owned by Mr. Li as to 60% and Ms. Li as to 40%.

3. Establishment of WFOE

On 22 July 2016, WFOE was established in the PRC as a wholly-foreign owned enterprise with a registered capital of US\$500,000, which was wholly-owned by HongKong Yuhua.

4. Entry into of the Contractual Arrangements

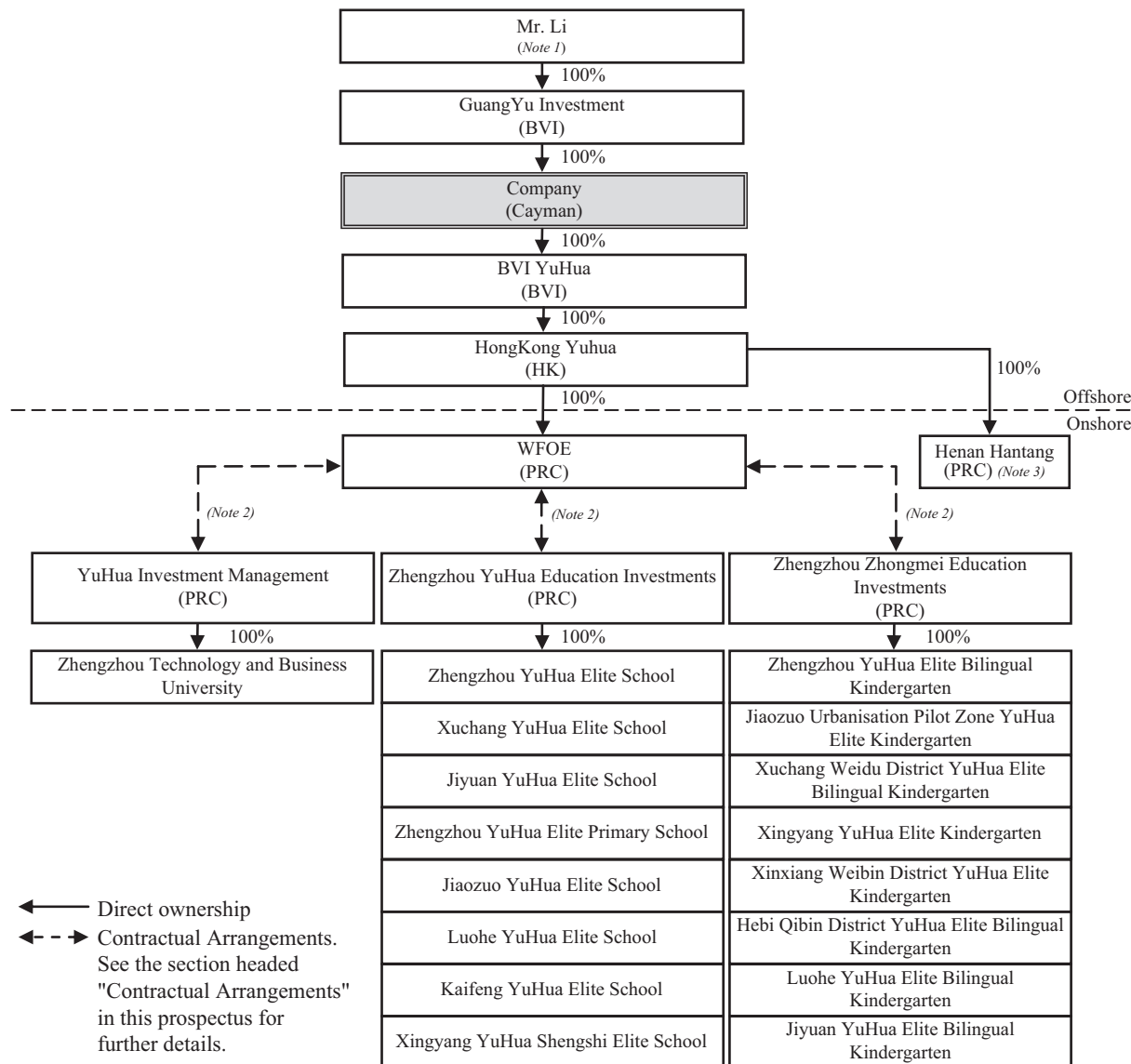
On 7 September 2016, WFOE and other parties entered into various agreements which constitute the Contractual Arrangements with our PRC Holdcos, under which all economic benefits arising from the business of our consolidated affiliated entities are transferred to WFOE to the extent permitted under the PRC laws and regulations by means of services fees payable by our PRC Holdcos to WFOE. See the section headed “Contractual Arrangements” in this prospectus for further details of the Contractual Arrangements.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

Corporate structure after the Reorganisation and before the Global Offering

The following chart depicts the shareholding and beneficial ownership structure of our Group immediately following the Reorganisation and prior to the completion of the Global Offering:



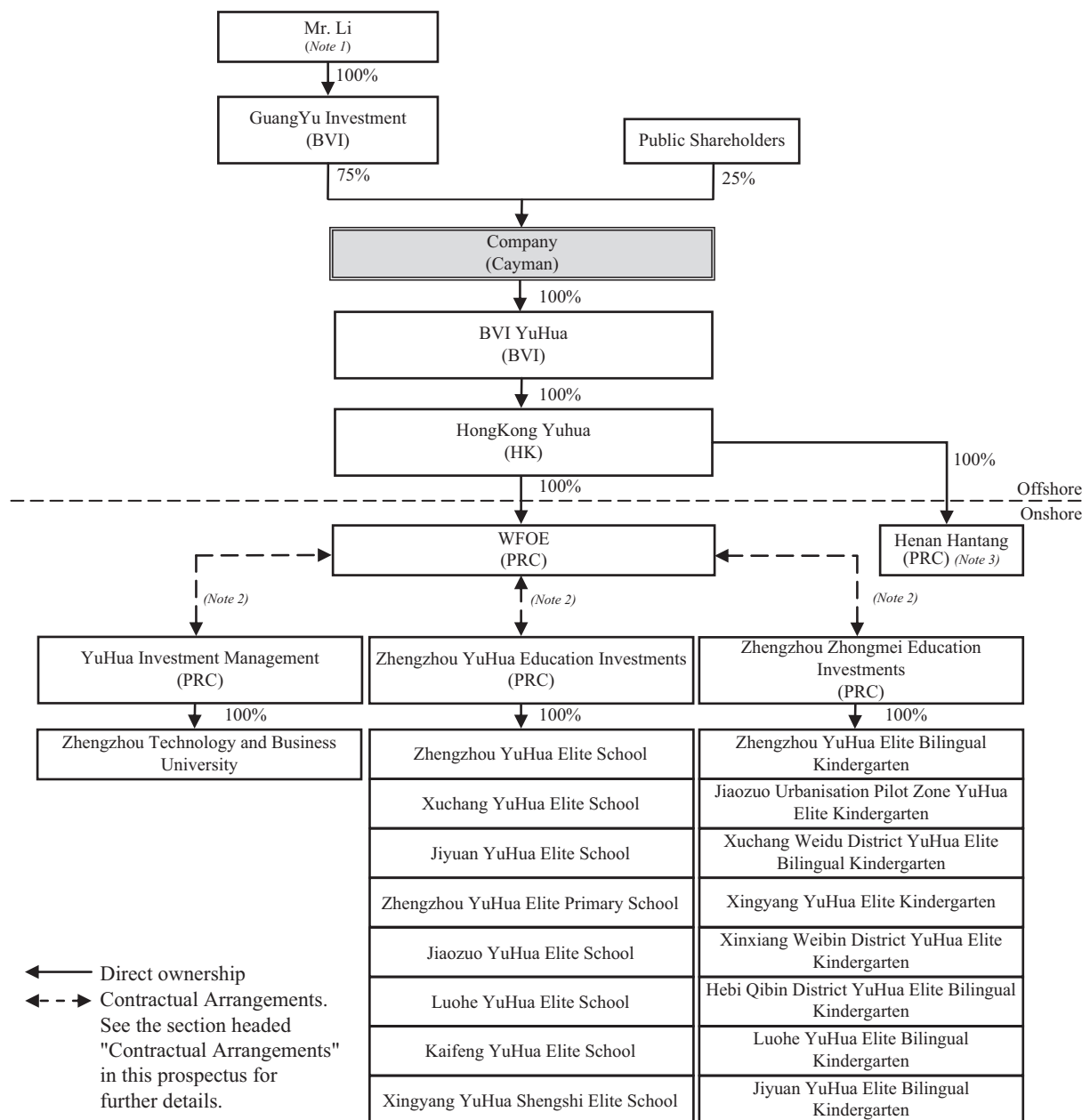
Notes:

- (1) Mr. Li, as settlor, controls GuangYu Investment through a trust established for the benefit of, among others, Mr. Li, Ms. Li and other beneficiaries as nominated by Mr. Li from time to time.
- (2) YuHua Investment Management is owned by Mr. Li as to 80% and Ms. Li as to 20%. Zhengzhou YuHua Education Investments is owned by Mr. Li as to 36% and Ms. Li as to 64%. Zhengzhou Zhongmei Education Investments is owned by Mr. Li as to 60% and Ms. Li as to 40%. To consolidate our control of our consolidated affiliated entities, we entered into the Contractual Arrangements with Mr. Li, Ms. Li and our PRC Holdcos. See the section headed "Contractual Arrangements" in this prospectus for further details.
- (3) Henan Hantang was established on 8 August 2016.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate structure immediately following the Global Offering

The following chart depicts the shareholding and beneficial ownership structure of our Group immediately following the completion of the Global Offering, assuming that the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are awarded under the Share Award Scheme:



Notes:

- (1) Mr. Li, as settlor, controls GuangYu Investment through a trust established for the benefit of, among others, Mr. Li, Ms. Li and other beneficiaries as nominated by Mr. Li from time to time.
- (2) YuHua Investment Management is owned by Mr. Li as to 80% and Ms. Li as to 20%. Zhengzhou YuHua Education Investments is owned by Mr. Li as to 36% and Ms. Li as to 64%. Zhengzhou Zhongmei Education Investments is owned by Mr. Li as to 60% and Ms. Li as to 40%. To consolidate our control of our consolidated affiliated entities, we entered into the Contractual Arrangements with Mr. Li, Ms. Li and our PRC Holdcos. See the section headed "Contractual Arrangements" in this prospectus for further details.
- (3) Henan Hantang was established on 8 August 2016.

SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知, “**Circular 37**”), promulgated by SAFE and which became effective on 4 July 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知, “**Circular 13**”), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Adviser, Mr. Li completed the registration under Circular 13 and Circular 37 on 24 June 2016.

OVERVIEW

We were the largest provider of private education from kindergarten to university in China by student enrolments in the 2015/2016 school year, according to the Frost & Sullivan Report. We had 48,220 students enrolled at our schools for the 2015/2016 school year, giving us a market share of approximately 0.11% in the fragmented PRC private education industry according to the Frost & Sullivan Report. Our University, Zhengzhou Technology and Business University, had 25,063 students enrolled in the 2015/2016 school year, while our 24 “YuHua” branded private schools for K-12 on 16 campuses had an aggregate of 23,157 students enrolled in the same school year. With our significant scale and extensive experience in the private education industry, we believe we are well-placed to benefit from growth and consolidation within the fragmented private education industry.

All of our schools are located in Henan Province, a province that has the largest registered population and generated the fifth largest GDP of RMB3.7 trillion among all provinces in China in 2015, according to the Frost & Sullivan Report. The favourable demographics of Henan Province have facilitated the growth of our school network from our inception in 2001 with a single high school to one University and 24 K-12 schools across nine cities with 48,220 students in the 2015/2016 school year. We intend to continue to strengthen our leading position in Henan Province as well as to selectively expand to the surrounding regions of Henan Province. We believe our advanced and established management system has supported our previous business expansion and, together with the growing recognition of our “YuHua” brand, will continue to help us successfully replicate our operating model in new markets.

Our University education and K-12 education are designed to serve different target groups and achieve distinct learning outcomes. Our University offers comprehensive tertiary level education aimed at equipping our students with the practical knowledge and skills to prosper in their careers. Our University has established a strong reputation and achieved the fastest growth among the five largest private higher education institutions in terms of student enrolment in the PRC over its seven years of development. According to the Frost & Sullivan Report, our University had the third highest student enrolments in the 2015/2016 school year among private higher education institutions in China. In February 2016, our University ranked second in terms of overall strength in the Independent College category of the PRC university rankings published by the China University Alumni Association. Our University’s Initial Employment Rate was 91.3%, 91.0% and 83.3% in 2013, 2014 and 2015, respectively. In contrast, the Initial Employment Rate of colleges and universities in China as a whole was 77.4%, 77.5% and 77.7% in 2013, 2014 and 2015, respectively, according to the Frost & Sullivan Report. We attribute our high employment rate to our strong focus on career services, the high quality of our curriculum that adapts to changes in industry demands and our close collaboration with prospective employers.

Our K-12 schools provide education from kindergarten to high school, allowing us to attract students at an early age and create a stable and sustainable student pipeline. We emphasise the well-rounded development of our students and have structured our curriculum to ensure the high quality of our education and inspire and encourage our students to explore their individual interests. Our K-12 schools are also committed to maximising our students’ opportunities to enter top-tier universities in China and reputable colleges and universities abroad. For example, for the Gaokao administered in 2014, 2015 and 2016, approximately 17.7%, 11.4% and 14.2% of our participating high school students were admitted into Tier One Universities in China, respectively, including Peking University, Tsinghua University and Fudan University, among others. This compares to approximately 8.1%, 8.2% and 9.1%, respectively, of the graduating high school students of Henan Province admitted to first tier universities (which include all Tier One Universities) in China for the same period, according to the Frost & Sullivan Report. Since our inception in 2001, our high schools have had a total of 12 students who achieved the highest score at the provincial or municipal level in the Gaokao, more than any other private school operator in Henan Province. Those students were recognised as Zhuangyuan (狀元), which is known as the highest academic achievement in the Gaokao. We believe our students’ accomplishments are viewed as a strong endorsement of our teaching quality and have greatly enhanced our reputation. Our high school graduates have also previously been admitted to well-recognised colleges and universities overseas, including the University of California, Berkeley, the University of Nottingham and the University of Sydney.

BUSINESS

We have experienced significant growth in our student enrolments, revenue, gross profit and Adjusted Net Profit over the Track Record Period. Our overall student enrolment grew from 35,431 for the 2013/2014 school year to 48,220 for the 2015/2016 school year. Our revenue increased from RMB599.3 million for the year ended 31 August 2014 to RMB697.7 million for the year ended 31 August 2015, and further to RMB781.3 million for the year ended 31 August 2016. Our gross profit increased from RMB266.8 million for the year ended 31 August 2014 to RMB318.3 million for the year ended 31 August 2015, and further to RMB406.2 million for the year ended 31 August 2016. Our profit for the year decreased from RMB207.8 million for the year ended 31 August 2014 to RMB91.2 million for the year ended 31 August 2015, and then increased to RMB311.7 million for the year ended 31 August 2016. Our Adjusted Net Profit increased from RMB207.8 million for the year ended 31 August 2014 to RMB245.1 million for the year ended 31 August 2015, and further to RMB322.1 million for the year ended 31 August 2016. For discussions of Adjusted Net Profit, see the section headed “Financial Information — Non-IFRS Measure” in this prospectus.

OUR COMPETITIVE STRENGTHS

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

We are the largest provider of private education from kindergarten to university in China

We were the largest private school operator of kindergarten to university education in China in terms of student enrolments in the 2015/2016 school year, according to the Frost & Sullivan Report. We launched our first school in Zhengzhou, Henan Province in 2001. Since then, we have rapidly developed a large student base through the expansion of our school network in Henan Province, which has the highest student enrolments among all provinces in China. We operate one university and 24 K-12 schools in 16 campuses across nine cities that enrolled a total of 48,220 students in the 2015/2016 school year. We believe our significant scale and extensive experience in operating private schools to a high standard, together with the trust that we have gained from students, parents and teachers, position us well to further enhance our brand awareness, increase our market share in existing markets and enter new markets with strong demand for high-quality education.

Our University ranked third among private higher education institutions in China in terms of student enrolments in the 2015/2016 school year, according to the Frost & Sullivan Report. Over the past seven years of development, our University has achieved the fastest growth among the five largest private higher education institutions in terms of student enrolments in the PRC. Since commencing operations in the 2009/2010 school year, our University has grown its student enrolments to 25,063 in the 2015/2016 school year, representing an average annual growth of approximately 3,580 students which is higher than the average annual growth in student enrolments of 300 students per private university/college in China from the 2008/2009 school year to the 2015/2016 school year, according to the Frost & Sullivan Report.

Our K-12 schools cover the full range of private fundamental education from kindergarten to high school, allowing us to attract students at an early age and maintain a stable student pipeline. We estimate that the percentage of students graduating from our kindergartens who continued to attend our primary schools, from our primary schools to attend our middle schools, and from our middle schools to attend our high schools ranged approximately from 85% to 95% (as calculated based on only schools located on the same or adjacent campuses) during the Track Record Period. We were the largest private K-12 school operator in Central China in terms of student enrolments in the 2015/2016 school year according to the Frost & Sullivan Report. Our K-12 schools experienced significant growth in student enrolments during the Track Record Period, growing from 15,863 in the 2013/2014 school year to 23,157 in the 2015/2016 school year.

As an education group providing kindergarten through university education, we are able to accommodate the educational needs of students of different grade levels. We believe the comprehensiveness of our school system enhances our reputation and the attractiveness of our schools and is essential for the maintenance of our market position and overall competitiveness. In addition, the economies of scale garnered through our large and still growing school network, together with our centralised management system, have lowered the average administrative costs of our schools. Our enhanced reputation in and beyond the region as well as the reduced marginal administrative costs of new schools would, in turn, expedite our school network expansion.

Our outstanding reputation underpins our high business visibility, providing a strong platform for our business growth

We believe the visibility of our business's growth hinges largely on our ability to continuously attract students to our schools at the premium fees we charge, which in turn is built on our outstanding reputation and brand. During the Track Record Period, the number of admission applications consistently exceeded the number of seats we offered in our schools, which reflects our strong reputation as a provider of high-quality private education. For example, for the 2015/2016 school year, the admission rate for our Zhengzhou YuHua Elite School (high school), Zhengzhou YuHua Elite School (middle school), Zhengzhou YuHua Elite Primary School (primary school) and Zhengzhou YuHua Elite Bilingual Kindergarten (kindergarten) was 20.0%, 23.0%, 30.0% and 35.0%, respectively. Our University had a utilisation rate of 83.5% for the 2015/2016 school year, which demonstrates strong demand for places at our University. Our Grade 1-12 coverage provides us with the ability to attract students at an early age and retain them within our school system as they progress through their education. Our six primary schools, with total enrolments of 7,241 students for the 2015/2016 school year, forms the basis for our Grade 1-12 school pipeline. Our eight kindergartens recorded an average utilisation rate of 76.6% for the 2015/2016 school year despite two of them having newly opened in the 2014/2015 school year. We believe our experienced and dedicated teachers as well as essential-qualities-oriented schooling principle in each of our K-12 schools and our University, combined with our leading position in the private education market, allow us to attract and maintain a large student base.

We believe that the excellence of our education services is manifested by our ability to charge higher tuition than public schools and most private schools. For the 2015/2016 school year, the listed tuition fees charged for bachelor's degree programmes and junior college diploma programmes of our University were RMB13,100 ~ RMB15,100 and RMB8,900, respectively, which was generally higher than the average tuition level of private universities in Henan Province. According to the Frost and Sullivan Report, the average tuition fees, including miscellaneous fees, per student for bachelor's degree programmes and junior college diploma programmes of private universities in Henan Province were RMB10,840 and RMB7,060, respectively. According to the Frost & Sullivan Report, the annual average tuition fees, including miscellaneous fees, in private high schools, middle schools, primary schools and kindergartens in China were estimated to be RMB7,719, RMB3,289, RMB2,567 and RMB3,235, respectively, in the 2015/2016 school year, while the listed tuition fees, including boarding fees if any, of our high schools, middle schools, primary schools and kindergartens were RMB19,500~RMB33,500, RMB12,000~RMB33,500, RMB14,000~RMB34,000 and RMB16,000~RMB32,500, respectively, in the 2015/2016 school year.

Our reputation for providing high-quality education is commensurate with the premium fees we charge. Our ability to attract and retain students through our school system — and be able to charge our tuition fee corresponding to the great education services we offer to our students — provides us with high visibility regarding future enrolments, revenues and cash flows, which in turn serves as a platform for our planned future growth.

The courses and curriculum we offer cater to the educational needs of both our University and K-12 students and students' families

The quality of education that we provide and the outcomes we achieve for our students are critical to our success. We have structured our curriculum to ensure the high quality of our education and inspire and encourage our

students to explore their individual interests. Due to the different nature, target groups and educational philosophies, the curriculums of our University and K-12 schools have distinct structures, subjects, intended learning outcomes and learning and teaching methods.

As a private higher education institution, in order to compete more effectively with other public higher education institutions, our University emphasises the practical application of knowledge so that students stand out in the job market upon graduation and thrive in their careers. We offer approximately 850 public courses, basic courses, specialised courses and elective courses, with many courses and programmes specifically tailored to cater towards current and foreseeable job market trends. For example, we own a simulated aircraft cabin to provide practical training to students enrolled in the in-flight service major of the art department of our University. The focus of our University on tailoring courses to the demands of the workforce has been effective and is reflected in the higher Initial Employment Rate of our graduates in comparison with those university graduates in China as a whole in 2013, 2014 and 2015, according to the Frost & Sullivan Report. We believe the evolving and practical courses offered by our University benefit the career development of our graduates, thus enhancing our potential University enrolments nationwide.

Our K-12 schools focus on providing high-quality education services to a sizable and expanding addressable market, encompassing families in the growing middle and upper-middle classes, who have enhanced awareness of the importance of education and are able to afford high-quality education. The quality of the K-12 education we provide is reflected in the outstanding achievements of our students. For the Gaokao administered in 2014, 2015 and 2016, approximately 17.7%, 11.4% and 14.2% of our participating high school students were admitted to Tier One Universities in China, including several students who were accepted into Peking University, Tsinghua University and Fudan University. This compares to approximately 8.1%, 8.2% and 9.1%, respectively, of the graduating high school students of Henan Province admitted to first tier universities (which include all Tier One Universities) in China for the same periods according to the Frost & Sullivan Report. Since 2001, 12 students of our high schools achieved the highest score at the provincial or municipal level in the Gaokao and been recognised as Zhuangyuan (狀元), which is known as the highest academic achievement in the Gaokao. Academic achievements of our high school students are also well recognised by respected overseas colleges and universities with several of our students admitted to various well-recognised overseas colleges and universities, including, among others, the University of Toronto, the University of Nottingham and the University of Sydney, during the Track Record Period.

In addition to the mandatory K-12 courses, our K-12 school curriculum is distinguished by its diverse elective courses designed to foster well-rounded personalities and nourish the individual talents of our students. Our elective courses include a variety of art courses, such as acting and performance, broadcasting and hosting, film directing and folk dance, as well as international courses such as English, Japanese and Korean language and culture courses. The success of our elective courses has resulted in 152, 169 and 150 of our high school graduates being accepted into art or physical education schools or art or physical education majors of reputable PRC universities in the Gaokao administered in 2014, 2015 and 2016. Our international course portfolio is designed to create a global mindset for our students and help them achieve sustainable success against the backdrop of globalisation. We believe our dynamic and multifaceted educational philosophy and essential-qualities-oriented schooling differentiate us from public schools, which predominantly focus on preparing students for standardised tests. These features of our education are particularly attractive to the rising number of middle- and upper-middle- class families in China who pay more attention to the well-rounded development of their children.

Our centralised management system, unique corporate culture and effective management skills enable us to successfully replicate our highly scalable business model in new markets

Since our inception, we have been committed to adopting modern enterprise management systems to efficiently manage our schools. As our school network has expanded significantly over the past decade, we believe our commitment to centralised and standardised management is even more essential to the success of our business.

The core aspects of our schools' operations, such as finance, marketing, human resources, procurement, assets, outsourcing services and student enrolments, are managed centrally by our Group. Although each of our schools is managed on a day-to-day basis by a principal assisted by several vice principals, we provide detailed policies and guidelines to assist with the management of daily operations and teaching activities of our schools. Our principals are required to report to our senior management on a weekly basis, providing our senior management with direct access to the information critical to our day-to-day operations. We have also fostered a corporate DNA of collaboration, accountability and efficiency and created a family-like business culture and a sense of connection and belonging within our Group, which has been successfully instilled into the ethos of our headquarters management and each of our schools and helped us maintain a low teacher turnover rate during the Track Record Period. Our core ethos is also instilled in each new school we have opened through our talent reserve programme, which involves a dedicated group of experienced teachers and administrative staff from within our existing schools who are partnered with, and work alongside, newly recruited teachers and other staff in the lead-up to the opening of a new school and for a period thereafter. We believe our centralised management and unique corporate culture help us efficiently allocate resources among our schools, keep a focused vision at all levels of our Group, smoothly execute our business strategies, enhance our operating efficiency and ensure a consistent education quality throughout our school network.

With the extensive experience in the private education industry accumulated in the early years of our operations, we integrated our University smoothly into our school network after we established Wanfang College, the predecessor of our University, in 2009. Leveraging our centralised management systems and standardised management guidelines, our University has achieved average annual growth in student enrolments of approximately 3,580 over each of the past seven years, which is higher than the industry average of approximately 300 students per year, according to the Frost & Sullivan Report. With the support of our talent reserve programme, we grew our K-12 school network from 17 schools as of 31 August 2014 to 24 schools as of 31 August 2016. We believe our advanced and established management system, unique corporate culture and effective management skills have supported our previous business expansion and will continue to help us successfully replicate our operating model in new markets.

We have an experienced management team with a long and proven track record in the private education industry in China

We believe our management team was among the earliest to enter the PRC private education industry with a modern enterprise management mindset and skills. Our Founder and chairman, Mr. Li, established our first school in Zhengzhou in 2001 and has since led the expansion of our school network from a single high school into one university and 24 K-12 schools. Our executive Director and chief executive officer, Ms. Li, joined our Group in 2009. Both Mr. Li and Ms. Li have extensive knowledge and experience in managing private schools and a deep understanding of the PRC private education industry.

The commitment and achievements of our chairman and chief executive officer in the development of the private education sector in China and our business lie beneath our success, which, in turn, has earned them significant recognition. Mr. Li serves as a representative of the National People's Congress of the PRC (全國人民代表大會), the vice chairman of the Chinese Association for Non-Government Education (中國民辦教育協會) and has been awarded the title of National Model Worker (全國勞動模範). Ms. Li serves as a representative of the Zhengzhou Municipal People's Congress (鄭州市人民代表大會), a member of the National Committee of the All-China Youth Federation (中華全國青年聯合會) and a representative of the National Representative Conference of Communist Youth League of China (中國共青團全國代表大會).

We also have a team of seasoned senior and mid-level management, including principals, head teachers, managers and department directors, many of whom have been in the education industry for years and have substantial experience in school management. The vast majority of our senior and mid-level management joined us at the beginning of their careers as junior teachers and staff and have been promoted internally to management level through our review and promotion system. We strive to provide our employees opportunities to grow with

our Company, as we believe they can gain a deep understanding of our business, culture and value and will be equipped with an ownership mentality through such a process.

OUR BUSINESS STRATEGIES

We aspire to become a pre-eminent leader in private education in China, applying the time-tested expertise we have garnered to provide a growing number of students with the knowledge, skills, values and opportunities to prosper in their lives. We also aspire to maintain and strengthen our position as the largest education group offering kindergarten to university private education in China. To achieve this goal, we plan to pursue the following business strategies:

Strategically expand our school network within Henan Province and into other attractive markets

Our strategically located schools, together with our teaching staff, are the core assets of our operations. We intend to further expand our school network to enhance our geographic coverage, increase student enrolments and bolster our business growth.

With respect to geography

We intend to build or acquire additional schools in Henan Province to further capitalise on the opportunities that its large and growing middle class provides. We believe our deep understanding of the Henan private education market, proximity of our existing operations, close relationships with local governments, teachers and families and position as market leader are highly favourable to our continued successful expansion in Henan Province. We intend to focus on the cities within Henan Province that we do not currently have a presence. Depending on the target city's economic conditions, population and competitive landscape, we may either acquire existing schools and upgrade their facilities to meet our standards or build new schools. We also intend to expand our school network into other developed regions of China with attractive market opportunities through establishing our own new schools or selective acquisitions. To the extent possible, we plan to prioritise our expansion to the surrounding regions of Henan Province due to the proximity to our existing markets.

With respect to school type

We plan to add new universities primarily through acquisitions. Given our extensive operational experience in private university management, we intend to acquire suitable private universities and put them on a path of rapid development with our effective management skills. We intend to continue to identify and assess potential targets meeting the following criteria: (i) no less than 10,000 enrolled students; (ii) located in our preferred regions; and (iii) with a preference towards medical schools or normal schools (師範學院). As of the Latest Practicable Date, we had not identified any specific acquisition target. We may also consider building new universities by partnering with renowned foreign universities. See the strategy headed in this section “— Establish cooperation with renowned foreign education institutions and expand our international course offerings”.

With respect to K-12 schools, we plan to add more high schools on vacant land within our existing school campuses in the next three years to meet the needs of graduating students at our middle schools to stay in our “YuHua” school system. Specifically, we plan to establish a high school in each of our Xuchang YuHua Elite School campus, Kaifeng YuHua Elite School campus and Jiyuan YuHua Elite School campus each with a planned capacity of approximately 3,000 students. As of 31 August 2016, we had seven middle schools with a total capacity of 17,800 students but only three high schools with a total capacity of 7,900 students. By increasing our high school capacity, we will be able to retain more graduates of our middle schools to pursue further education within our school system. While all the three planned new high schools will be located in our existing campuses, the existing teaching buildings in these campuses have extra capacity to accommodate the students to be enrolled in these new high schools. We plan to invest up to an aggregate of approximately RMB36.0 million to construct certain additional student dormitories and other ancillary teaching facilities in these three new high schools.

BUSINESS

The table below sets forth the details of the buildings expected to be constructed for our new high schools and the associated costs:

| Campus | Type of Building/Facility | Number | Capacity | Cost |
|-----------------------------------|-------------------------------|-----------------------------------------------|-------------------------------|-------------------------------|
| Xuchang Yuhua Elite School Campus | Student Dormitory | 1 | Approximately 2,000 students | Approximately RMB10.0 million |
| | Ancillary teaching facilities | Depending on the needs of teaching activities | N/A | Approximately RMB2.0 million |
| | Total | | | Approximately RMB12.0 million |
| Kaifeng Yuhua Elite School Campus | Student Dormitory | 1 | Approximately 2,000 students | Approximately RMB10.0 million |
| | Ancillary teaching facilities | Depending on the needs of teaching activities | N/A | Approximately RMB2.0 million |
| | Total | | | Approximately RMB12.0 million |
| Jiyuan Yuhua Elite School Campus | Student Dormitory | 1 | Approximately 2,000 students | Approximately RMB10.0 million |
| | Ancillary teaching facilities | Depending on the needs of teaching activities | N/A | Approximately RMB2.0 million |
| | Total | | | Approximately RMB12.0 million |
| Total cost | | | Approximately RMB36.0 million | |

We expect the payback time of these three new high schools to be generally in line with that of our existing schools, which was around five to seven years. We expect the construction of our new high schools to be funded by the proceeds of the Global Offering. See the section headed “Future Plans and Use of Proceeds” for more information. As a result, we expect to incur higher capital expenditures over the construction period and our depreciation costs are expected to increase. We may experience a short term decrease in our gross margin due to our expansion, but with our student enrolment in our new schools ramping up, we expect our gross margin to return to a level consistent with that was achieved during the Track Record Period.

In the longer term, we plan to selectively transition from our current model of generally owning all the premises that our schools occupy, to an asset-light model of expanding our K-12 school network primarily through cooperating with third party partners. By taking this approach, we believe we will be able to reduce capital outlay in establishing new schools while generating higher returns on capital. We expect our potential third party partners including, among others, local governments, property developers and other public and private school owners, to provide land use rights to the campus sites and build necessary school facilities that meet our standards, while we will operate and manage the new schools and provide teachers. We will collect the tuition fees from the students enrolled in the new schools and pay rent to our potential third party partners for the use of

campus site and relevant buildings by the new schools. We believe we will be able to expedite our expansion process and increase our revenue with the asset-light model. We expect such rent as a percentage of our total cost of revenue to increase as a result of our gradual adoption of the asset-light model.

We may also consider building or acquiring certain K-12 schools in desirable locations. We will take into consideration the following criteria when identifying acquisition targets: (i) general economic conditions of the city in which a target school is located; (ii) demand for private education in the city and its neighbouring areas; (iii) level of government support in promoting private education; (iv) valuation of the target school; and (v) growth potential of the target school. As of the Latest Practicable Date, we had not identified any specific acquisition target or entered into any definitive agreement with any third party.

Further increase the capacity and utilisation rate of our existing schools

A portion of the land underlying our campuses is unused, which provides us with the scope to build more dormitories, teaching buildings and other necessary facilities to accommodate additional students that we intend to enrol in the future and drive further growth in our revenue. In addition, certain schools of ours have been established only recently and have not reached their full capacity. We intend to increase their utilisation rate by recruiting more students, which will not materially increase fixed costs, resulting in lower per student costs and improved margins.

With respect to the universities, we intend to increase the capacity of our University by expanding our campus and aim to increase student enrolment to improve the utilisation rate of our University. In particular, we plan to construct additional buildings on our existing University campus. In view of the additional school facilities to be developed in line with our campus development plan, we expect the capacity of our University to continue to grow. The admission quota for universities for each school year is approved by the relevant education regulatory authorities. We may apply for an additional annual admission quota in the future, taking into account various factors, including, among others, the demand for places in our University, the capacity of our University and our operating efficiency. With respect to K-12 schools, we intend to focus on increasing the capacity of our existing K-12 schools by constructing additional school facilities on the unused land in response to the increasing number of applications for admission to our K-12 schools.

Continue to upgrade the quality of education, enhance our reputation and brand, optimise our pricing and improve our profitability

Our student enrolment has, to date, been driven primarily by word-of-mouth referrals. Therefore the quality of our education and image of our brand are crucial to our business growth. We intend to continue to enhance our ability to provide premium quality education and promote our “YuHua” brand name.

We expect graduates of our University to be not only academically prepared but also equipped with essential practical skills. We plan to achieve this by offering more practical training and workshops to our students and launching more internship programmes by reaching out to and collaborating with more potential employers.

We also plan to further diversify our course offerings in our K-12 schools and develop more individualised elective courses to meet each student’s interest and characteristics. We plan to form a curriculum development committee consisting of principals, experienced teachers, student representatives, parent representatives and outside education experts to advise us on school-based elective course development. We plan to introduce a variety of new courses while consistently seeking to improve the quality of our existing courses. In particular, we plan to enhance our competitive advantage in art course offerings by introducing advanced art courses taught by experienced art teachers and part time professionals with extensive knowledge and experience in art related industries.

Historically, except during the initial stage of our operations, we carried out limited marketing efforts to promote our schools because the demand for places in our schools remained strong. However, while we execute our strategy of entering new markets, we plan to enhance our marketing and branding efforts to increase the awareness of our “YuHua” brand. In addition to traditional advertisements on TV and newspaper, we plan to enhance our utilisation of new and targeted marketing techniques, such as Weibo, WeChat and online advertising to target potential students and their parents.

We believe one of the most significant factors affecting our profitability is our tuition level. Given our leading position in our existing markets, our outstanding reputation, our premium education quality and the strong demand for our services, we believe we will be able to optimise our pricing while maintaining a stable student pipeline. We plan to continue to adjust our tuition level in the future based on the inflation level, expectation of students and parents, staff cost, pricing strategy of competitors, market research and analysis.

Continue to improve the quality of our management and teachers and upgrade the teaching methods

We believe our experienced and dedicated teachers and management are critical to our ability to deliver high-quality education services consistently. We intend to attract and retain qualified teachers by offering competitive employee benefits package, better career advancement opportunities and continuous training programmes. In addition to maintaining competitive compensation levels, we adopted our Pre-IPO Share Option Scheme and Share Award Scheme to reward and incentivise key teachers and management members. We plan to further improve our performance review and promotion system to prepare our teachers and other staff for career progression and continuously improve their performances. We believe these measures may help us further lower our teacher turnover rate.

We intend to continue to encourage our teachers to explore new teaching methods and approaches, such as active and collaborative learning and blended learning of in-class and online experiences. We plan to offer additional training programmes to our teachers, which will primarily focus on: (i) professional ethics, (ii) teaching techniques, (iii) course subject matters, and (iv) education theories and philosophies. We plan to upgrade our teaching facilities and incorporate more high-tech teaching equipment and tools. We plan to enforce stringent teacher selection criteria to recruit teachers familiar with modern teaching techniques and with international exposure.

Establish cooperation with renowned foreign education institutions and expand our international course offerings

China has become a focus of growth for international branch campuses of leading foreign universities in recent years. We believe this trend of building a presence in China through foreign universities offers a unique and valuable opportunity to us. We plan to explore the possibility of establishing a new university by partnering with a top tier foreign university that is willing to open an international campus in China. By building and managing an international campus of a leading foreign university, we believe we will be able to substantially enhance our brand image and recruit quality students from all over the world. The internationalisation of our Group and our schools will greatly improve our education quality and grow our business.

To accommodate the growing demand from our students for international exposure and to promote the internationalisation of our education services, we intend to broaden our international course offerings and offer overseas exchange programmes with partnered foreign education institutions. We plan to offer advanced English elective courses taught by experienced foreign teachers as a supplement to our mandatory English courses, to expose our students to western literature and culture. We also plan to set up a foreign education counselling office to provide guidance and counselling to those students who are interested in applying to foreign high schools and colleges. We plan to partner up with more leading foreign high schools and universities around the world to create additional student exchange programmes for our students to experience different learning environments and cultures.

OUR EDUCATIONAL PHILOSOPHY

Our fundamental educational objectives are to foster modern talent with leadership and lifelong learning capabilities and nurture great minds to contribute to the future development of the Chinese nation (“培養具有領導才能和自主學習能力的現代化人才，為中華民族的偉大復興貢獻力量”). As an educational service provider, we believe we are entrusted to nurture the future of our society, and we aim to provide our educational services in a manner consistent with the values and attitudes in which we believe. The curriculums for our University and K-12 schools not only accommodate the eagerness of our students to achieve academic excellence, but also emphasise well-rounded development.

OVERVIEW OF OUR SCHOOLS

As of 31 August 2016, we had 25 schools, including one university and 24 K-12 schools, through which we offer private education with comprehensive educational programmes. In response to the strong demand for high-quality education in Henan Province, we proactively expanded our school network during the Track Record Period. The following table sets forth the numbers of our schools as of the dates indicated:

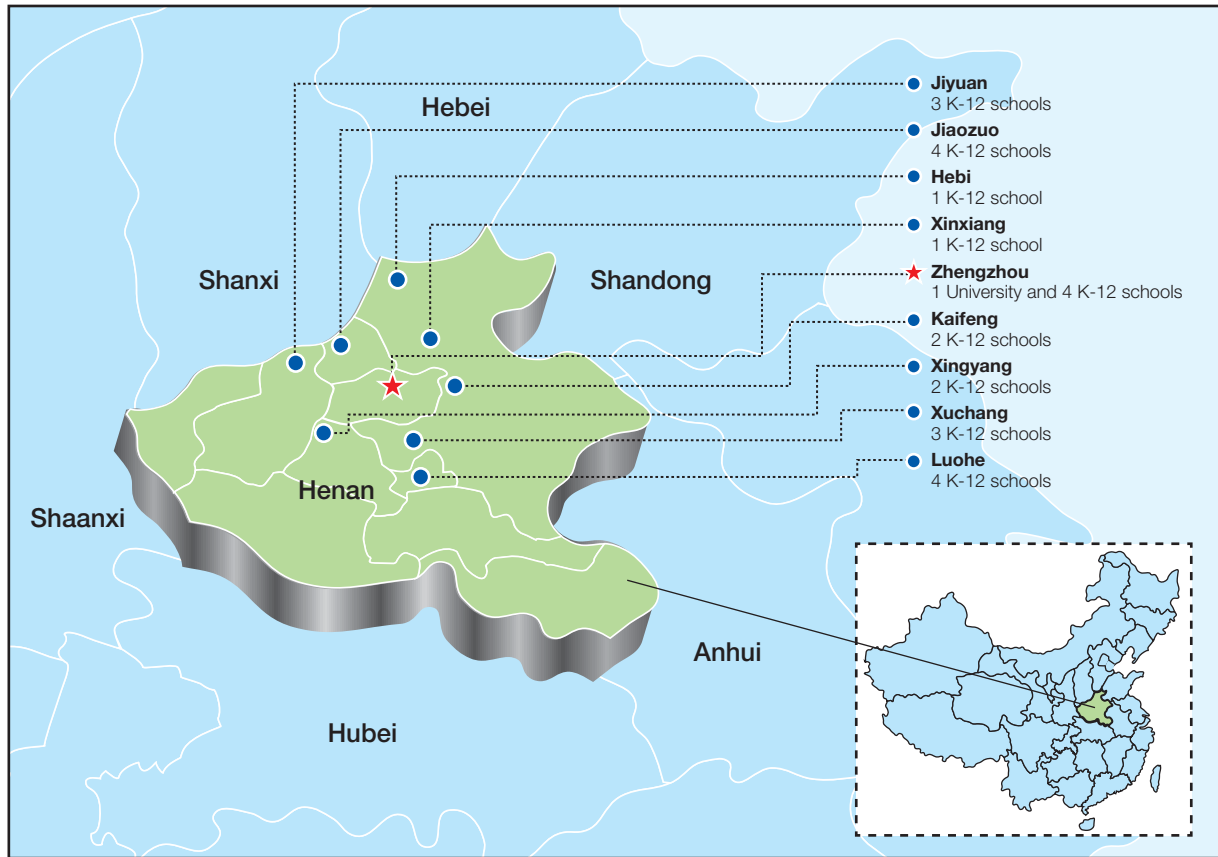
| | As of 31 August | | |
|--------------------------|------------------------|-------------------|-------------------|
| | 2014 | 2015 | 2016 |
| University | 1 | 1 | 1 |
| Grade 1-12 schools | 11 | 16 ⁽¹⁾ | 16 ⁽²⁾ |
| Kindergartens | 6 | 8 | 8 |
| Total | 18 | 25 | 25 |

Notes:

- (1) Includes the Affiliated High School of Peking University, Henan Branch, Gongyi Campus, which we operated from September 2014 to August 2015. It was sold to an Independent Third Party pursuant to a transfer agreement we entered into in August 2015, which became effective in September 2015.
- (2) Includes the high school on Luohe YuHua Elite School campus, which had been established but was not yet put into operation as of 31 August 2016. It commenced operation in September 2016.

BUSINESS

The following map sets forth the geographical location of our schools as of 31 August 2016 and the number of schools in each location:



BUSINESS

All of our schools are located in Henan Province, China. The table below sets forth the campus, name and commencement date of operation of each of our schools and the cities where they are located as of 31 August 2016:

| Campus ⁽¹⁾ | Commencement date of operation | Location |
|-------------------------------------------------------------------------------|--------------------------------|-----------|
| University | | |
| Zhengzhou Technology and Business University (鄭州工商學院) | September 2009 ⁽²⁾ | Zhengzhou |
| High School | | |
| Zhengzhou YuHua Elite School (鄭州市宇華實驗學校) | September 2001 | Zhengzhou |
| Jiaozuo YuHua Elite School (焦作市宇華實驗學校) | September 2011 | Jiaozuo |
| Luohe YuHua Elite School (漯河市宇華實驗學校) | September 2016 ⁽³⁾ | Luohe |
| Middle School⁽⁴⁾ | | |
| Zhengzhou YuHua Elite School (鄭州市宇華實驗學校) | September 2001 | Zhengzhou |
| Xingyang YuHua Shengshi Elite School (滎陽宇華盛世實驗學校) | September 2011 | Xingyang |
| Jiaozuo YuHua Elite School (焦作市宇華實驗學校) | September 2011 | Jiaozuo |
| Kaifeng YuHua Elite School (開封市宇華實驗學校) | September 2012 | Kaifeng |
| Luohe YuHua Elite School (漯河市宇華實驗學校) | September 2013 | Luohe |
| Xuchang YuHua Elite School (許昌宇華實驗學校) | September 2014 | Xuchang |
| Jiyuan YuHua Elite School (濟源市宇華實驗學校) | September 2014 | Jiyuan |
| Primary School | | |
| Zhengzhou YuHua Elite Primary School (鄭州市宇華實驗小學) | September 2005 | Zhengzhou |
| Jiaozuo YuHua Elite School (焦作市宇華實驗學校) | September 2011 | Jiaozuo |
| Kaifeng YuHua Elite School (開封市宇華實驗學校) | September 2012 | Kaifeng |
| Luohe YuHua Elite School (漯河市宇華實驗學校) | September 2013 | Luohe |
| Xuchang YuHua Elite School (許昌宇華實驗學校) | September 2014 | Xuchang |
| Jiyuan YuHua Elite School (濟源市宇華實驗學校) | September 2014 | Jiyuan |
| Kindergarten | | |
| Zhengzhou YuHua Elite Bilingual Kindergarten (鄭州市宇華實驗雙語幼兒園) | September 2005 | Zhengzhou |
| Xingyang YuHua Elite Kindergarten (滎陽市宇華實驗幼兒園) | September 2011 | Xingyang |
| Xinxiang Weibin District YuHua Elite Kindergarten (新鄉市衛濱區宇華實驗幼兒園) | September 2011 | Xinxiang |
| Hebi Qibin District YuHua Elite Bilingual Kindergarten (鶴壁市淇濱區宇華實驗雙語幼兒園) | September 2011 | Hebi |
| Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten (焦作市城鄉一體化示範區宇華實驗幼兒園) | September 2011 | Jiaozuo |
| Luohe YuHua Elite Bilingual Kindergarten (漯河市宇華實驗雙語幼兒園) | September 2013 | Luohe |
| Xuchang Weidu District YuHua Elite Bilingual Kindergarten (許昌市魏都區宇華實驗雙語幼兒園) | September 2014 | Xuchang |
| Jiyuan YuHua Elite Bilingual Kindergarten (濟源市宇華實驗雙語幼兒園) | September 2014 | Jiyuan |

Notes:

- (1) Before we completed the unification of the branding of our schools under “YuHua (宇華)” in the second quarter of 2016, we had operated certain schools of ours under the brand name “the Affiliated High School of Peking University” (北京大學附屬中學). For more information, see the paragraph headed “— Prior Cooperation with the Affiliated High School of Peking University” in this section.
- (2) We established Wanfang College, the predecessor of our University, in 2009 pursuant to the HPU Cooperation Agreement entered with Henan Polytechnic University. Our University commenced schooling in September 2009. In July 2015, we ceased to cooperate with Henan Polytechnic University, following which our University ceased to have any affiliation with Henan Polytechnic University. For more information of the history of our University and its predecessor, see the section headed “History, Reorganisation and Corporate Structure — Prior Cooperation with Henan Polytechnic University” in this prospectus and the paragraph headed “— Prior Cooperation with Henan Polytechnic University” in this section.
- (3) As of 31 August 2016, the high school in Luohe YuHua Elite School campus had not been put into operation. It commenced operation in September 2016.
- (4) From September 2014 to August 2015, we operated the Affiliated High School of Peking University, Henan Branch, Gongyi Campus in Gongyi, Henan Province. We sold the Affiliated High School of Peking University, Henan Branch, Gongyi Campus to an Independent Third Party pursuant to a transfer agreement we entered into in August 2015, which became effective in September 2015. As of 31 August 2016, we did not have any interest in the Affiliated High School of Peking University, Henan Branch, Gongyi Campus.

BUSINESS

Student Enrolment

For the 2015/2016 school year, we had an aggregate of 48,220 students enrolled in our schools, including 25,063 students at our University and 23,157 students at our K-12 schools. For the 2013/2014, 2014/2015 and 2015/2016 school years, almost all of the students enrolled in our University, high schools and middle schools are boarding students as we require all the students enrolled in those schools to reside in school dormitories, except a very limited number of students who chose to live off-campus upon our approval on a case-by-case basis. For the 2013/2014, 2014/2015 and 2015/2016 school years, the boarding students who reside in our school dormitories accounted for approximately 72%, 70% and 68% of the students enrolled in our primary schools and approximately 20%, 16% and 11% of the students enrolled in our kindergartens, respectively. The following table sets forth information relating to the student enrolment for each of our schools for the school years indicated:

| School | Student Enrolment for the School Year ⁽¹⁾ | | |
|------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------|------------|
| | 2013/2014* | 2014/2015* | 2015/2016* |
| University | | | |
| Zhengzhou Technology and Business University | 19,568 | 23,692 | 25,063 |
| Subtotal (University) | 19,568 | 23,692 | 25,063 |
| High Schools | | | |
| Zhengzhou YuHua Elite School | 3,380 | 3,451 | 3,541 |
| Jiaozuo YuHua Elite School | 938 | 1,376 | 1,753 |
| Luohe YuHua Elite School ⁽²⁾ | — | — | — |
| Subtotal (High Schools) | 4,318 | 4,827 | 5,294 |
| Middle Schools | | | |
| Zhengzhou YuHua Elite School | 1,726 | 1,663 | 1,398 |
| Xingyang YuHua Shengshi Elite School | 1,669 | 2,159 | 1,974 |
| Jiaozuo YuHua Elite School | 1,486 | 1,239 | 1,250 |
| Kaifeng YuHua Elite School | 404 | 758 | 1,161 |
| Luohe YuHua Elite School | 338 | 745 | 975 |
| Xuchang YuHua Elite School | — | 408 | 842 |
| Jiyuan YuHua Elite School | — | 162 | 265 |
| The Affiliated High School of Peking University, Henan Branch, Gongyi Campus ⁽³⁾ | — | 117 | — |
| Subtotal (Middle Schools) | 5,623 | 7,251 | 7,865 |
| Primary Schools | | | |
| Zhengzhou YuHua Elite Primary School | 2,286 | 2,244 | 2,358 |
| Jiaozuo YuHua Elite School | 955 | 881 | 1,031 |
| Kaifeng YuHua Elite School | 514 | 738 | 1,292 |
| Luohe YuHua Elite School | 252 | 682 | 1,018 |
| Xuchang YuHua Elite School | — | 510 | 1,108 |
| Jiyuan YuHua Elite School | — | 358 | 434 |
| Subtotal (Primary Schools) | 4,007 | 5,413 | 7,241 |
| Kindergartens | | | |
| Zhengzhou YuHua Elite Bilingual Kindergarten | 814 | 811 | 853 |
| Xingyang YuHua Elite Kindergarten | 232 | 231 | 235 |
| Xinxiang Weibin District YuHua Elite Kindergarten | 255 | 291 | 310 |
| Hebi Qibin District YuHua Elite Bilingual Kindergarten | 293 | 301 | 306 |
| Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten | 276 | 338 | 356 |
| Luohe YuHua Elite Bilingual Kindergarten | 45 | 159 | 246 |
| Xuchang Weidu District YuHua Elite Bilingual Kindergarten | — | 140 | 317 |
| Jiyuan YuHua Elite Bilingual Kindergarten | — | 125 | 134 |
| Subtotal (Kindergartens) | 1,915 | 2,396 | 2,757 |
| Total | 35,431 | 43,579 | 48,220 |

BUSINESS

Notes:

- * Except as specified otherwise in this prospectus, we use 31 August 2014, 31 August 2015 and 31 August 2016 to present our business operating data for the 2013/2014 school year, 2014/2015 school year and 2015/2016 school year, respectively.
- (1) The student enrolment information during the Track Record Period is based on the official records of the relevant PRC education authority and the internal records of our schools.
 - (2) As of 31 August 2016, the high school of Luohe YuHua Elite School had not been put into operation. It commenced operation in September 2016.
 - (3) From September 2014 to September 2015, we operated the Affiliated High School of Peking University, Henan Branch, Gongyi Campus in Gongyi, Henan Province. We sold the Affiliated High School of Peking University, Henan Branch, Gongyi Campus to an Independent Third Party pursuant to a transfer agreement we entered into in August 2015, which became effective in September 2015.

BUSINESS

Capacity and Utilisation

For the 2013/2014, 2014/2015 and 2015/2016 school years, our schools had a total capacity to accommodate approximately 55,300, 62,550 and 71,200 students, respectively and the corresponding utilisation rate of all of our schools as a whole was approximately 64.1%, 69.7 and 67.7%. The following table sets forth information relating to the capacity and utilisation rate of each of our schools for the 2013/2014, 2014/2015 and 2015/2016 school years:

| School | Commencement date of operation ⁽¹⁾ | Capacity for Students for the School Year ⁽²⁾ | | | School Utilisation Rate for the School Year ⁽³⁾ | | |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------|-----------|-----------|------------------------------------------------------------|-----------|-----------|
| | | 2013/2014 | 2014/2015 | 2015/2016 | 2013/2014 | 2014/2015 | 2015/2016 |
| University | | | | | | | |
| Zhengzhou Technology and Business University | September 2009 ⁽⁴⁾ | 27,000 | 27,000 | 30,000 | 72.5% | 87.7% | 83.5% |
| Subtotal (University) | | 27,000 | 27,000 | 30,000 | 72.5% | 87.7% | 83.5% |
| High School | | | | | | | |
| Zhengzhou YuHua Elite School | September 2001 | 4,000 | 4,000 | 4,000 | 84.5% | 86.3% | 88.5% |
| Jiaozuo YuHua Elite School | September 2011 | 1,900 | 1,900 | 1,900 | 49.4% | 72.4% | 92.3% |
| Luohe Yuhua Elite School ⁽⁵⁾ | September 2016 | — | — | 2,000 | — | — | — |
| Subtotal (High School) | | 5,900 | 5,900 | 7,900 | 73.2% | 81.8% | 67.0% |
| Middle School | | | | | | | |
| Zhengzhou YuHua Elite School | September 2001 | 1,700 | 1,700 | 1,700 | 101.5% | 97.8% | 82.2% |
| Xingyang YuHua Shengshi Elite School | September 2011 | 4,800 | 4,800 | 4,800 | 34.8% | 45.0% | 41.1% |
| Jiaozuo YuHua Elite School | September 2011 | 1,600 | 1,600 | 1,600 | 92.9% | 77.4% | 78.1% |
| Kaifeng YuHua Elite School | September 2012 | 2,250 | 2,250 | 3,000 | 18.0% | 33.7% | 38.7% |
| Luohe YuHua Elite School | September 2013 | 2,000 | 2,000 | 2,000 | 16.9% | 37.3% | 48.8% |
| Xuchang YuHua Elite School | September 2014 | — | 1,900 | 2,800 | — | 21.5% | 30.1% |
| Jiyuan YuHua Elite School | September 2014 | — | 1,900 | 1,900 | — | 8.5% | 13.9% |
| The Affiliated High School of Peking University, Henan Branch, Gongyi Campus ⁽⁶⁾ | September 2014 | — | 400 | — | — | 29.3% | — |
| Subtotal (Middle School) | | 12,350 | 16,150 | 17,800 | 45.5% | 44.9% | 44.2% |
| Primary School | | | | | | | |
| Zhengzhou YuHua Elite Primary School | September 2005 | 2,700 | 2,700 | 2,700 | 84.7% | 83.1% | 87.3% |
| Jiaozuo YuHua Elite School | September 2011 | 1,500 | 1,500 | 1,500 | 63.7% | 58.7% | 68.7% |
| Kaifeng YuHua Elite School | September 2012 | 1,200 | 1,200 | 2,200 | 42.8% | 61.5% | 58.7% |
| Luohe YuHua Elite School | September 2013 | 2,000 | 2,000 | 2,000 | 12.6% | 56.8% | 50.9% |
| Xuchang YuHua Elite School | September 2014 | — | 1,200 | 2,200 | — | 42.5% | 50.4% |
| Jiyuan YuHua Elite School | September 2014 | — | 1,300 | 1,300 | — | 27.5% | 33.4% |
| Subtotal (Primary School) | | 7,400 | 9,900 | 11,900 | 54.1% | 54.7% | 60.8% |
| Kindergarten | | | | | | | |
| Zhengzhou YuHua Elite Bilingual Kindergarten | September 2005 | 900 | 900 | 900 | 90.4% | 90.1% | 94.8% |
| Xingyang YuHua Elite Kindergarten | September 2011 | 250 | 250 | 250 | 92.8% | 92.4% | 94.0% |
| Xinxiang Weibin District YuHua Elite Kindergarten | September 2011 | 350 | 350 | 350 | 72.9% | 83.1% | 88.6% |
| Hebi Qibin District YuHua Elite Bilingual Kindergarten | September 2011 | 350 | 350 | 350 | 83.7% | 86.0% | 87.4% |
| Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten | September 2011 | 400 | 400 | 400 | 69.0% | 84.5% | 89.0% |
| Luohe YuHua Elite Bilingual Kindergarten | September 2013 | 400 | 400 | 400 | 11.3% | 39.8% | 61.5% |
| Xuchang Weidu District YuHua Elite Bilingual Kindergarten | September 2014 | — | 500 | 500 | — | 28.0% | 63.4% |
| Jiyuan YuHua Elite Bilingual Kindergarten | September 2014 | — | 450 | 450 | — | 27.8% | 29.8% |
| Subtotal (Kindergarten) | | 2,650 | 3,600 | 3,600 | 72.3% | 66.6% | 76.6% |
| Total | | 55,300 | 62,550 | 71,200 | 64.1% | 69.7% | 67.7% |
| Total for developed schools⁽⁷⁾ | | 47,000 | 50,050 | 60,050 | 72.1% | 80.3% | 75.1% |

Notes:

- (1) The date of commencement of operation refers to the date on which the university or school began classes.
- (2) All of our University, high schools, middle schools and primary schools are boarding schools. Our kindergartens generally enrol day students. As such, the capacity for student enrolment at our University, high schools, middle schools and primary schools is estimated based on the approximate number of students that the dormitories were designed to accommodate according to our dormitory building floor plan. For our kindergartens, the capacity for student enrolment is estimated based on the approximate number of beds used for naps in the kindergartens.
- (3) School utilisation rate equals the student enrolments divided by the school capacity. During the initial stages of operation for newly established schools we may not offer all of the student places that a school is designed to accommodate to ensure that the school is operated fully in accordance with our principles and standards and has sufficient teacher and other support, but will strategically increase the number of places offered in future school years as the operations mature. The school utilisation rate of our Zhengzhou Yuhua Elite School for the 2013/2014 school year exceeded 100% primarily due to the fact that a limited number of our students at such school were commuter students who did not live on campus and therefore did not occupy any beds in the dormitories.
- (4) Zhengzhou Technology and Business University was formerly known as Wanfang College. The date of commencement of operation of Zhengzhou Technology and Business University refers to the date of commencement of operation of Wanfang College.
- (5) As of 31 August 2016, the high school of Luohe Yuhua Elite School had a student capacity of 2,000 but had yet to be put into operation. It commenced operation in September 2016.
- (6) From September 2014 to September 2015, we operated the Affiliated High School of Peking University, Henan Branch, Gongyi Campus in Gongyi, Henan Province. We sold the Affiliated High School of Peking University, Henan Branch, Gongyi Campus to an Independent Third Party pursuant to a transfer agreement that we entered into in August 2015, which became effective in September 2015.
- (7) For the 2013/2014, 2014/2015 and 2015/2016 school year, the developed schools refer to those schools which commenced operations in or before 2011/2012, 2012/2013 and 2013/2014 school year, respectively.

Prior Cooperation with Henan Polytechnic University

Leveraging our experience in the private education industry accumulated in the early years of our operations, we entered the private higher education market in September 2009 by partnering with Henan Polytechnic University to establish Wanfang College, the predecessor of our University. Pursuant to the HPU Cooperation Agreement entered into with Henan Polytechnic University, we developed our University's Zhengzhou campus, which is a stand-alone campus in a different location to Henan Polytechnic University, and we were obligated to pay an annual fee that equals 18% of the total tuition fees collected from students enrolled in bachelor's degree programmes of our University in each school year since the 2013/2014 school year.

With our outstanding reputation and centralised management system, we successfully grew the number of students enrolled in our University to 23,692 for the 2014/2015 school year. As our University had established a well-regarded reputation for providing high quality education and recorded continuous revenue growth, we believed we could further improve the profitability of our University by positioning it as a stand-alone tertiary education provider and ceasing our cooperation with Henan Polytechnic University. In July 2015, we entered into the HPU Termination Agreement with Henan Polytechnic University to termination our cooperation. Pursuant to the HPU Termination Agreement, we made payments of an aggregate of RMB232.0 million to Henan Polytechnic University consisting of annual fees and a one-off termination fee, and our obligation to pay a future annual fee that equals 18% of the total tuition fees collected from students enrolled in bachelor's degree programmes of our University to Henan Polytechnic University in each school year ceased. After the termination of our cooperation with Henan Polytechnic University, we are able to capture the margins of our University that we previously ceded to Henan Polytechnic University and we believe the gross margin improvement resulted therefrom will benefit our Group and our Shareholders as a whole in the long run. The business operations of our University, such as employees, students recruitment and teacher recruitments, among others, remained continuous and uninterrupted. The number of students enrolled in our University was 25,063 for the 2015/2016 school year, which was higher than the number of students enrolled for the 2014/2015 school year of 23,692 before the termination of cooperation. There was no dispute between Henan Polytechnic University and us arising out of or in relation to our cooperation or the subsequent termination of such cooperation.

Following the termination of cooperation with Henan Polytechnic University, our University changed its status from an Independent College affiliated with Henan Polytechnic University to a Private HEI owned by our Group and changed its name from Wanfang College to Zhengzhou Technology and Business University in 2016 upon

the approval of the MOE. The status change of our University has no material tax or regulatory implications on our business. Such status change has not affected our operational model and financial performance during the Track Record Period and we do not expect it will affect our operational model and financial performance in the future. For more information of the history of our University and its predecessor, see the section headed “History, Reorganisation and Corporate Structure — Prior Cooperation with Henan Polytechnic University” in this prospectus. For risks associated with the termination of cooperation with Henan Polytechnic University, see the section headed “Risk Factors — Risks Relating to our Business and our Industry — Student enrolment in our University may decrease as a result of the termination of cooperation with Henan Polytechnic University” in this prospectus.

Prior Cooperation with the Affiliated High School of Peking University

Before we completed the unification of the branding of our schools under “YuHua (宇華)” in the second quarter of 2016, we operated certain schools of ours under the brand name “the Affiliated High School of Peking University”(北京大學附屬中學) pursuant to the PKU Cooperation Agreement. In accordance with the agreement, the Affiliated High School of Peking University granted us a non-exclusive licence to use the brand name, trademark and logo of “the Affiliated High School of Peking University (北京大學附屬中學)” in the operation of our schools. Under this arrangement, we were obligated to pay an annual fee of RMB1.3 million each calendar year. We launched our first school, the Affiliated High School of Peking University, Henan Branch, under the brand name “the Affiliated High School of Peking University” in September 2001 and subsequently established a total of 16 schools in eight campuses using the same brand name.

As our business continued to expand, we believed operating all of our schools under one unified brand name that we own will allow us to streamline our marketing efforts in promoting our schools in new markets and further boost our growth. Therefore, in September 2014, we decided to phase-out the brand “Affiliated High School of Peking University” and rebrand all those relevant schools as “YuHua”, which is our own brand name that was introduced in 2012. Pursuant to the PKU Termination Agreement entered into between Affiliated High School of Peking University and us in September 2014, the licence of the brand “Affiliated High School of Peking University” was terminated with a grace period to July 2016 for us to update the names of our schools. We agreed to pay an aggregate of RMB11.7 million in royalties to Affiliated High School of Peking University for the non-exclusive licence in accordance with the PKU Termination Agreement and had paid RMB10.4 million as of the Latest Practicable Date. There was no termination fee payable arising out of the termination of our cooperation with the Affiliated High School of Peking University, nor was there any dispute between the Affiliated High School of Peking University and us. From the establishment of the cooperation with the Affiliated High School of Peking University to the termination of such cooperation in second quarter 2016, the Affiliated High School of Peking University was not involved in the management of any of our schools. We have informed the students and parents of our decision to unify our brand through various channels, such as parents’ meeting or letters to parents, among others, after such decision was made. All the existing students enrolled in any school affected at the time of the school name change would receive graduation diploma bearing the original name of such school upon their graduation. The new students enrolled in the relevant schools after the school name change will receive graduation diploma bearing the new names upon their graduation, which has been clearly explained to them when they applied to the relevant school. The business operations of these schools, such as employees, student recruitment and teacher recruitment, among others, remained continuous and uninterrupted during the re-branding process. During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute or complaint in relation to the unification of our brand. For risks associated with the rebranding, see the section headed “Risk Factors — Risks Relating to our Business and our Industry — Rebranding certain schools of ours from “the Affiliated High School of Peking University (北京大學附屬中學)” to “YuHua (宇華)” may negatively impact our student enrolments” in this prospectus.

BUSINESS

Tuition Fees

All students at our University, high schools, middle schools and primary schools are boarding students, except a limited number of day students who are permitted to live off-campus due to various reasons, such as proximity to their family homes. All our students at our kindergartens are day students, except certain boarding students who choose to live in our on-campus dormitories. Tuition fees are generally received prior to the beginning of each school year. The tuition fees that we charge each boarding student are inclusive of boarding fees, which range from RMB1,000 to RMB2,000. For our kindergartens and certain primary schools, the tuition fees that we charge also include meal fees.

For the years ended 31 August 2014, 2015 and 2016, we derived all of our revenue from the tuition fees, including boarding fees and meal fees, from all of our schools. For our schools other than our kindergartens, we require students and their families to pay tuition fees (including boarding fees and meal fees) for the entire school year upfront. For our kindergartens, we require students and their families to pay tuition fees prior to each month or each semester. See the section headed “Financial Information — Critical Accounting Policies, Judgements and Estimates” in this prospectus.

The following table sets forth the listed tuition fees information for our schools for the 2013/2014, 2014/2015, 2015/2016 and 2016/2017 school years:

| | Listed Tuition Fees ⁽¹⁾⁽²⁾ | | | |
|---------------------------------------------|---------------------------------------|--------------------------|--------------------------|--------------------------|
| | 2013/2014 school year | 2014/2015 school year | 2015/2016 school year | 2016/2017 school year |
| | (RMB) | (RMB) | (RMB) | (RMB) |
| University | | | | |
| Bachelor’s degree programmes | 13,100~15,100 | 13,100~15,100 | 13,100~15,100 | 13,100~15,100 |
| Junior college diploma programmes | 8,900 | 8,900 | 8,900 | 8,900 |
| High schools | 20,000~33,000 | 21,000~31,500 | 19,500~33,500 | 20,500~35,500 |
| Middle schools | 8,000~33,000 | 11,000~31,500 | 12,000~33,500 | 13,000~35,500 |
| Primary schools | 8,000~30,000 | 14,500~32,000 | 14,000~34,000 | 15,000~39,000 |
| Kindergartens | 17,000~26,500 | 16,000~28,500 | 16,000~32,500 | 17,000~35,000 |

Notes:

- (1) Tuition fees shown above for our University, high schools, middle schools and primary schools include boarding fees. Tuition fees shown above for our kindergartens and certain primary schools include meal fees.
- (2) The tuition fees information shown above does not cover the tuition fees of the foreign language programmes, namely China-Korea programme, China-U.S. programme and China-Australia programme, offered by our high schools to a limited number of students. Our foreign language programmes are PRC education programmes with enhanced foreign language courses. For the 2013/2014 school year, 2014/2015 school year, 2015/2016 school year and 2016/2017 school year, the tuition fees of our foreign language programmes were approximately RMB36,000, RMB34,500~RMB58,500, RMB38,500~60,500 and RMB40,500~62,500, respectively.

During the Track Record Period, we generally raised our K-12 schools tuition fees each school year. For the 2013/2014 school year, the lower ends of the listed tuition fees range of our middle schools and primary schools were approximately RMB8,000, because we launched our Kaifeng YuHua Elite School campus in September 2012, which charged relatively lower tuition fees per student for the 2012/2013 and the 2013/2014 school years to attract student enrolment as part of our marketing strategy. For each of the 2014/2015 school year and 2015/2016 school year, the lower end and/or higher end of the listed tuition fees range for our K-12 schools dropped by RMB500~RMB1,500 as compared to the previous year, respectively. The slight drop was primarily because we excluded the meal fees from the listed tuition fees of certain schools, as we ceased to procure catering services for students at such schools. Instead, students at those schools started to purchase meals directly from the canteens operated by Independent Third Parties.

Subject to necessary governmental approvals, we intend to raise the tuition fees of our University in the 2017/2018 school year. For our University, according to our tuition fee policy, any increase is only applicable to

the incoming first year students and the tuition fee rate for the existing students remains the rate they paid for their first year for the duration of their courses. For our K-12 schools, subject to necessary governmental approvals, we normally raise the tuition fees every school year. Our existing K-12 students are entitled to pay the pre-raise rate if they can pay the tuition fees for the upcoming school year in full before a deadline set by our schools, which is normally mid-to-late May. During the Track Record Period, almost all of our existing K-12 students chose to pay tuition fees in advance to enjoy the discount provided by the pre-increase rate. With respect to students who leave during the school year, we have tuition refund policies in line with relevant rules.

We have tuition refund policies in place at our schools with respect to students who leave during the school year. For our University, if a student enrolls and pays tuition fees but leaves school before the end of the school year, we will refund the tuition fees for any remaining full academic months, calculated on a 12-academic-month basis. For our K-12 schools, if a student enrolls and pays tuition fees but (i) leaves school before they complete one half academic month, we will deduct a half month of tuition fees; (ii) leaves school after they complete one half academic month but before they finish a full academic month, we will deduct one month of tuition fees; (iii) leaves school after they finish a full academic month but before they finish two full academic months, we will deduct two months of tuition fees; (iv) leaves school after they finish two full academic months but before they finishes four and a half academic months, we will deduct half of the full tuition fees; (v) leaves school after they finish four and a half academic month but before 1 April of the school year, we will refund the tuition fees based on the remaining days of the school year on a pro rata basis; and (vi) leaves school on or after 1 April of the school year, we will not refund any tuition fees.

Classes, Facilities and School Management

Despite our rapid expansion since our inception, we continue to emphasise modest-sized classes in our K-12 schools to stimulate our students' interest and promote interaction within the classroom setting, which we believe also allows our teachers to devote more time and attention to each student. The size of the classes at our high schools and middle schools is typically no more than 50 students; the size of the classes at our primary schools is typically between 30 to 40 students; and the size of the classes at kindergartens is typically between 26 to 30 students. We also encourage our teachers to adopt various teaching styles so that each student receives an education tailored to maximise his or her learning potential. We believe all these factors contribute to the high quality of our education and high levels of student and parent satisfaction, which are reflected in our long student tenure and high retention rates.

Our schools generally have a variety of campus facilities, including multi-media rooms, laboratories, libraries, administrative offices, cafeterias and dormitories, gymnasiums, outdoor fields and courts (such as basketball, tennis and/or soccer courts) and staff apartments. Each of our schools is managed on a day-to-day basis by its principal, who is assisted by several vice principals responsible for one or more specific aspects of our schools' operations, such as curriculum, security and logistics and student affairs. The finance and human resources of each school are under the centralised management by our Group-level finance and human resource departments, respectively. We believe this management system allows us to maximise the capabilities of our teachers and administrative personnel to enhance the quality of education we provide and promote students' well-being.

Each of our high schools, middle schools and primary schools has a team of counsellors to provide care, support and guidance to our students. One to two counsellors are assigned to each floor of each student dormitory building to regularly inspect the student dormitories to ensure orderly, safe, clean and healthy living conditions for our students and help students with social and behavioural issues. Counsellors also regularly communicate with the parents of our students and keep them updated of the boarding students' status and academic performance. We also have on-campus healthcare staff and mental-health counsellors at each of our schools to create a healthy and safe campus environment for our students. See the paragraph headed "— Health and Safety Matters" in this section for further details.

OUR UNIVERSITY

As of 31 August 2016, we operated one university, namely Zhengzhou Technology and Business University, which is a Private HEI offering junior college and undergraduate education. We established Wanfang College, the predecessor of our University, in 2009 by partnering with Henan Polytechnic University. From the commencement of schooling of our University in September 2009, our University had operated as an Independent College affiliated to Henan Polytechnic University on its own stand-alone campus. We entered into the HPU Termination Agreement in July 2015 to terminate our cooperation with Henan Polytechnic University and converted the status of our University into a Private HEI upon the approval of the MOE in April 2016. In February 2016, our University ranked second in terms of overall strength in the Independent College category of the PRC university rankings published by the China University Alumni Association. For more information of the history of our University, see the section headed “History, Reorganisation and Corporate Structure — Prior Cooperation with Henan Polytechnic University” in this prospectus.

Our University is located in the Zhengdong New Area District of Zhengzhou, Henan Province. For the 2015/2016 school year, 25,063 students were enrolled at our University and 600 teachers were employed by our University. Our University accepts students from all across China, who are admitted based on the scores they achieve in the Gaokao and in accordance with the national and local admission standards and procedures. See the paragraph headed “— Our Students and Student Recruitment — Our Students” in this section for further details.

Our University is positioned to equip our graduates with the practical skills desired by employers in industries with significant recruiting demands, which we believe enhances the competitive advantages of our students in the job market and enables them to smoothly settle into working environments. The high employment rate of the graduates of our University in turn attracts an increasing number of student applications for our University.

Curriculum and Degrees

Our University currently offers bachelor’s degree and junior college diplomas, which are recognised by the MOE. It generally takes four years of full-time study for students enrolled in our bachelor’s degree programme to complete the bachelor’s degree, while it generally takes three years of full-time study to complete our junior college diploma programme. For the 2015/2016 school year, we had 14,853 students enrolled in our bachelor’s degree programme and 10,210 students enrolled in our junior college diploma programme, respectively. As of the Latest Practicable Date, we did not offer any graduate degrees or programmes.

As a university with a focus on applied technologies, our University currently offers 48 majors with bachelor’s degree and 24 majors with junior college diplomas as of 31 August 2016. The applied technologies majors include civil engineering, geomatics engineering, geological engineering, safety engineering, computer science and technology, electrical engineering and automation, mechanical design manufacturing and automation. Other majors include international economy and trade, marketing, e-commerce, business management, accounting and financial management. Our University offers approximately 850 public courses, basic courses, specialised courses and elective courses. As a general principle, our University requires that all students take core courses in certain foundational skills, such as mathematics and English, which hold the key to opportunities in their later study and life. We also provide career training programmes and workshops to our students to get them prepared for their respective career ahead. We believe the curriculum of great breadth and various workshops and programmes offered by our University equip our students with competitive advantages in the job market. For students with excellent academic records, in addition to scholarships and grants offered by the MOE, the University also offers scholarships and grants.

We believe what our students ultimately take away from their education at our University largely depends on the careful planning of our academic programmes. Based on the syllabus designed by the MOE, the University takes into account its educational objectives and the overall quality of the students when designing appropriate course materials. We encourage our University teachers to choose the course materials that fit their teaching methods

and match the learning potential of the students. While we emphasise theoretical in-class teaching and learning, we also encourage our students to take practical courses or participate in internships to sharpen their practical skills.

Grade Assessment, Graduation and Employment

Final grades of the University students are based on grades from mid-term and final written examinations, oral examinations, marks received for class participation, homework and periodic appraisals. Specific grading scales are determined by the academic affair office of our University.

We have a dedicated career planning office at our University that provides a wide range of services to our students who seek employment or internship opportunities. The career planning office not only serves as a platform to gather and disseminate employment information, but also helps our students explore the life, work and learning options available to them. When our students approach the career planning office for counselling services, the professionally trained staff will offer career advice based on the student's personal interests and preference and fine-tune his or her work and learning plans. The career planning office organises various information sessions, job-hunting trainings and other employment-related events from time to time to ensure that our students are well equipped with necessary information and the desired skillset.

We maintain close relationships with major employers of our graduates to cooperate with them on graduate employment and internship placement opportunities. Our University has partnered with the human resources and social security bureau of the Kunshan Development Zone, which organises enterprises located in the Kunshan Development Zone to provide internship and employment opportunities to students of our University. We also provide employment-related training and career planning sessions to our students. For example, our University owns a simulated aircraft cabin through which practical training is offered to students enrolled in the in-flight service major of the art department of our University. Our University's Initial Employment Rate was 91.3%, 91.0% and 83.3% in 2013, 2014 and 2015, respectively. In contrast, the Initial Employment Rate of colleges and universities in China as a whole was 77.4%, 77.5% and 77.7% in 2013, 2014 and 2015, respectively, according to the Frost & Sullivan Report.

Graduates of our University generally possess technical skills that can be immediately applied to workplaces, therefore they have more immediate value to employers and are able to command a higher salary. For the 2013/2014, 2014/2015 and 2015/2016 school years, the average starting salary of the graduates from our University with bachelor's degree was RMB2,840, RMB3,140 and RMB3,401, respectively, while the average starting salary of the graduates from our University with junior college diplomas was RMB2,534, RMB2,690 and RMB2,914, respectively.

We believe we were able to achieve a high employment rate and average starting salary for the University's graduating students primarily because of the carefully tailored academic programmes that we offer, the employment-related training that has been provided to our students, and the assistance we provide to our students in identifying potential employment opportunities.

OUR HIGH SCHOOLS, MIDDLE SCHOOLS AND PRIMARY SCHOOLS

As of 31 August 2016, we had (i) three high schools that enrolled a total of 5,294 students; (ii) seven middle schools that enrolled a total of 7,865 students; and (iii) six primary schools that enrolled a total of 7,241 students. As of 31 August 2016, our high schools, middle schools and primary schools employed a total of 1,440 teachers. Our high schools, middle schools and primary schools generally recruit students within Henan Province but are also open to students nationwide.

Curriculum and Diploma

The curriculum for our high schools, middle schools and primary schools consist of the curriculum mandated by the PRC regulatory authorities, together with individualised school-based elective courses. All courses under the PRC government mandated curriculum are taught by PRC-certified teachers using textbooks and materials designated by relevant PRC authorities.

In our high schools, the curriculum mandated by the PRC regulatory authorities are primarily formulated towards the Gaokao for our high school students. Our middle schools and primary schools offer the full curriculum required by the PRC compulsory education system, which focuses on inspiring curiosity and developing learning skills of our students by creating an interesting, productive and friendly study environment. Students who have completed all courses required under the PRC compulsory education curriculum are eligible to obtain a PRC high school diploma, middle school diploma or primary school diploma, as applicable.

In addition, our high schools, middle schools and primary schools offer a wide variety of elective courses that are normally unavailable in public schools. Our students are able to shape a course of study to meet their own objectives and develop their own interests. As a private education group, we have flexibility in designing these additional elective courses in order to develop an individualised school-based curriculum for each of our schools based on, among other things, the learning patterns and interests of the respective student body and the cultural and social characteristics of the city in which the respective school operates. These elective courses are aimed at further stimulating students' learning ability and preparing them to become more well-rounded individuals. As of 31 August 2016, we offered a total of 47, 47 and 42 school-based elective courses at our high schools, middle schools and primary schools, respectively. The school-based elective courses we have developed generally fall within the following categories: (i) music, sports and art; (ii) new technologies; (iii) everyday life skills; (iv) personal development and moral character; and (v) foreign languages. Our school-based elective curriculum includes pop music, piano, calligraphy, fashion design, cooking, basic Korean, basic Japanese, film and acting, basketball, volleyball, soccer, jazz dance, ceramics, origami, flower arrangements and social etiquette. Students are encouraged but not required to enrol in school-based elective courses. The success of our elective courses has resulted in 152, 169 and 150 of our high school graduates being accepted into art or physical education schools or art or physical education majors of reputable PRC universities in the Gaokao administrated in 2014, 2015 and 2016. We believe academics is about more than just coursework; it is about inspiring curious minds. Therefore, we also offer students the opportunity to participate in a variety of after-school programmes and clubs that supplement classroom teaching.

Our high schools also offer three foreign language programmes, namely our China-Korea programme, China-U.S. programme and China-Australia programme, to a limited number of students. These foreign language programmes are PRC education programmes with enhanced foreign language courses, tailored for the students who plan to pursue further educations abroad after graduation. We charge premium tuition fees for our foreign language programmes. The students enrolled in our foreign language programmes are eligible to obtain a PRC high school diploma after they have completed all courses required under the PRC compulsory education curriculum.

Assessment, Grading and Graduation

Final grades at our high schools, middle schools and primary schools generally represent a combination of the grades received by students for written examinations and marks received for class participation, quizzes, reports and homework. Our high school and middle school students also participate in regional and city-wide standard examinations during mid-term and final examination periods, the structure, content and grading scales of which are set in accordance with the requirements of the Gaokao or Zhongkao, as applicable.

Students in our high schools have consistently achieved outstanding results in the Gaokao. For the Gaokao administered in 2014, 2015 and 2016, approximately 17.7%, 11.4% and 14.2%, respectively, of the students at

our high schools who participated were admitted to Tier One Universities in China, including Peking University, Tsinghua University and Fudan University. This compares to approximately 8.1%, 8.2% and 9.1%, respectively, of the graduating high school students of Henan Province admitted to first tier universities (which include all Tier One Universities) in China for the same period, according to the Frost & Sullivan Report. Since our inception in 2001, our high schools had a total of 12 students who achieved the highest score at the provincial or municipal level in the Gaokao, more than any other private school operators in Henan Province. Such students were recognised as Zhuangyuan (狀元), which is known as the highest academic achievement in the Gaokao. We believe our students' accomplishments are viewed as a strong endorsement of our teaching quality and have greatly enhanced our reputation.

Academic achievements of our high school students are well recognised by respected overseas colleges and universities. For the 2013/2014, 2014/2015 and 2015/2016 school years, 11, 24 and 52 graduating high school students at our high schools, respectively, were accepted by various well-recognised overseas colleges and universities overseas, including, among others, the University of California, Berkeley, the University of Nottingham and the University of Sydney.

OUR KINDERGARTENS

As of 31 August 2016, we operated eight kindergartens in eight cities of Henan Province. For 2015/2016 school year, our kindergartens enrolled 2,757 students and employed 415 teachers. We generally admit students ages three and above in principle into our kindergartens. We generally offer full-day programmes at our kindergartens. Although generally our kindergartens are not boarding schools, they provide beds for children to take naps. Generally, students at our kindergartens attend K1 through K3 classes based on their respective age. We have a pre-kindergarten class designed as an early learning programme to prepare children aged two to three for their kindergarten study, which is only offered to a small number of students.

Our kindergartens are designed to encourage creative thinking, building independent problem-solving skills and instilling confidence in children at an early age. We use an integrated kindergarten programme that aims to stimulate our students' interest to explore the world around them, and awaken their inner learning capabilities so that they are well-prepared for the challenging primary school coursework ahead. The course materials we use combine different aspects of learning to expose our students to various important subjects, including social studies, health, language, science and arts. Our kindergartens also offer additional courses to the students to nurture their interests in art. Those additional courses include board games, painting, dance, English drama and skating.

Generally, a place at our primary schools is reserved for each graduating student at our kindergartens if his or her parents wish to continue his or her education in schools operated by our Group.

OUR STUDENTS AND STUDENT RECRUITMENT

Our Students

We seek passionate and creative students who want to take advantage of the opportunities we offer for growth in the classroom and in our community. For the 2013/2014, 2014/2015 and 2015/2016 school years, we enrolled an aggregate number of 35,431, 43,579 and 48,220 students, respectively.

Our University participates in the PRC national and local admission scheme pursuant to which graduating high school students nationwide submit college applications to several universities of their choice based on the scores they achieved in the Gaokao. Each province in the PRC sets its own standard levels of the Gaokao scores for different academic concentrations, and the universities in each province then evaluate and admit prospective students based on the respective scores and specific aspirations in students' applications, which usually rank universities in several categories with the first choice being the school the student wants to attend the most. For

each new school year, the local PRC education bureau will issue a student recruitment plan to our University that contains an admission quota designating the number of students that our University is allowed to admit for the upcoming school year. We may apply for an additional annual admission quota in the future, taking into account various factors, including, among others, the demand for places in our University, the capacity of our University and our operating efficiency.

Our high school admission process is highly selective and seeks to enrol students with excellent academic records and high learning potential. We implement consistently high admission standards in all of our high schools to ensure fair and consistent admission results. Admissions to our high schools require successful completion of grade nine in the middle school programme and achieving a sufficiently high score in the Zhongkao. In addition, we give extra consideration to (i) students who received first prizes or above in various official student contests involving scientific innovation, writing and arts, among others, and (ii) students who demonstrate artistic promise. For our middle schools, we generally reserve places for graduates from our primary schools if they wish to continue their study in our school network. Our middle schools are also open to applicants graduating from other private schools or public schools, who are generally required to take entrance examinations organised by our middle schools and are selectively admitted based on the test results. Similar to our high school admissions, we give extra consideration to students' applications if they have attained other extracurricular achievements outside the school or demonstrate artistic talents. For our primary schools, we generally require student applicants and their parents to go through an interview process so that we are able to selectively admit intelligent and well-rounded students to join our programmes. For our kindergartens, our admission policies are more flexible. We normally hold interviews with the parents of our potential students and assess if those students would fit in our kindergarten programmes. Our high schools, middle schools, primary schools and kindergartens are not subject to any admission quota issued by the PRC education authorities. In general, upon graduating from our kindergartens, the primary schools or middle schools, a large majority of our students may choose to apply for admission to the respective next level within our school system.

Student Recruitment

Our new student enrolment has historically been driven primarily by word-of-mouth referrals. Based on the feedback we received from our students and their parents, we believe they are generally satisfied with the high quality education we provide and willing to help us attract more students through referrals. In addition, after over 15 years of operations, we have built a highly engaged and vibrant community of alumni, who we believe have passionate and genuine emotional connections with our schools. Other than referrals, we also employ a range of marketing and recruiting methods to attract students and increase enrolment at our schools, such as information session, advertisements and brochures.

For our University, a temporary student recruitment team consisting of over 100 teachers is normally formed during the recruitment season. Those recruitment teachers visit high schools in major cities in Henan Province to hold information sessions and recruit students for our University. We also encourage students at our University to engage with the graduating students at their previous high schools to promote the brand awareness of our University.

For our K-12 schools, approximately 83.5% of our newly enrolled students were recruited through referrals for the 2015/2016 school year based on our estimate. New enrolments through word-of-mouth referrals have benefited from our large student base, as well as our reputation, brand and quality of education and increased our sales and marketing efficiency. We also increase the awareness of our "YuHua" brand by inviting our students' parents, the media and the public to attend our anniversary gala and other on-campus events and communicate with our students and teachers face-to-face.

We also plan to utilise new and targeted marketing techniques, such as Weibo, WeChat and online advertising, targeting potential students and their parents and offering individual informational meetings. Each school campus

BUSINESS

runs a WeChat public account that publishes news and events about our Group and our schools from time to time. As of the Latest Practicable Date, the WeChat public accounts held by our schools had an aggregate of approximately 550,000 followers.

TEACHERS AND TEACHER RECRUITMENT

We believe that our team of experienced and dedicated teachers has been crucial to our success. As an operator of private schools, we can provide better incentives to independently recruit qualified teachers who fit our hiring criteria and can thrive in our schools. Teachers are the key to maintaining high-quality educational programmes and services as well as maintaining our brand and reputation. Our aim is to continue hiring teachers with a strong command of their respective subject areas who are open to innovative teaching methods and a caring heart towards students' well-being. As of 31 August 2016, we had 2,455 teachers. Approximately 73.0% of our teachers as of such date have a bachelor's degree or above, and approximately 22.3% of our teachers have a master's degree or above. We also value the recognition bestowed upon our teachers who have achieved teaching excellence. During the Track Record Period, we maintained a low teacher turnover rate.

The following table sets forth the number of our teachers for the school years indicated:

| School | For the school year ⁽¹⁾ | | |
|--------------------------|------------------------------------|--------------|--------------|
| | 2013/2014* | 2014/2015* | 2015/2016* |
| University | 346 | 360 | 600 |
| Grade 1-12 schools | 1,364 | 1,575 | 1,440 |
| Kindergartens | 377 | 353 | 415 |
| Total | 2,087 | 2,288 | 2,455 |

Note:

* We use 31 August 2014, 31 August 2015 and 31 August 2016 to calculate our business operating data for 2013/2014 school year, 2014/2015 school year and 2015/2016 school year, respectively.

(1) Does not include teachers with full-time administrative responsibilities or part-time teachers.

We recruit teachers based on the size of our current student enrolment and the number of newly admitted students at the beginning of each school year. Before hiring each teacher, we usually consider his or her prior teaching experience, academic record, graduation certificate and reference letters as well as his or her performance in the interview. We also conduct background check for our candidates during the recruiting process. For certain schools of ours, we require applicants to teach a live class as part of his or her application process. From time to time we hire qualified teachers laterally from other public and private schools in Central China and elsewhere in the PRC. All the PRC teachers who teach courses in our schools are required to obtain valid teacher qualification certificates (教師資格證) issued by the PRC government before they can be involved in the teaching activities, and in the case of foreign teachers, valid foreign expert certificates (外國專家證) issued by the PRC government is required. As of 31 August 2016, all our teachers who teach courses in our schools held valid teacher qualification certificates or foreign expert certificates, as the case may be.

Newly hired teachers undergo mandatory training programmes that cover teaching skills and techniques. We also provide continuing training for our teachers so that they can stay abreast of the changes in student demands, new teaching theories and/or methodologies, changing testing and admission standards and other trends. We also implement ongoing monitoring and evaluation procedures for our teachers. During the school year, we monitor the teaching quality of our teachers and conduct evaluations of our teachers from time to time. We may take into consideration the performance of each teacher when making decisions regarding their compensation.

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

COMPETITION

The educational services market in China is rapidly evolving, highly fragmented and competitive. According to the Frost & Sullivan Report, the number of private K-12 schools and private universities in China was approximately 159,700 and 734, respectively, as of the end of 2015. The proportion of the number of students in private kindergartens, primary schools, middle schools, high schools and universities in 2015/2016 school year were approximately 54.0%, 7.4%, 11.7%, 10.8% and 21.7% of the total number of students in kindergartens, primary schools, middle schools, high schools and universities in China, respectively. As we operate in Henan Province, we face competition primarily from public and private schools in Central China, in particular from those that operate in the same areas. We believe our principal competitive advantages include:

- our full range of K-12 to university education and extensive operating experience;
- brand recognition;
- the scope and quality of our education programmes, services and offerings;
- our centralised management system;
- our unique corporate culture and experienced management with effective management skills;
- our highly scalable and replicable business model;
- students' academic performance, in particular, achievements in Gaokao scores that allowed students to apply to and be admitted by Tier One Universities in the PRC;
- high employment rate of the graduates of the University;
- overall student experience and parents' satisfaction; and
- ability to attract and retain qualified teachers.

We expect the competition in the private education market to persist and intensify. We believe we are able to compete effectively due to our strong reputation and established programmes. However, some of our existing and potential competitors, especially public schools, have governmental support in the form of government subsidies and other payments or fee reductions. Our competitors may devote greater resources, financial or otherwise, than we can to student recruitment, campus development and brand promotion, and respond more quickly than we can to changes in student demands and market needs. See the sections headed "Risk Factors — Risks Relating to our Business and our Industry — We face intense competition in the PRC education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures" and "Industry Overview — Competitive Landscape" in this prospectus for more information.

CUSTOMERS AND SUPPLIERS

Our customers primarily consist of our students and their parents. We did not have any single customer who accounted for more than 5% of our revenue for each of the years ended 31 August 2014, 2015 and 2016.

Our suppliers primarily comprise meal catering companies, suppliers for text books, uniforms and teaching equipment vendors. For the years ended 31 August 2014, 2015 and 2016, purchases from our five largest suppliers amounted to RMB32.8 million, RMB43.7 million and RMB48.5 million, respectively, which represented 32.1%, 42.5% and 47.3% of our total purchases in the same year. During the same periods, purchases from our largest supplier amounted to RMB11.2 million, RMB21.0 million and RMB24.7 million, respectively, which represented 11.0%, 20.4% and 24.1% of our total purchases in the same year. Our largest supplier during the Track Record Period is an independent third party catering service provider who provides catering services to certain schools of ours. None of our Directors, their respective associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we owned 11 trademarks and 58 domain names in the PRC. In addition, as of the Latest Practicable Date, we had made three trademark applications in Hong Kong. As of the Latest Practicable Date, we had no copyrights or patents which we consider to be or may be material to our business, results of operations or financial condition. See the section headed “B. Further Information about our Business — 2. Intellectual property rights” in Appendix V to this prospectus for more information.

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

AWARDS AND RECOGNITIONS

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

| Year | Award / Accreditation | Awarding Organisation | Awarded Entity |
|------|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------|
| 2016 | Ranked 2 nd in Independent College category of the PRC university ranking in terms of overall strength | China University Alumni Association | Zhengzhou Technology and Business University |
| 2016 | Ranked 1 st in Independent College category of the Henan university ranking in terms of overall strength | China University Alumni Association | Zhengzhou Technology and Business University |
| 2015 | Top 100 Most Prestigious Middle Schools | Organisational Committee of Outstanding Middle School Principal Forum | Zhengzhou YuHua Elite School |

We are also members or committee members of certain educational associations. The following table sets forth some of the positions we currently hold:

| Seat or Membership | Organisation | Entity |
|--------------------|-------------------------------------------------------------------------------------------|----------------------------------------------|
| Deputy Chair | Henan Private Education Association (河南民辦教育協會) | Zhengzhou Technology and Business University |
| Deputy Chair | Preschool Education Committee of Henan Private Education Association (河南民辦教育協會學前教育委員會) | Zhengzhou YuHua Elite Bilingual Kindergarten |

BUSINESS

EMPLOYEES

As of 31 August 2014, 2015 and 2016, we had 3,494, 3,807 and 4,079 employees, respectively. Substantially all of our employees are located in Henan province. The following table sets forth the total number of employees by function as of 31 August 2016:

| Function | Number of Employees | % of Total |
|----------------------------|---------------------|--------------|
| Teachers | 2,455 | 60.2 |
| Administrative staff | 871 | 21.4 |
| Marketing staff | 5 | 0.1 |
| Other staff | 748 | 18.3 |
| Total | 4,079 | 100.0 |

As required by the PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including, among others, housing provident fund, pension, medical insurance, social insurance and unemployment insurance. During the Track Record Period and up to the Latest Practicable Date, we did not make full contributions to the social insurance plans and the housing provident fund for a certain number of our employees in accordance with relevant PRC laws and regulations due to the personal reasons of certain employees. This was primarily caused by different levels of acceptance of the social insurance plans by our employees and inconsistent implementation or interpretation of relevant laws and regulations by local authorities in the PRC. We estimate that the aggregate amount of social insurance payments that we did not make due to the personal reasons of certain employees was RMB2.7 million, RMB4.6 million and RMB5.7 million for the years ended 31 August 2014, 2015 and 2016, respectively, and the housing provident fund contributions that we did not make was RMB1.6 million, RMB2.5 million and RMB3.7 million for the same periods, respectively.

Our PRC Legal Adviser has advised us that, pursuant to the Social Insurance Law of the PRC, if we fail to pay the full amount of social insurance premiums as required, the local social insurance agencies may require us to pay the overdue amount within a certain stipulated period and may impose a fine equivalent to 0.05% of the overdue payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of the overdue payment. We and our PRC Legal Adviser have conducted interviews with the relevant local competent authorities and the officers of the relevant competent authorities have confirmed that it is lawful for our schools to pay the social insurance premiums at the local minimum standard and with respect to any unpaid social insurance premium due to the personal reasons of the employees, our schools would not be held responsible or penalised. We have also obtained confirmation letters from relevant local competent authorities, which confirmed that (i) our schools have paid the social insurance premiums in accordance with relevant PRC laws and regulations and no payment is overdue; and (ii) none of our schools have been or might be penalised by the local social insurance agencies.

Our PRC Legal Adviser has further advised us that, pursuant to the Regulations on Management of Housing Provident Fund, if we do not pay the full amount of housing provident fund as required, the housing provident fund management centre may order us to make the payment outstanding within a stipulated period; if the payment is not made within the stipulated period, an application may be made to the Chinese Courts for compulsory enforcement. We and our PRC Legal Adviser have conducted interviews with the relevant local competent authorities and the officers of the relevant competent authorities have confirmed that it is lawful for our schools to pay the housing provident fund at the local minimum standard and with respect to any unpaid housing provident fund due to the personal reasons of the employees, our schools would not be held responsible or penalised. We have also obtained confirmation letters from relevant local competent authorities, which confirm that (i) our schools have paid the housing provident fund in accordance with relevant PRC laws and regulations and no payment is overdue; and (ii) none of our schools have been or might be penalised by the housing provident funds collection institution.

BUSINESS

We have, however, made provisions for the social insurance premium and housing provident fund contributions which were unpaid due to personal reasons of certain employees so that we will be able to meet the competent authorities' request for payments in the unlikely event that any of them requests so. For the reasons set out above, our Directors are of the view that this will not have a material adverse impact on our business operations or financial condition as a whole. Going forward, we will make relevant contributions in accordance with the relevant PRC laws and regulations.

Certain schools of ours have established a labour union and our employees may join the labour union of their respective school voluntarily. During the Track Record Period, we have not experienced any material labour disputes.

We believe the quality of our education is strongly tied to the quality of our teachers. We have implemented training and recruitment policies in order to uphold the quality of our teachers. See the paragraph headed “— Teachers and Teacher Recruitment” in this section for details of our training and recruitment policies for our teachers and other educational staff.

PROPERTIES

As of 31 August 2016 and as of the Latest Practicable Date, we owned 10 parcels of land in the PRC with a total gross site area of approximately 884,445.6 square metres and had 32 buildings or groups of buildings. All of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of the Latest Practicable Date, we also leased 9 properties. See the section headed “Property Valuation Report” in Appendix III to this prospectus for more information.

Owned Properties

Land

The following table sets forth a summary of the land use rights we owned as of 31 August 2016:

| No. | Land Use Right Owner | Description/Location | Gross Site Area (square metres) | Existing Use | Expiry Date |
|-----|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------|-----------------|
| 1 | YuHua Investment Management | The north side of Xinchun Road, Baqian County, Xinzheng City | 58,160.0 | Education | June 2051 |
| 2 | YuHua Investment Management | The north side of Xinchun Road, Baqian County, Xinzheng City | 78,666.7 | Education | July 2051 |
| 3 | Zhengzhou YuHua Education Investments | The south of Shiji Road and the east of Jiuzhou Road, High-tech Zone | 196,070.0 | Science and Education | No expiry date* |
| 4 | Zhengzhou YuHua Education Investments | The east of Mazhuang Street and the north of Nongye East Road, Longhu South District and Zhengdong New District, Zhengzhou City | 44,727.9 | Education | No expiry date* |

BUSINESS

| No. | Land Use Right Owner | Description/Location | Gross Site Area (square metres) | Existing Use | Expiry Date |
|-----|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------|-----------------|
| 5 | Zhengzhou Technology and Business University | The south side of Fengyang Road, the east side of Longyang West Road, the west side of Longyang Road and the north side of Jicheng Road, Baishazu Unit | 77,832.0 | Science and Education | No expiry date* |
| 6 | Zhengzhou Technology and Business University | The north side of Jicheng Road, the south side of Fengyang Road, the west side of Longyang Road and the east side of Qiancheng Road, Baishazu Unit | 146,644.1 | Science and Education | No expiry date* |
| 7 | Zhengzhou Technology and Business University | Xing County, Jiayu Town, Xingyang City | 40,090.0 | Education | No expiry date* |
| 8 | Luohe YuHua Elite School | The intersection between Cuihua Mount Road and Furong River Road, Yuanhui District | 64,983.2 | Science and Education | No expiry date* |
| 9 | Luohe YuHua Elite School | The intersection between Cuihua Mount Road and Furong River Road, Yuanhui District | 116,960.0 | Science and Education | No expiry date* |
| 10 | Kaifeng YuHua Elite School | The west of Fifth Avenue, the east of Sixth Avenue and the south of Jinyao Road, Kaifeng New District | 60,311.8 | Science and Education | No expiry date* |

Note:

* Pursuant to the Urban Real Estate Law of the PRC promulgated on 1 January 1995 and amended on 27 August 2009, the allocation of land use right shall mean the allocation of a piece of land by the people's government above the county level to a land user in accordance with the law after necessary compensation or settlement costs have been paid. The land use right obtained through allocation in accordance with the law, except those prescribed otherwise by the laws and administrative rules, has no time limit. Therefore, these land use rights owned by us, which were obtained through allocation, have no time limit on their use.

As of the Latest Practicable Date, we had not obtained the land use right certificates for (i) part of the land used by our University (“**Land I**”), which was due to an adjustment to the administrative territory between Zhongmu County and Zhengdong New District by the PRC government; and (ii) land used by our Xuchang Yuhua Elite School campus (“**Land II**”), which was due to adjustments to the land use right transfer procedures by the local land administration authority.

According to the relevant provisions in the PRC Law of Land Administration and the PRC Urban and Rural Planning Law, we are required to apply for and obtain the land use right certificates for all of the land used by us.

BUSINESS

Our PRC Legal Adviser advises that pursuant to these provisions, the land administration authority above county level in the PRC may re-enter and regain possession of the lands for which we have not obtained the land use right certificates, confiscate the buildings and facilities on such lands and impose fines on us.

In May 2013, we entered into a land re-arrangement agreement with the governmental body of the district where Land I is located (the “**Land I Agreement**”), pursuant to which, the local government agreed to arrange to relocate certain planned development projects of our University from the original site to Land I, which is adjacent to the original site, in accordance with the urban planning policies of Zhengzhou.

In August 2013, we entered into a school investment agreement with the government of the district where Land II is located (the “**Land II Agreement**”), pursuant to which, the local government agreed to (i) allocate Land II to us for the purpose of establishing Xuchang Yuhua Elite School, (ii) arrange to issue the land use right certificate for Land II to us, and (iii) guarantee the legality and validity of the usage of Land II by us.

We have obtained (i) a confirmation letter issued by the Bureau of Land and Resources of Zhongmu County relating to the land use right of Land I, and (ii) a confirmation letter issued by the Bureau of Land and Resources of Xuchang City, Weidu Branch relating to the land use right of Land II. Pursuant to these confirmation letters, the competent authorities have confirmed that (a) the use of Land I and Land II is consistent with the relevant PRC laws, regulations and policies; (b) we and our schools will not be subject to above mentioned administrative penalties; and (c) there is no legal impediment for the relevant schools to obtain the land use right certificates.

Based on (i) the locations of Land I and Land II, (ii) the relevant land laws and regulations and (iii) the description of the scope of responsibility of those government authorities set out on their websites, our PRC Legal Adviser is of the view that those government authorities are the competent authorities in giving such confirmation letters. Based on the Land I Agreement, the Land II Agreement and such confirmation letters, our PRC Legal Adviser is of the view that (i) the competent authorities have agreed that the relevant schools may use Land I and Land II and (ii) the use of Land I and Land II by the relevant schools will not be regarded as illegal by the competent authorities nor will the competent authorities initiate any administrative action against us or impose any penalty or fine on us as a result of such usage.

Based on (i) the confirmation letters obtained from the relevant competent authorities; (ii) our PRC Legal Adviser’s opinion as mentioned above; (iii) the immateriality of Land I to our business operations as a whole because the buildings located on Land I are four dormitories for our students, teachers and administrative staff and the area of Land I only accounts for approximately 15% of total area of the lands that our Group uses; and (iv) the immateriality of Land II to our business operations as a whole because the students enrolled on Xuchang Yuhua Elite School campus, which occupies Land II, only accounted for less than 5% of our total enrolled students for the 2015/2016 school year, our Directors are of the view that the lack of land use right certificates for Land I and Land II is not material to our business operations or financial conditions as a whole.

We are in the process of obtaining the land use right certificates for Land I and Land II. Based on our continuous communications with the relevant competent authorities, we expect to obtain the land use right certificates for the Land I and Land II before March 2018. We will continue to use our best efforts to cooperate with the relevant land administration authorities and disclose the progress and status of obtaining such land use right certificates as appropriate in our interim and annual reports.

Given (i) the confirmation letters obtained from the relevant competent authorities, (ii) the Land I Agreement and the Land II Agreement, and (iii) our PRC Legal Adviser’s opinions as mentioned above, our Directors are of the view that there is no potential risk of us being required to relocate the relevant schools on Land I and Land II.

Buildings or Groups of Buildings

As of 31 August 2016 and as of the Latest Practicable Date, we had 32 buildings or groups of buildings located in the PRC. All of these buildings or groups of buildings have been designed for education-related usage (including canteen, dormitory, warehouse and recreational usage).

We have not obtained proper building ownership certificates or other requisite certificates or permits for 11 of our 32 owned buildings or groups of buildings (the “**Relevant Owned Buildings**”), due in part to changes to the urban planning in the cities where we operate, administrative oversight by our management and their unfamiliarity with the relevant regulatory requirements. The Relevant Owned Buildings are located in our University, Xingyang Yuhua Elite School campus, Jiaozuo Yuhua Elite School campus, Luohe Yuhua Elite School campus, Xuchang Yuhua Elite School campus, Kaifeng Yuhua Elite School campus and Zhengzhou Yuhua Elite Primary School campus and Zhengzhou Yuhua Elite School campus. The Relevant Owned Buildings are used for education-related purposes. We have obtained confirmation letters from local government authorities, where the Relevant Owned Buildings are located, which confirmed that (i) the project planning, construction, quality, fire-control, security and environmental protection of the Relevant Owned Buildings were in compliance with relevant laws and regulations, (ii) the relevant schools will not be subject to administrative actions, fines or other penalties imposed by the relevant government authorities, and (iii) there is no legal impediment for us to obtain the certificates and permits. Based on (i) the locations of the Relevant Owned Buildings, (ii) the relevant building construction laws and regulations and (iii) the descriptions of the scope of responsibility of those government authorities set out on their websites, our PRC Legal adviser is of the view that those government authorities are the competent authorities in giving such confirmation letters. Our PRC Legal Adviser has further advised that, based on the written confirmations issued by these relevant government authorities, we will not be subject to administrative actions, fines or other penalties imposed by these government authorities nor will the operation of our schools be materially affected due to the failure to obtain these certificates and permits for the Relevant Owned Buildings. As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed on us by the relevant government authorities, nor had any of our schools been required to rectify the lack of certificates or permits or had any of their rights to use the Relevant Owned Buildings challenged by third party. Based on the above, our Directors are of the view that there is no potential risk of us being required to relocate the relevant schools that occupy the Relevant Owned Buildings. For the risks that we may face due to the lack of the relevant certificates and permits for the Relevant Owned Buildings, see the section headed “Risk Factors — Risks Relating to our Business and our Industry — We are subject to extensive governmental approvals and compliance requirements in relation to the lands, buildings or groups of buildings that we own” in this prospectus.

We have implemented extensive and comprehensive measures to rectify this issue. We are in the process of applying to relevant government authorities for the relevant outstanding certificates and permits and are closely following up with the government authorities with respect to our applications. We have also engaged our PRC Legal Adviser to provide a series of in-house trainings and intend to provide these trainings on a regular basis to our school management with respect to compliance with the regulatory requirements relating to building ownership certificates and other requisite certificates or permits. We have also adopted a set of internal guidelines for our school management to ensure that they are properly guided to comply with the aforesaid regulatory requirements. To ensure that this situation is rectified in a timely manner and if the circumstances require so, we will also engage external legal advisers or other professional advisers to tackle any issue that may arise in the process of the rectification. According to the confirmation letters received from the relevant government authorities, there is no legal impediment for us to obtaining the certificates and permits. We expect to obtain all the relevant outstanding certificates and permits of the Relevant Owned Buildings before March 2018. We will use our best efforts to cooperate with the relevant authorities to expedite the process. We will disclose the process of the rectification in our interim or annual reports as appropriate and where applicable, explanation for any delay in such rectification.

Based on the above, our Directors are of the view that the failure to obtain each of the relevant certificates and permits for the Relevant Owned Properties will not have a material adverse effect on our operations and financial condition as a whole because: (i) we are in the process of applying to the relevant government authorities for the relevant outstanding certificates and permits; (ii) we have obtained the confirmation letters issued by the competent government authorities which confirmed that there is no legal impediment for us to obtain the certificates and permits; and (iii) we have obtained the confirmation letters issued by the competent government authorities confirming that we would not be subject to administrative actions, fines or other penalties.

We have obtained confirmations from the relevant building construction authorities that the construction of the Relevant Owned Buildings is in compliance with relevant laws and regulations and the quality of the construction work is satisfactory. We also obtained confirmations from relevant fire-control and public security authorities that the Relevant Owned Buildings meet the relevant fire-control standards and do not violate any fire-control laws or regulations. We inspect and maintain the properties on a regular basis with a view to ensuring satisfactory safety conditions. Based on the safety records and the measures that we have taken, we believe the Relevant Owned Buildings are fit and safe for education purposes.

Leased Properties

As of 31 August 2016, we leased 10 properties. As of the Latest Practicable Date, we also leased 9 properties. In addition, the relevant lease agreements our schools have entered into with our landlords were not registered with the relevant PRC government authorities. Our PRC Legal Adviser has advised us that we may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB 1,000 to RMB 10,000 for each non-registered lease. However, as of the Latest Practicable Date, we have not been fined by the relevant PRC authorities with respect to these non-registered leases, and our PRC Legal Adviser has advised us that the non-registration of such lease agreements would not affect their validity. For further details on the risks associated with our leased properties, see the section headed “Risk Factors — Risks Relating to our Business and our Industry — We lease several of our school premises and may not be able to control the quality, maintenance and management of these school premises, nor can we ensure we will be able to find suitable premises to replace our existing school premises in the event our landlords refuse to renew the relevant lease agreements upon the expiry of their terms” in this prospectus.

INSURANCE

We maintain various insurance policies, such as school liability insurance to safeguard against risks and unexpected events. We do not maintain business interruption insurance, product liability insurance or key-man life insurance. We consider our insurance coverage to be in line with what we believe to be customary practice in the PRC. Our Directors believe that our insurance coverage is generally consistent with the industry practice and provides adequate protection for our assets and operations. Nevertheless, we may be exposed to other claims or liabilities not covered by our insurance. See the section headed “Risk Factors — Risks Relating to our Business and our Industry — We maintain limited insurance coverage” in this prospectus for more information.

LICENCES AND PERMITS

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

Our University was converted from Wanfang College of the Henan Polytechnic University upon the approval of the Ministry of Education of the PRC (《教育部關於同意河南理工大學萬方科技學院轉設為鄭州工商學院的函》(教發函[2016]95號)) on 21 April 2016. Pursuant to the aforesaid approval, our University shall apply for the new

BUSINESS

private school operating licence, registration certificate of a privately-run non-enterprise institution as well as other required permits in the name of Zhengzhou Technology and Business University. On 30 September 2016, we and our PRC Legal Adviser consulted the Education Department of Henan Province on the issue of renewal of permits. We were advised by the responsible officer that (i) the private school operating licence of Wanfang College shall be altered to reflect the conversion of Wanfang College to Zhengzhou Technology and Business University; (ii) given our University is in the process of obtaining the new private school operating licence as well as other required permits, the operation of our University shall not be affected; and (iii) the estimated date on which our University will obtain all renewed permits shall ultimately be determined by the relevant competent authorities. Based on the above interview, our PRC Legal Adviser is of the view that (a) Wanfang College has obtained the approval for conversion into Zhengzhou Technology and Business University and the remaining procedures to apply for private school operating licence and registration certificate of a privately-run non-enterprise institution are routine procedures only; (b) there is no legal impediment for our University to obtain these permits after the conversion; and (c) our University may continue its operation before the new permits are issued. As of the Latest Practicable Date, we had not been informed by the relevant competent authorities of the date on which our University may obtain the renewed permits. We will continue to proactively cooperate with relevant authorities and use our best efforts to complete the renew process as soon as possible. We will disclose the progress and status of the permit renewal in our interim or annual reports as appropriate. For further details of the conversion, see the section headed “History, Reorganisation and Corporate Structure — Prior Cooperation with Henan Polytechnic University” in this prospectus.

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

BUSINESS

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

| Licence/Permit ⁽¹⁾ | Holder | Granting authority | Grant date | Expiry date |
|----------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------|----------------|-------------------------|
| Private school operating licence | Zhengzhou Technology and Business University | Education Department of Henan Province Government | May 2015 | May 2016 ⁽²⁾ |
| Private school operating licence | Zhengzhou YuHua Elite School | Zhengzhou Education Bureau | May 2016 | May 2024 |
| Private school operating licence | Xuchang YuHua Elite School | Xuchang Weidu District Education and Sports Bureau | March 2016 | March 2024 |
| Private school operating licence | Jiyuan YuHua Elite School | Jiyuan Education Bureau | March 2016 | July 2022 |
| Private school operating licence | Jiaozuo YuHua Elite School | Jiaozuo Education Bureau | March 2016 | March 2024 |
| Private school operating licence | Luohe YuHua Elite School | Luohe Education Bureau | March 2016 | March 2020 |
| Private school operating licence | Kaifeng YuHua Elite School | Kaifeng Education Bureau | March 2016 | March 2020 |
| Private school operating licence | Xingyang YuHua Shengshi Elite School | Xingyang Education and Sports Bureau | April 2015 | March 2023 |
| Private school operating licence | Zhengzhou YuHua Elite Primary School | Zhengzhou Zheng Dong New District Education, Culture and Sports Bureau | April 2016 | April 2024 |
| Private school operating licence | Zhengzhou YuHua Elite Bilingual Kindergarten | Zhengzhou Zheng Dong New District Education, Culture and Sports Bureau | June 2016 | June 2024 |
| Private school operating licence | Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten | Jiaozuo New District Social Affairs Bureau | April 2016 | April 2024 |
| Private school operating licence | Xuchang Weidu District YuHua Elite Bilingual Kindergarten | Xuchang Weidu District Education and Sports Bureau | March 2016 | March 2018 |
| Private school operating licence | Xingyang YuHua Elite Kindergarten | Xingyang Education and Sports Bureau | September 2013 | September 2021 |
| Private school operating licence | Xinxiang Weibin District YuHua Elite Kindergarten | Xinxiang Education Bureau | September 2016 | September 2019 |
| Private school operating licence | Hebi Qibin District YuHua Elite Bilingual Kindergarten | Hebi Qibin District Education, Culture and Sports Bureau | November 2015 | November 2023 |
| Private school operating licence | Luohe YuHua Elite Bilingual Kindergarten | Luohe Education Bureau | May 2016 | May 2020 |
| Private school operating licence | Jiyuan YuHua Elite Bilingual Kindergarten | Jiyuan Education Bureau | April 2016 | July 2018 |

Notes:

- (1) To maintain each of our private school operating licences, the respective school is required to pass an annual inspection regardless of whether such licence bears an expiry date or not. As of the Latest Practicable Date, each of our schools had passed the latest annual inspection.
- (2) A renewal application has been filed with the relevant government authorities. For further details, see the section headed “History, Reorganisation and Corporate Structure — Prior Cooperation with Henan Polytechnic University” in this prospectus.

HEALTH AND SAFETY MATTERS

We are dedicated to protecting the health and safety of our students. We have on-site medical staff or health care personnel at each of our schools to handle routine medical situations involving our students. In certain serious and emergency medical situations, we promptly send our students to local hospitals for treatment. With respect to school safety, we have in place a set of school safety and security measures and a team of security staff at each of our schools. For certain schools of ours, we have engaged a qualified property management company to provide property security services. During the Track Record Period and up to the Latest Practicable Date, save as described below, we did not experience any serious accident, medical situation or safety issue involving our students.

In 2011, a high school student at Zhengzhou YuHua Elite School committed suicide in 2011 due to depression as a result of family dispute. After the incident, the parents of the deceased student did not raise any claims against us. As a humanitarian act, we paid RMB50,000 condolence money to the family of the deceased student. Subsequently, we strengthened our efforts in providing psychological counselling to our students.

In 2012, a primary school student at Zhengzhou YuHua Elite Primary School fell from the second floor of a teaching building and suffered a fracture. We sent the student to the local hospital immediately and paid RMB5,000 in medical fees. The parents of such student were satisfied with our handling of this incident and the student continued his study in our school network. In 2013, a primary school student at Zhengzhou YuHua Elite Primary School fell from the third floor of a teaching building and suffered from pulmonary contusion and a fracture. We sent such student to local hospital immediately and paid RMB30,000 in medical fees. The parents of the injured student did not initiate any legal proceedings against us. After those two incidents, we installed fences to all our class windows and enhanced our education on student safety issues to our teachers and other staff.

In 2016, three students at our University were injured in an incident outside our University campus by someone who was not our student. Although we were deemed not responsible for this out-of-campus incident, we enhanced our school security management and regularly educated our students on self-protection.

For more information, see the section headed “Risk Factors — Risks Relating to our Business and our Industry — Accidents or injuries suffered by our students or our employees on or outside our school campuses or by other personnel on our school campuses may adversely affect our reputation and subject us to liabilities” in this prospectus.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material or systemic non-compliance of the laws or regulations, which taken as a whole, in the opinion of the Directors, are likely to have a material and adverse effect on our business, financial condition or results of operations. During the same periods, we also did not experience any non-compliance of the laws or regulations, which taken as a whole, in the opinion of the Directors, reflects negatively on the ability or tendency of our Company, the Directors or our senior management, to operate our business in a compliant manner. Our PRC Legal Adviser, Tian Yuan Law Firm, is of the opinion that, other than disclosed in the paragraphs headed “Employees” and “Properties — Owned Properties” in this section, we have complied with all relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which, in the opinion of our management, could have a material adverse effect on our operations or financial condition. Our Directors have confirmed that no member of our Group is currently engaged in any material litigation, arbitration or administrative proceeding.

See the paragraphs headed “Employees” and “Properties — Owned Properties” in this section for a description of certain legal matters relating to our compliance with certain employee benefits and property related laws and regulations which, for the reasons described in those paragraphs, our Directors consider to be immaterial in nature.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

We have engaged an independent internal control consultant (the “**Internal Control Consultant**”) to conduct an assessment of our internal control system in respect of Practice Note 21. The internal control consultant has conducted long-form review procedures on our internal control system in certain aspects, including revenue, purchase, fixed assets management, human resources, financial management and information technology. The Internal Control Consultant conducted its work in June 2016 and provided a number of findings and recommendations in its report. The internal control findings identified by the Internal Control Consultant did not result in any material misstatement to our combined financial information prepared in accordance with IFRS during the Track Record Period as set out in Appendix I to this prospectus after certain appropriate adjustments were made to address those internal control deficiencies. We have subsequently taken remedial actions in response to such findings and recommendations. The Internal Control Consultant performed follow-up procedures on our Company’s system of internal control with regard to those actions taken by our Company and reported further commentary in September 2016. As of the Latest Practicable Date, we confirm that there were no material internal control findings outstanding.

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

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

- Before we purchase any properties and enter into any new lease, our directors and senior management will conduct enhanced due diligence to ensure there are no title issues and legal issues. The enhanced due diligence includes, among others, (i) examining the relevant land use right certificates and building title ownership documents; (ii) verifying such certificates and documents with the land administration authority and building administration authority and confirming the ownership; (iii) checking with building administration authority to ascertain whether any mortgage, charge or other security are attached to the building; and (iv) conducting site visits;
- We will obtain the requisite licences and permits (including but not limited to land use right certificates and building ownership certificates) as and when required by the laws and regulations and follow the requisite procedures relating to construction and work completion of buildings;
- We have engaged Tian Yuan Law Firm, our PRC Legal Advisor, to advise us on the issues relating to title of properties and compliance of property laws and regulations;
- We have established a set of policies and procedures for property purchase and leasing arrangement to enhance our internal approval process; and
- Mr. Xu Bin, our chief financial officer, will monitor the implementation of the above measures and will check whether there is any non-compliance going forward.

BUSINESS

In addition, we have also implemented the following internal control measures to ensure our compliance with relevant social security laws and regulations:

- The manager of the human resources departments of our Group will review the reporting and contributions of social insurance and housing provident fund for the employees of our Group regularly;
- Our human resources department will also consult Tian Yuan Law Firm, our PRC legal advisor, on the requirements under the relevant PRC laws and regulations in relation to social insurance and housing provident fund;
- Training on relevant social security and housing provident fund laws and regulations will be arranged for our management from time to time to keep them abreast of these areas;
- Our human resources department will organise information sessions for our employees and urge them to make contributions/payments in accordance with relevant social security and housing provident fund laws and regulations; and
- The manager of the human resources department will report to Mr. Xu Bin, our chief financial officer, on the legal and regulatory compliance and provide improvement recommendations when required.

Taking into account the internal control measures implemented by us in connection with the non-compliance incidents disclosed under the paragraph headed “— Legal Proceedings and Compliance” in this section, the on-going monitoring and supervision by our Board and the principals of our schools with the assistance from professional external advisers where required, and the fact that, as confirmed by the Directors, the non-compliance incidents did not involve fraud or dishonesty, our Directors are of the view that our enhanced internal control measures are adequate and effective; the suitability of our Directors is compliant with Rules 3.08 and 3.09 of the Listing Rules; and our Company is suitable for listing under Rule 8.04 of the Listing Rules. Based on the due diligence documents, discussions with our Directors, our PRC’s Legal Advisers and our Directors’ confirmation, the Sole Sponsor concurs with the views of our Directors.

Risk Management

We are exposed to various risks in the operations of our business and we believe that risk management is important to our success. Key operational risks faced by us include, among others, changes in general market conditions and perceptions of private education, changes in the regulatory environment in the PRC education industry, our ability to offer quality education to our students, our ability to increase student enrolment and/or raising tuition rates, our potential expansion into other regions in Central China, availability of financing to fund our expansion and business operations and competition from other school operators that offer similar quality of education and have similar scale. See the section headed “Risk Factors” in this prospectus for disclosures on various risks we face. In addition, we also face numerous market risks, such as interest rate, credit and liquidity risks that arise in the normal course of our business. For a discussion on these market risks, see the section headed “Financial Information — Quantitative and Qualitative Disclosures about Market Risk” in this prospectus.

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

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

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. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of kindergartens, high schools and 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 exception, been withheld. We do not hold any direct 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

Primary school and middle school education

Pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見) promulgated by the MOE on 18 June 2012 (the **"Implementation Opinions"**), foreign-invested companies that engage in educational activities in the PRC should comply with the Foreign Investment Industries Guidance Catalogue (Amended in 2015) (《外商投資產業指導目錄》(2015年修訂)) (the **"Foreign Investment Catalogue"**).

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

For this reason, the primary and middle schools operated by us in the PRC are held by Zhengzhou YuHua Education Investments, which is directly or indirectly wholly-owned by the Registered Shareholders, and controlled by us pursuant to the Contractual Arrangements.

Our PRC Legal Adviser has opined that all possible actions or steps necessary for it to confirm that the Contractual Arrangements with respect to the operation of primary and middle school businesses are valid, legal and binding and do not contravene PRC laws and regulations have been taken.

Kindergarten, high school and higher education

Pursuant to the Foreign Investment Catalogue, the provision of kindergarten, high school and higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalogue explicitly restricts kindergartens, high schools and higher education institutions to Sino-foreign cooperation, which means that foreign investors may only operate kindergarten, high schools and higher education institutions through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation. In addition, the Foreign Investment 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 cooperative educational institution (the **"Foreign Control Restriction"**).

CONTRACTUAL ARRANGEMENTS

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條例), promulgated by the State Council in 2003 and amended on 18 July 2013 (the “**Sino-Foreign Regulation**”), the foreign investor in a Sino-foreign joint venture school for PRC students at a kindergarten, high school and higher education institutions (a “**Sino-Foreign Joint Venture Private School**”) must be a foreign educational institution with relevant qualification and high quality of education (the “**Qualification Requirement**”). Furthermore, pursuant to the Implementation Opinions, the foreign portion of the total investment in a Sino-Foreign 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 or national level.

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

On 7 September 2016, with the assistance of our PRC Legal Adviser, we consulted a responsible officer of the Policy and Regulation Office of the Education Department of Henan Province, being the competent authority as advised by our PRC Legal Adviser to issue such confirmation. We were advised by the aforesaid responsible officer that the execution of the Contractual Arrangements is not restricted or prohibited by PRC laws and regulations and does not require approval from the education authorities. Our PRC Legal Adviser is of the view that the aforesaid responsible officer is the competent person to provide the confirmation on the basis that according to the official website of the Education Department the Policy and Regulations Office is responsible for, among other things, enforcement and supervision of laws and regulations relating to the education system.

On 14 July, 30 September, 4 November 2016 and 23 December 2016, with the assistance of our PRC Legal Adviser, we consulted the director of the International Cooperation and Exchange Office of the Education Department of Henan Province (the “**office director**”), being the competent authority as advised by our PRC Legal Adviser to issue such confirmation in respect of the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to us. We were advised by the office director that:

1. the Foreign Ownership Restriction applies to Sino-Foreign Joint Venture Private Schools in Henan Province;
2. it currently does not intend to approve Sino-Foreign Joint Venture Private Schools in the foreseeable future;
3. Sino-foreign cooperation in operating schools must strictly abide by the Sino-Foreign Regulation and its Implementing Rules and the two cooperating parties must be equally qualified educational institutions;
4. approvals granted previously for the four Sino-foreign joint venture schools in Henan Province were due to specific policy reasons and the Group would not be granted approval to set up Sino-Foreign Joint Venture Private Schools due to policy reasons;
5. the Sino-Foreign Regulation does not prescribe how a foreign investor is considered as having “high quality of education”; and
6. the schools which we are currently in cooperation with, namely Daejeon Girls’ Middle Schools (大田女子中學校), Daejeon Middle School (大田中學校), Jeju National University (國立濟州大學) and Pukyong National University (國立釜慶大學) may fulfil the Qualification Requirement for foreign investors should there be any policy of introducing foreign education investors in the future.

CONTRACTUAL ARRANGEMENTS

Our PRC Legal Adviser is of the view that the aforesaid office director is the competent person to provide the confirmation on the basis that they have good and authoritative understanding of the PRC laws and regulations regarding Sino-foreign cooperative education and its actual implementation in Henan Province for the following reasons:

1. according to the official website of the Education Department of Henan Province, the International Cooperation and Exchange Office serves as an internal office which is responsible for, among other things, organisation and guidance of international exchange and joint ventures in education; and
2. according to the Interim Measures on the Acceptance and Evaluation of Sino-foreign Cooperative Institutions and Projects in Henan Province, the International Cooperation and Exchange Office is the specific unit responsible for handling the establishment and holding of Sino-foreign cooperative educational institutions and projects in Henan Province.

Except for four Sino-foreign joint venture schools in Henan Province which were approved by the MOE, our Company is not aware of any applications in respect of Sino-foreign joint venture schools, whether private or public, previously submitted for approval with the authority in Henan Province. See the section headed “Regulations — Regulations on Private Education in the PRC” in this prospectus for further details of the laws and regulations applicable to private schools in the PRC.

Given the policy adopted by the Education Department of Henan Province as summarised above, it is not practicable for us to seek to apply to reorganise any of our consolidated affiliated entities as a Sino-Foreign Joint Venture Private School.

Notwithstanding the above, we are committed to working towards meeting the Qualification Requirement. We have adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. We will communicate with the relevant education authorities on a regular basis following the Listing to understand any regulatory developments, including whether there will be any change in policy for approving Sino-Foreign Joint Venture Private School in Henan Province, and assess whether we are qualified to meet the Qualification Requirement, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC laws and regulations. See the paragraphs headed “— PRC Laws and Regulations relating to Foreign Ownership in the Education Industry — Circumstances in which we will unwind the Contractual 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 high schools are in the form of a domestic Chinese high school and we do not hold any direct equity interest in, but rather control by way of the Contractual Arrangements with, such schools.

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

Circumstances in which we will unwind the Contractual Arrangements

Under the Sino-Foreign Regulation, foreign investment in kindergartens, high schools and higher education institutions in the PRC is required to be in the form of cooperation between domestic educational institutions and

CONTRACTUAL ARRANGEMENTS

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 Joint Venture Private School and not less than 50% of the governing body of the kindergarten, high school or higher education institution must be appointed by the Chinese investors.

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 an equity interest of less than 50% in the relevant school (such as a 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private School up to no more than 50%. However, our Company will not be able to control such school without the Contractual Arrangements in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction and the Foreign Control Restriction remain, regardless of whether the Qualification Requirement is removed, our Company will still rely on the Contractual Arrangements to establish control over the schools. Our Company will also acquire rights to appoint members to the board of directors 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;
2. in circumstance (b), we will partially unwind the Contractual Arrangements and directly hold an equity interest of less than 50% in the relevant school (such as a 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private School up to no more than 50%. However, our Company will not be able to control such school without the Contractual Arrangements in place with respect to the domestic interests. Our Company will also acquire rights to appoint all members to the board of directors of the school;
3. in circumstance (c), notwithstanding we will be able to hold a majority interest in Sino-Foreign Joint Venture Private 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 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 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 equity interest in the schools. Our Company will also acquire rights to appoint all members to the board of directors of the 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 option 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 or include only the domestic interests under the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

On 8 October 2016, the National Development and Reform Commission and the Ministry of Commerce of the PRC published the No. 22 Announcement of 2016 (中華人民共和國國家發展和改革委員會和中華人民共和國商務部2016年第22號公告) (the “**Announcement**”). Pursuant to the Announcement, the State Council approved that the categories of the industries for which the PRC government will implement special entry administration measures and still require entry clearance and other approvals under the Decision (as defined in the paragraph headed “— Operation of the Contractual Arrangements — Decision on Amending Four Inbound Investment Laws” in this section) (i.e., the “**Negative List**”), should be consistent with the Foreign Investment Catalogue. Based on the Announcement, the Decision and the current legal regime, our PRC Legal Adviser advises that the Announcement and the Decision do not seek to change any existing policy for existing foreign investments (i.e., whether foreign investments are encouraged, permitted, restricted or prohibited in any particular industry (including the education industry)) and the promulgation of the Announcement and the Decision should not have any impact on our business operations. Based on the above, the education industry will most likely be listed on the “**Negative List**” under the current version of the discussion draft of the proposed Foreign Investment Law (中華人民共和國外國投資法) (the “**Draft FIL**”), which may be issued when the Draft FIL comes into effect in the future and the details of which are expected to be similar to the Foreign Investment Catalogue. If however the education industry is not listed on the “**Negative List**” and our Company can legally operate our business under the PRC laws, we will then proceed to fully unwind the Contractual Arrangements in compliance with the applicable PRC laws and regulations and directly hold all equity interests in the PRC Holdcos.

If we are allowed to hold all equity interests in the PRC Holdcos directly before the Amendment (as defined below) comes into effect, and to ensure that we can extract the economic benefits from our schools, we intend to procure our schools to elect to be private schools whose sponsors require “reasonable returns” as and when appropriate. Such decision to make the election will ultimately be made in the best interests of our Company and our Shareholders and in compliance with all of the applicable laws and regulations (including but not limited to the Listing Rules and guidance letters issued by the Stock Exchange from time to time).

Based on the current circumstances and the existing legal regime and as advised by our PRC Legal Adviser, the Directors are of the view that should we decide to make the election referred to above: (i) we will be able to make such election for and operate our schools as schools whose sponsors require “reasonable returns” without any legal impediment; and (ii) we can extract the economic benefits from our schools by ensuring them to achieve “reasonable returns” and procuring the same to declare and distribute dividends to their respective holding entities which we own directly. Once our schools have elected to operate as schools whose sponsors require “reasonable returns”, we will comply with all applicable laws and regulations relating to the operation of schools whose sponsors require “reasonable returns”. We may, as requested by the relevant tax authorities, be required to pay income taxes at the tax rate of 25%. Further, as required by the Implementation Rules for the Law for Promoting Private Education, our schools will be required to allocate a certain amount to its development fund at the end of their fiscal years for the construction or maintenance of the school or procurement or upgrade of education equipment which should not be less than 25% of the annual net income of the school instead of the annual increase in the net assets of the schools (which apply to schools whose sponsors do not require reasonable returns). Under the Temporary Regulations on Value-added Tax (《增值稅暫行條例》), WFOE as a small-scale taxpayer will be required to pay value-added tax at a tax rate of 3% for the services rendered to our schools under the Contractual Arrangements. As WFOE will no longer receive service fees for the purpose of extracting economic benefits from our schools, WFOE will not be required to pay any value-added tax for such services.

As advised by the Company’s PRC Legal Adviser, none of the current PRC laws and regulations specifically provides for different requirements or restrictions on private school operators’ ability or qualification for operating schools whose sponsors require reasonable returns or schools whose sponsors do not require reasonable returns. Based on the above, we expect that there should not be any operational implication should we procure our schools to make the aforesaid election.

CONTRACTUAL ARRANGEMENTS

Should we decide to operate our schools as for-profit private schools after the Amendment comes into effect, as advised by our PRC Legal Adviser, other than service fees paid from these schools, we are entitled to obtain the economic benefits from these for-profit private schools through dividends distributed from these schools (if we hold the equity interests in the PRC Holdcos directly without the Contractual Arrangements to the extent permissible under the applicable PRC laws and regulations). For our schools that remain as non-profit private schools, we will continue to derive the economic benefits from these schools mainly through receiving the service fees with or without direct ownership in the equity interests of the PRC Holdcos.

Plan to comply with the Qualification Requirement

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

1. On 1 October 2013, we signed a letter of intent with Daejeon Girls' Middle School (大田女子中學校) of Korea Republic ("DGMS") pursuant to which Daejeon Girls' Middle School expressed its intent to, among other things, cooperate with our schools and collaborate in organising exchange and teaching activities.
2. On 1 October 2013, we signed a letter of intent with Daejeon Middle School (大田中學校) of Korea Republic pursuant to which Daejeon Middle School expressed an intent to cooperate with our schools and collaborate in organising exchange and teaching activities.
3. On 1 October 2013, we signed a letter of intent for cooperation in running schools with DGMS pursuant to which:
 - (i) DGMS agreed to send Korean speaking teachers to teach Sino-Korean international classes and Korean language courses at our high school classes and we agreed to bear the related costs;
 - (ii) we agreed to send our teachers to teach Chinese culture classes and Chinese language courses at DGMS's middle school classes and DGMS agreed to bear the related costs;
 - (iii) our middle school students may undertake DGMS's courses and receive certificates upon completion of the courses; and
 - (iv) we will establish an overseas training base for certain graduates of our University at DGMS.
4. On 21 October 2013, Zhengzhou YuHua Elite School signed a cooperation agreement with International Exchange Department of Jeju National University (國立濟州大學) of Korea Republic pursuant to which Jeju National University agreed to, among other things, cooperate with Zhengzhou YuHua Elite School in respect of Korean language education and cultural exchange programmes and assist in the admission of graduates of Zhengzhou YuHua Elite School to Jeju National University.
5. On 12 January 2015, Zhengzhou YuHua Elite School signed an agreement with International Exchange Department of Pukyong National University (國立釜慶大學) of Korea Republic pursuant to which Pukyong National University agreed to provide students of Zhengzhou YuHua Elite School with language training opportunities and assist in the admission of graduates of Zhengzhou YuHua Elite School to Pukyong National University.

To the best of the Directors' knowledge and belief, other than the letter of intent for cooperation in running schools signed with DGMS on 1 October 2013 mentioned above, the abovementioned letters of intent and agreements are legally binding.

To further demonstrate compliance with the Qualification Requirement, we are also in the process of communicating or negotiating with certain experienced and reputational overseas education service providers in various forms of potential cooperation, including but not limited to expanding our school network abroad. We

CONTRACTUAL ARRANGEMENTS

will keep our Shareholders informed should we make any substantial progress in reaching cooperation agreements with these overseas education service providers.

On top of the above, and to prepare for the potential expansion of our business to the overseas, we have established a Hong Kong subsidiary, HongKong Yuhua, which will serve as the main control hub of our overseas business and will be responsible for:

1. negotiating and executing contracts for international business cooperation, such as contracts for cooperation with foreign education institutions in organising international classes or courses;
2. investing in or acquiring overseas education businesses as and when appropriate;
3. holding our overseas intellectual property rights and licensing them to our international partners; and
4. recruiting overseas education business professionals and advisers, and acting as the direct employer of any personnel based outside the PRC.

Our PRC Legal Adviser is of the view that while Sino-foreign cooperative 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 Henan 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 incurred approximately RMB3 million for each of the three years ended 31 August 2016 and expect to incur RMB3 million for the year ending 31 August 2017. 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:

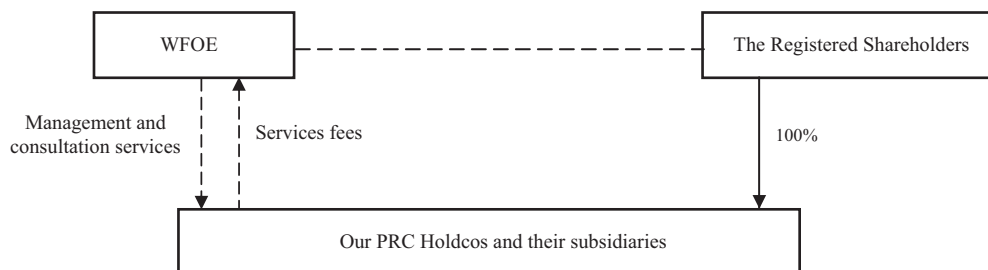
1. under the guidance of our PRC Legal Adviser, continue to keep ourselves updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirement; and
2. provide periodic updates in our annual and interim reports after Listing to inform our Shareholders of 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, on 7 September 2016, 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.

CONTRACTUAL ARRANGEMENTS

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



Notes:

“——>” denotes direct legal and beneficial ownership in the equity interest.

“- ->” denotes contractual relationship.

“- - -” denotes the control by WFOE over the Registered Shareholders through (1) powers of attorney to exercise all shareholders’ rights in our PRC Holdcos, (2) exclusive options to acquire all or part of the equity interests in our PRC Holdcos and (3) equity pledges over the equity interests in our PRC Holdcos.

Summary of the Material Terms of the Contractual Arrangements

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

Exclusive Management Consultancy and Business Cooperation Agreements

Pursuant to the exclusive management consultancy and business cooperation agreements dated 7 September 2016 entered into by and between (i) WFOE, YuHua Investment Management and its subsidiary and the Registered Shareholders, (ii) WFOE, Zhengzhou YuHua Education Investments and its subsidiaries and the Registered Shareholders and (iii) WFOE, Zhengzhou Zhongmei Education Investments and its subsidiaries and the Registered Shareholders (the “**Exclusive Management Consultancy and Business Cooperation Agreements**”), WFOE has the exclusive right to provide, or designate any third party to provide each of our consolidated affiliated entities with corporate management and educational services, intellectual property licensing services as well as technical and business support services. Such services include the provision of advisory services and recommendations on asset and business operation, debt disposal, material contracts (including negotiations, execution and performance of the same), and mergers and acquisitions, educational software, course materials and research and development, employee on-the-job management training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resources and internal information management, network development, upgrade and ordinary maintenance services, sales of proprietary products, software, trademark, domain name and know-how and/or the use of related intellectual property rights, and other additional services as the parties may mutually agree from time to time. Without WFOE’s prior written consent, none of our consolidated affiliated entities may accept services covered by the Exclusive Management Consultancy and Business Cooperation Agreements from any third party.

WFOE owns all intellectual property rights arising out of the performance of this agreement. Our consolidated affiliated entities agree to pay the entirety of their total income (net of costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld).

Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreements, without the prior written approval from WFOE, our consolidated affiliated entities shall not enter into any transaction (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation, including but not limited to (i) the provision of any security or guarantee in favour of any third party or the creation of any encumbrances in relation to its assets; (ii) the entering into of any loan or debt obligations

CONTRACTUAL ARRANGEMENTS

in favour of any third party; and (iii) in relation to any third party the disposal, acquisition or otherwise dealing 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 WFOE, none of the consolidated affiliated entities shall change or remove the members of its board of directors who are appointed by WFOE in accordance with the articles of association of each of our consolidated affiliated entities. WFOE also has the right to appoint the school principals, general managers, financial controllers and other senior managers of our consolidated affiliated entities. WFOE has absolute control over the distribution of dividends or any other amounts to the shareholders of our consolidated affiliated entities as our consolidated affiliated entities and their shareholders have undertaken not to make any distribution without WFOE's prior written consent.

Exclusive Call Option Agreements

Under the exclusive call option agreements dated 7 September 2016 entered into by and between (i) WFOE, YuHua Investment Management and the Registered Shareholders, (ii) WFOE, Zhengzhou YuHua Education Investments and the Registered Shareholders and (iii) WFOE, Zhengzhou Zhongmei Education Investments and the Registered Shareholders (the “**Exclusive Call Option Agreements**”), the Registered Shareholders unconditionally and irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in the PRC Holdcos, as the case may be, for the minimum amount of consideration permitted by applicable PRC laws and regulations, under circumstances in which WFOE 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 Registered Shareholders shall return the amount of purchase price they have received to WFOE or its designated third party. We have the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. The key factor for us to decide whether to exercise the option is whether the current regulatory restrictions on foreign investment in or control of the educational business will be removed in the future, the likelihood of which we were not in a position to know or comment on at the Latest Practicable Date.

In order to prevent the flow of the assets and value of our consolidated affiliated entities to their respective shareholders, pursuant to the Exclusive Call Option Agreements, none of the assets of our PRC Holdcos are to be sold, transferred or otherwise disposed of without the written consent of WFOE. In addition, under the Exclusive Call Option Agreements, none of the Registered Shareholder 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 Holdcos without WFOE's prior written consent.

In the event that the Registered Shareholders receive any profit distribution or dividend from our PRC Holdcos, 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 WFOE or its designated third party. If WFOE exercises this option, all or any part of the equity interests in our PRC Holdcos acquired would be transferred to WFOE and the benefits of equity ownership would flow to WFOE and its shareholders.

Equity Pledge Agreements

Pursuant to the equity pledge agreements dated 7 September 2016 entered into by and between (i) WFOE, YuHua Investment Management and the Registered Shareholders, (ii) WFOE, Zhengzhou YuHua Education Investments and the Registered Shareholders and (iii) WFOE, Zhengzhou Zhongmei Education Investments and the Registered Shareholders (the “**Equity Pledge Agreements**”), the Registered Shareholders unconditionally and irrevocably pledged all of the equity interests in YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments respectively, to WFOE to guarantee (i)

CONTRACTUAL ARRANGEMENTS

performance of the obligations of YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments and their respective subsidiaries under the Exclusive Management Consultancy and Business Cooperation Agreements, (ii) performance of their and the Registered Shareholders' obligations under the Exclusive Call Option Agreements and the Powers of Attorney (as defined below). Under the Equity Pledge Agreements, the Registered Shareholders have agreed that, without the prior written consent of WFOE, they will not transfer or dispose the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice WFOE's interest.

We filed the Equity Pledge Agreements, the identification cards of the shareholders, the business licences of our consolidated affiliated entities and other relevant documents with the corresponding local State Administration Bureau for Industry and Commerce and completed the registrations for the three equity pledges. The equity pledge registration of YuHua Investment Management was completed on 22 September 2016, with the Hainan Yangpu Administration Bureau for Industry and Commerce. The equity pledge registration of Zhengzhou YuHua Education Investments was completed on 9 September 2016, with the Zhengzhou Administration Bureau for Industry and Commerce. The equity pledge registration of Zhengzhou Zhongmei Education Investments was completed on 13 September 2016, with the Zhengzhou Administration Bureau for Industry and Commerce. Our PRC Legal Adviser has confirmed that the Equity Pledge Agreements have been duly registered with the relevant PRC legal authority pursuant to the PRC laws and regulations. The Equity Pledge Agreements shall remain valid until (i) the satisfaction of all the contractual obligations of YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments and their respective subsidiaries and the Registered Shareholders in full under the Exclusive Management Consultancy and Business Cooperation Agreements, Exclusive Call Option Agreements and the Powers of Attorney, or (ii) the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreements, the Exclusive Call Option Agreements and the Powers of Attorney, whichever is later.

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

Powers of Attorney

Each of the Registered Shareholders has executed an irrevocable power of attorney dated 7 September 2016 (the "**Powers of Attorney**") appointing WFOE, or any person designated by WFOE (excluding Mr. Li, Ms. Li or other non-independent persons or persons who may give rise to conflicts of interests), as his or her attorney-in-fact to appoint directors and vote on his or her behalf on all matters of YuHua Investment Management, Zhengzhou YuHua Education Investments or Zhengzhou Zhongmei Education Investments requiring shareholders' approval under its respective articles of associations and under the relevant PRC laws and regulations. These Powers of Attorney remain effective as long as the Registered Shareholders remain shareholders of YuHua Investment Management, Zhengzhou YuHua Education Investments or Zhengzhou Zhongmei Education Investments, unless WFOE requests to replace the appointed designee under the Powers of Attorney.

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

CONTRACTUAL ARRANGEMENTS

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

Those of our powers to direct the activities of our PRC Holdcos that most significantly impact these entities' economic performance include:

1. as the attorney-in-fact of shareholders, we elect all members of the board of directors for each of our PRC Holdcos, approve the director compensation, review and approve annual budget and vote on all matters that requiring approval from shareholders;
2. through the control over the boards of directors of our PRC Holdcos, 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 Holdcos.

Dispute Resolution

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

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

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

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

1. should WFOE intend to seek interim remedies in support of the arbitration when formation of the arbitral tribunal is pending or under appropriate circumstances, WFOE may either seek (i) the interim remedies available from a PRC arbitral tribunal described below, or (ii) the interim remedies before a PRC court pursuant to Articles 100 and 101 of the PRC Civil Procedure Law and Article 28 of the PRC Arbitration Law, rather than before any courts in Hong Kong or the Cayman Islands.
2. under the current PRC law, the remedies that arbitral tribunals, including the China International Economic and Trade Arbitration Commission, are empowered to award are limited to the following:
 - cessation of infringements;
 - removal of obstacles;
 - elimination of dangers;

CONTRACTUAL ARRANGEMENTS

- 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.
3. as the remedies that the China International Economic and Trade Arbitration Commission is empowered to award do not include injunctive reliefs or winding up orders, under PRC law, WFOE 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, WFOE may seek similar remedies from a competent court, such as interim measures (e.g., asset preservation) over the assets or shares of our consolidated affiliated entities and winding up orders against the consolidated affiliated entities under appropriate circumstances.
4. even if the abovementioned provisions may not be enforceable under the current PRC laws, our PRC Legal Adviser has confirmed that the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreements under the Contractual Arrangements.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholders, as if each of the successors was a signing party to the Contractual Arrangements. Although our Contractual Arrangements do not specify the identity of the 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, WFOE or our Company can enforce its right against the successors. Further, pursuant to the Powers of Attorney, in the event of death or any other event which causes the inability of any of the Registered Shareholders to perform their day-to-day obligations, the successor of any of the Registered Shareholders is to inherit any of the rights and obligations of any of the Registered Shareholders subject to him or her being bound by the provisions of the Powers of Attorney.

Therefore, our PRC Legal Adviser is of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of death of the Registered Shareholders; and (ii) the death of any of the Registered Shareholders would not affect the validity of the Contractual Arrangements, and WFOE or our Company can enforce its rights under the Contractual Arrangements against the successors of the Registered 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 our Company and the Registered Shareholders. Pursuant to the Exclusive Call Option Agreements, the Registered Shareholders granted us or our designated third party an exclusive option to purchase part or all of the equity interests in our PRC Holdcos, under circumstances in which we or our designated third party is permitted under PRC laws and regulations to own all or part of the equity interests in our PRC Holdcos. Under the irrevocable Powers of Attorney executed by each of the Registered Shareholders, they appointed WFOE, or any person designated by WFOE (excluding Mr. Li, Ms. Li 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 Holdcos requiring shareholders' approval under their articles of associations and under the relevant PRC laws and regulations.

CONTRACTUAL ARRANGEMENTS

Furthermore, there are mechanisms in place to protect against the spouses of Mr. Li and Ms. Li from exercising any control or influence over the consolidated affiliated entities. Each of the spouses of Mr. Li and Ms. Li executed an irrevocable undertaking dated 7 September 2016 (the “**Spouse’s Undertaking**”) whereby the spouse expressly and irrevocably (i) acknowledge the entry into of the Contractual Arrangements by Mr. Li and Ms. Li (as the case may be); (ii) undertake that he or she 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 Mr. Li or Ms. Li (as the case may be) do not fall within the scope of their community properties; and (iii) confirm that his or her consent and approval is not required for the implementation of the Contractual Arrangements, any amendments thereto or the termination thereof.

The Registered Shareholders have undertaken that during the period that the Contractual Arrangements remain effective, (i) unless otherwise agreed to by 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 our Group and the Registered Shareholders 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 the 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 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 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 Combined Financial Statements and results of operations under the applicable accounting principles, our Company’s business, financial condition and results of operations would be adversely affected if our consolidated affiliated entities suffer losses. Therefore, the provisions in the Contractual Arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on 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 Shareholders 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 Holdcos without our Company’s prior written consent.

In addition, under the Exclusive Management Consultancy and Business Cooperation 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 memorandum and articles of association of each of our consolidated affiliated entities. WFOE also has the right to appoint the school principals, financial controllers and other senior managers of our consolidated affiliated entities. WFOE has absolute control over the distribution of dividends or any other amounts to the shareholders of our consolidated affiliated entities as our consolidated affiliated entities and their Registered Shareholders have undertaken not to

CONTRACTUAL ARRANGEMENTS

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 Exclusive Management Consultancy and Business Cooperation Agreements and the Exclusive Call Option Agreements, the Registered Shareholders 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

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 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 Shareholders is a natural person with full civil and legal capacity, and each of WFOE, our consolidated affiliated entities and the Registered Shareholders has obtained all necessary board and shareholder approvals and authorisations to execute and perform the Contractual Arrangements;
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 and none of the content or the execution of the Contractual Arrangements violates any provisions of PRC laws. Parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as "concealment of illegal intentions with a lawful form" and void under the PRC Contract Law;
3. none of the Contractual Arrangements violates any provisions of the articles of association of our consolidated affiliated entities or WFOE;
4. each of the Contractual Arrangements is binding on the assignees or successors of the parties thereto. In the event of bankruptcy of any of our consolidated affiliated entities, WFOE or our Company is entitled to enforce its rights against the assignees or successors of any of the shareholder of our consolidated affiliated entities;
5. the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, except that the Exclusive Call Option Agreements are subject to approval by the MOFCOM or its branch, and registration with the local administration

CONTRACTUAL ARRANGEMENTS

bureau for industry and commerce upon the exercise by the Company of its rights under the Exclusive Call Option Agreements to acquire all or part of the equity interests in our PRC Holdcos. On 8 August 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the M&A Rules, a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and revised on 22 June 2009. Pursuant to the M&A Rules, the acquisition of a PRC domestic enterprise by a Foreign Investor (as defined in the M&A Rules) is subject to approval by, and registration with the relevant PRC regulatory authorities. In the event that our Company exercises its rights under the Exclusive Call Option Agreements to acquire all or part of the equity interests in our PRC Holdcos, it may be required to obtain the approval of relevant PRC regulatory authorities pursuant to the M&A Rules;

6. neither WFOE nor our Company is obligated to share the losses of our consolidated affiliated entities and the Registered Shareholders or provide financial support to our consolidated affiliated entities and the Registered Shareholders. Each of our consolidated affiliated entities is a limited liability company or school and is solely liable for its own debts and losses attributable to the assets and properties owned by it;
7. each of the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidating committee:
 - (i) the Contractual Arrangements provide that any dispute shall be submitted to the China International Economic and Trade Arbitration 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 our consolidated affiliated entities or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our consolidated affiliated entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of the Company) and the PRC (being the place of incorporation of our consolidated affiliated entities) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of our consolidated affiliated entities. However, our PRC Legal Adviser has advised that the tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our consolidated affiliated entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC; and
 - (ii) the Contractual Arrangements provide that the shareholders of our consolidated affiliated entities undertake 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, these provisions may not be enforceable under PRC Laws.

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

Our schools are currently held through the PRC Holdcos which are special investment vehicles established to hold the schools and do not carry out any other business. Our PRC Legal Adviser advises (i) that our ability to enforce our rights and protect our interests under the current Contractual Arrangements is no less effective than

CONTRACTUAL ARRANGEMENTS

in the case where the Contractual Arrangements were entered into directly between WFOE, the Registered Shareholders and each of our schools only; and (ii) that the current structure of the Contractual Arrangement offers the best available protection in our favour under the PRC laws and regulations due to the existence of the PRC Holdcos and the pledge over the equity interests in the PRC Holdcos created pursuant to the Equity Pledge Agreements. As advised by our PRC Legal Adviser, schools sponsors cannot pledge their interests in their schools and any purported pledge of such interests (if any) would be unenforceable under the PRC laws and regulations. Accordingly, it is necessary and in our best interest for WFOE to adopt the current structure of the Contractual Arrangements to maintain our control over the PRC Holdcos and our schools.

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. The service fees are paid by PRC Holdcos and the schools (i.e., the consolidated affiliated entities) as consideration for obtaining services provided by WFOE. 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. According to our PRC Legal Adviser, no current PRC laws or regulations restrict or prohibit WFOE's contractual rights to receive service fees from our consolidated affiliated entities (which include the PRC Holdcos and our schools) for the services rendered under the Contractual Arrangements irrespective of whether our schools are being operated as schools of which the sponsors require "reasonable returns" or schools of which the sponsors do not require "reasonable returns" or for-profit schools or non-profit schools. On 4 November 2016, with the assistance of our PRC Legal Adviser, we consulted the responsible officer of the Development and Planning Office of the Education Department of Henan Province, being the competent authority as advised by our PRC Legal Adviser to issue such confirmation in respect of the matters relating to the operation and management of the schools. We were advised by the aforesaid responsible officer that the payment of service fees is made on the basis of the service relationship between WFOE and the PRC Holdcos and our schools, which will not be regarded as "reasonable returns" being distributed to the sponsors of the schools. During the period from 12 July 2016 to 15 July 2016, with the assistance of our PRC Legal Adviser, we also consulted with the relevant local tax bureaus where our schools are located and the officials confirmed that the payment of service fees will not be deemed as circumvention of the selection made by the sponsors of our schools to not require "reasonable returns", nor will it affect the preferential tax treatments of the schools.

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, WFOE and our consolidated affiliated entities may find it difficult or impossible to comply;
4. requiring us, WFOE and our consolidated affiliated entities 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.

CONTRACTUAL ARRANGEMENTS

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” in this prospectus.

Accounting Aspects of the Contractual Arrangements

Consolidation of Financial Results of our Consolidated Affiliated Entities

Under the Exclusive Management Consultancy and Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOE, each of the consolidated affiliated entities will pay services fees to WFOE. The services fees, subject to WFOE’s adjustment, are equal to the entirety of the total income of the consolidated affiliated entities (net of costs, expenses, taxes 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 the 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 the consolidated affiliated entities. Accordingly, WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefit of the consolidated affiliated entities through the Exclusive Management Consultancy and Business Cooperation Agreements.

In addition, under the Exclusive Management Consultancy and Business Cooperation 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 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 WFOE 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 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 I to this prospectus.

DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

Draft New Foreign Investment Law

The MOFCOM published a discussion draft of the proposed Foreign Investment Law (中華人民共和國外國投資法) (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 a foreign invested enterprise, or an foreign invested 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

CONTRACTUAL ARRANGEMENTS

investment as “controlled” by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the draft law to cover any of the following summarised categories:

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

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

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

CONTRACTUAL ARRANGEMENTS

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.

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 investments 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. Li, who is of Chinese nationality, will 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 options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme); (ii) our Company through

CONTRACTUAL ARRANGEMENTS

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.

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 equity interest of in the PRC Holdcos and unwind the Contractual Arrangements subject to reapproval by the relevant authorities.

If the operation of our schools is on the “negative list” and 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. As a result, 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 would no longer be consolidated into our Group’s financial results and we would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition.

Nevertheless, considering that a number of existing entities engaged in the education industry, 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. Our PRC Legal Adviser believes that the PRC government is likely to take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them, and make decisions according to different situations in practice.

Further, our PRC Legal Adviser is of the view that: (i) assuming that the Draft FIL is eventually enacted, the Contractual Arrangements shall not be restricted or prohibited by the PRC laws and regulations and shall remain valid and enforceable given that the current draft of the Foreign Investment Law (if enacted) will not have any conceivable difference in terms of substance to the current foreign investment restrictions or prohibitions applicable to the Business; (ii) based on the previous consultation with the responsible officer of the Education Department of Henan Province who confirmed that the execution of the Contractual Arrangements is not restricted or prohibited by PRC laws and regulations and does not require approval from the education authorities, the same treatment is expected to apply when the Draft FIL is enacted; and (iii) the Decision does not create any additional legal impediment for us to operating our business through the Contractual Arrangements. Based on the view above, our Directors are of the view that our Company will be able to continue to control and operate, and can extract the economic benefits from our schools through the Contractual Arrangements (or an adjusted version of the Contractual Arrangements if required) should the education industry (to which our business belong to) fall within the “Negative List”. Should the Contractual Arrangements be regarded as invalid and illegal when the Draft FIL is promulgated, which according to our PRC Legal Adviser is an extremely remote scenario, we will use our best efforts to apply for approvals to own the schools in the form of direct beneficial ownership to the extent permissible under the PRC laws and regulations.

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” in this prospectus for further details of the risks we face relating to our Contractual Arrangements. In any event, our Company will take reasonable steps in good faith to seek compliance with the enacted version of the Foreign Investment Law, if and when it comes into force.

CONTRACTUAL ARRANGEMENTS

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 our Group can maintain control over our consolidated affiliated entities and receive all economic benefits derived from our consolidated affiliated entities, each of Mr. Li and Ms. Li 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. Li and Ms. Li will use his or her best efforts to do and procure our Company to do all such possible acts which are necessary to give effect to the Contractual Arrangements and/or to enable the continuation of business operations of our consolidated affiliated entities as a result of any impact due to the promulgation and implementation of the New Foreign Investment Law and other future laws and regulations relating to foreign investment and in particular:

1. Mr. Li maintaining his Chinese nationality and citizenship while he remains as our Controlling Shareholder;
2. not terminating the concert party arrangement between Mr. Li, Ms. Li and Ms. Liu Chunhua (the “**Concert Group**”) without the prior written consent of our Company; and
3. in the event of any transfer or disposal by Mr. Li 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 conditions as the one provided by Mr. Li and Ms. Li 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. Li ceasing to be one of our Controlling Shareholders and an actual controller of our Company or any of our PRC Holdcos; (ii) Ms. Li ceasing to be an actual controller of any of our PRC Holdcos; (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. Li 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. Li to transfer his interests in our Company.

Based on the view of our PRC Legal Adviser and the aforesaid Undertaking given by Mr. Li and Ms. Li, our Directors and the Sole Sponsor 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.

CONTRACTUAL ARRANGEMENTS

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” in this prospectus.

Decision on Amending Four Inbound Investment Laws

On 3 September 2016, the Standing Committee of the National People’s Congress of the PRC (全國人大常務委員會) published the Decision of the Standing Committee of the National People’s Congress on Revising Four Laws Including the “Law of the People’s Republic of China on Wholly Foreign-Owned Enterprises” (《全國人大常委會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》, the “**Decision**”) which came into effect on 1 October 2016 and seeks to revise the current foreign investment legal regime. See the section headed “Regulations — Regulations on Private Education in the PRC — Decision on Amending Four Inbound Investment Laws” in this prospectus for further details.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

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. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. our Company 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 of 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:

6. the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

CONTRACTUAL ARRANGEMENTS

7. 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;
8. we have appointed three independent non-executive Directors, comprising half of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
9. 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 and his or her associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT IN EDUCATION

Foreign Investment Industries Guidance Catalogue (Amended in 2015)

Pursuant to the Foreign Investment Industries Guidance Catalogue (Amended in 2015) (《外商投資產業指導目錄》(2015年修訂)), the “**Foreign Investment Catalogue**”) which was amended and promulgated by the NDRC and the MOFCOM on 10 March 2015 and became effective on 10 April 2015, kindergarten education, high school education and higher education are restricted industries for foreign investors, and foreign investments are only allowed to invest in kindergarten education, high school education and higher education in cooperative ways and the domestic party shall play a dominant role in the cooperation, which means the principal or other chief executive officer of the schools shall be a PRC national and the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the sino-foreign cooperative educational institution. In addition, according to the Foreign Investment Catalogue, foreign investors are prohibited from investing in compulsory education, namely primary school to middle school.

Sino-foreign cooperation in operating schools is specifically governed by the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》), which was promulgated by the State Council on 1 March 2003 and became effective on 1 September 2003 and amended on 18 July 2013, the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), and the Implementing Rules for the Regulations on Operating Sino-foreign Schools (《中華人民共和國中外合作辦學條例實施辦法》), the “**Implementing Rules**”), which were issued by the MOE on 2 June 2004 and became effective on 1 July 2004.

The Regulation on Operating Sino-foreign Schools and its Implementing Rules apply to the activities of educational institutions established in the PRC jointly by foreign educational institutions and Chinese educational institutions, the students of which are to be recruited primarily from PRC citizens and encourage substantial cooperation between overseas educational organisations with relevant qualifications and experience in providing high-quality education, and PRC educational organisations to jointly operate various types of schools in the PRC, with such cooperation in the areas of higher education and occupational education being encouraged. The overseas educational organisation must be a foreign educational institution with relevant qualification and experience at the same level and in the same category of education. Our PRC Legal Adviser has advised that based on their current understanding and knowledge, it is uncertain as to what type of information (including the length and type of experience) a foreign investor must provide to the competent PRC government authority to demonstrate that it meets the qualification requirement. PRC-foreign cooperative schools are not permitted, however, to engage in compulsory education and military, police, political and other kinds of education that are of a special nature in the PRC. Any PRC-foreign cooperative school and cooperation programme shall be approved by the relevant education authorities and obtain an Operation Permit for Sino-foreign Cooperation School, and a sino-foreign cooperation school established without the above approval or permit may be prohibited by the relevant authorities, be ordered to refund the fees collected from its students and be subject to a fine of no more than RMB100,000, while a sino-foreign cooperation programme established without such approval or permit may also be banned and be ordered to refund the fees collected from its students.

On 18 June 2012, the MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the 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》) to encourage private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital in a PRC-foreign education institute shall be less than 50%.

Draft New Foreign Investment Law

On 19 January 2015, the MOFCOM published the Draft FIL. At the same time, the MOFCOM published the Explanatory Notes, which contains important information about the Draft FIL, including its drafting philosophy

REGULATIONS

and principles, main content, plans to transition to the new legal regime and treatment of business in the PRC controlled by FIEs, primarily through contractual arrangements. The Draft FIL is intended to replace the current foreign investment legal regime consisting of three laws: the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law, as well as detailed implementing rules. The Draft FIL proposes significant changes to the PRC foreign investment legal regime and introduced the concept of “actual control” determined by the identity of the ultimate natural person or enterprise that controls the domestic enterprise. If an enterprise is actually controlled by a foreign investor through contractual arrangements, such enterprise may be regarded as a FIE. Such FIE is restricted or prohibited from investment in certain industries listed on the negative list unless permission from the competent authority in the PRC is obtained. Nevertheless, as the negative list has yet to be published, it is unclear whether it will differ from the current list of industries subject to restrictions or prohibitions on foreign investment (including our industry). The Draft FIL also provides that any FIE operating in industries on the negative list will require entry clearance and other approvals that are not required for PRC domestic entities. As a result of these requirements, certain FIE’s operating in industries on the negative list may not be able to continue to conduct their operations through contractual arrangements.

Pursuant to the Draft FIL, as far as new VIE structures are concerned, if the domestic enterprise under the VIE structure is controlled by Chinese nationals, the 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, the 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 permissions.

The Draft FIL stipulates restriction of foreign investment in certain industry sectors. The negative list 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 sectors 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, provide that the foreign investors are required to fulfil certain conditions and apply for permission before making such investment.

Notwithstanding that the Explanatory Notes do not provide a clear direction in dealing with VIE structures existing before the Draft FIL becoming effective, which is still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures that conduct business in an industry falling in the “negative list”:

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

The Draft FIL introduces the concepts of “control” and “actual control”. Under Article 18 of the Draft FIL, the term “control” means a status whereby any of the following conditions is met in respect of an enterprise:

- (i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;

REGULATIONS

- (ii) 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
- (iii) 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 foreign-invested enterprise. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft FIL defined "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises. Where foreign investors and foreign-invested enterprises 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, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 (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.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1.0 million or of not more than 10% of illegal investments.

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorisation, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the PRC central government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1.0 million or of not more than 10% of illegal investments.

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

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

REGULATIONS ON PRIVATE EDUCATION IN THE PRC

Education Law of the PRC

On 18 March 1995, the National People's Congress of the PRC (全國人民代表大會, the “NPC”) enacted the Education Law of the PRC (《中華人民共和國教育法》the “**Education Law**”), which was amended on 27 August 2009. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising kindergarten education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education, establishes and operates schools and other educational institution. Furthermore, it provides that in principle, enterprises, social organisations and individuals are encouraged to establish and operate schools and other types of educational institutions in accordance with PRC laws and regulations. Meanwhile, no organisation or individual may establish or operate a school or any other educational institution for profit-making purposes. The Education Law also stipulates that some basic conditions shall be fulfilled for the establishment of a school or any other educational institution, and the establishment, modification or termination of a school or any other educational institution shall, in accordance with the relevant PRC laws and regulations, go through the procedures of examination, verification, approval, registration or filing. On 27 December 2015, the Education Law was amended (the “**amended Education Law**”), which became effective on 1 June 2016. The amended Education Law repudiates paragraph III of Article 25 of the old law, which prohibits any organisation or individual from establishing or operating a school or any other educational institution for profit-making purposes. Accordingly, the amended Education Law allows the establishment or operation of schools for profit-making purposes. Nevertheless, schools and other educational institutions sponsored wholly or partially by government financial funds and donated assets are prohibited from being established as for-profit organisations.

The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education

The Law for Promoting Private Education of the PRC became effective on 1 September 2003 and was amended on 29 June 2013, and the Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》) became effective on 1 April 2004. Under these regulations, “private schools” are defined as schools established by social organisations or individuals using non-government funds. The establishment of a private school shall meet the local need for educational development and the requirements of the Education Law and the relevant laws and regulations. The standards for the establishment of private schools shall conform to those for the establishment of public schools of the same grade and category. In addition, private schools providing academic qualifications education, kindergarten education, education for self-study examination and other education shall be subject to approval by the education authorities at or above the county level, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labour and social welfare at or above the county level. A duly approved private school will be granted a Permit for Operating a Private School (民辦學校辦學許可證), and shall be registered with the Ministry of Civil Affairs of the PRC (中華人民共和國民政部, the “MCA”) or its local counterparts as a privately run non-enterprise institution (民辦非企業單位). Each of our schools has obtained the Permit for Operating a Private School and has been registered with the relevant local counterpart of the MCA.

Under the above regulations, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. Public schools that provide compulsory education are not permitted to be converted into private schools. The operations of a private school are highly regulated. For example, a private school shall establish an executive council, the board of directors or any other form of the decision-making body and such decision-making body shall meet at least once a year. Furthermore, the textbooks selected by the private primary schools and middle

REGULATIONS

schools for teaching state fundamental classes should be approved in accordance with the relevant laws and regulations, and the curriculum arrangements of the teaching courses should be in conformity with the provisions of the MOE. Teachers employed by a private school shall have the qualifications specified for teachers and meet the conditions as provided for in the Teachers Law of the PRC (《中華人民共和國教師法》) and the other relevant laws and regulations, and there shall be a definite number of full-time teachers in a private school, and in private schools offering academic qualifications education full-time teachers shall account for not less than one-third of the total number of the teachers. Each of our schools (excluding the kindergartens) provides diplomas or certificates to students. In line with relevant regulations, all of our courses required for PRC diplomas are taught by teachers that are certified by the relevant city education bureaus after undergoing systematic training and passing standardised tests in the subject they teach.

The Amendment to the Law for Promoting Private Education

The Decision of the Standing Committee of the National People's Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the “**Amendment**”) has been promulgated by Order No. 55 of the President of the PRC on 7 November 2016. The Amendment shall come into force on 1 September 2017.

Pursuant to the Education Law of the PRC and the Higher Education Law of the PRC before the Amendment comes into force, no organisation or individual may establish or operate a school or any other education institution for profit-making purposes and according to the aforementioned provisions, no private schools shall be established for profit-making purposes. Pursuant to the Implementation Rules, private schools are classified into three categories, namely, (i) schools whose sponsors make donations to the establishment of the schools, (ii) schools whose sponsors do not require reasonable returns and (iii) schools whose sponsors require reasonable returns.

Prior to the Amendment, amendments to the Education Law of the PRC and the Higher Education Law of the PRC were made by the Standing Committee of the National People's Congress on 27 December 2015, which became effective on 1 June 2016. The amended Education Law and Higher Education Law (as defined below) repudiate the provisions that prohibit any organisation or individual from establishing or operating a school for profit-making purposes. The Amendment further establishes a new classification system for private schools to be classified by whether they are established and operated for profit-making purposes. Under the Amendment, sponsors of private school may choose to establish non-profit or for-profit private schools at their own discretion. Nonetheless, school sponsors are not allowed to establish for-profit private schools that are engaged in compulsory education. In other words, the schools engaged in compulsory education should retain their non-profit status after the Amendment comes into force.

According to the Amendment, the key features of the aforesaid new classification system for private schools include the following:

- sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law (as defined below) and other relevant laws and regulations. Operation surplus refers to annual net balance of the school after deduction of costs for school operations, donations received government subsidies, reserved development fund and other expenses as required by the regulations;
- sponsors of non-profit private schools are not entitled to any distribution of profits or revenue from the non-profit schools they operate and all operation surplus of non-profit schools shall be used for the operation of the schools;
- for-profit private schools are entitled to set their own tuition fees and other miscellaneous fees without the need to seek prior approvals from or report to the relevant government authorities. The collection of fees by non-profit private schools, on the other hand, shall be regulated by the provincial, autonomous regional or municipal governments;

REGULATIONS

- private schools (for-profit and non-profit) may enjoy preferential tax treatments. Non-profit private schools will be entitled to the same tax benefits as public schools. Taxation policies for for-profit private schools after the Amendment taking effect are still unclear as more specific provisions are yet to be introduced;
- where there is construction or expansion of a non-profit private school, the school may acquire the required land use rights in the form of allocation by the government as a preferential treatment. Where there is construction or expansion of a for-profit private school, the school may acquire the required land use rights by purchasing them from the government;
- the remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of non-profit schools. The remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law (as defined below); and
- people's governments at or above the county level may support private schools by subscribing to their services, provision of student loans and scholarships, and leases or transfers of unused state assets. The governments may further take such measures as government subsidies, bonus funds and incentives for donation in support of non-profit private schools.

In addition, the Amendment provides that, where an organisation or individual establishes or operates a private school without authorisation, it/he shall be ordered by the relevant administrative department of the government to cease operation of the school and return the fees collected, and shall be fined not less than one time but not more than five times of the illegal gains. If a sponsor's act is found to violate the administration of public security, the sponsor shall be imposed a penalty by the public security authority according to the law. If a sponsor's act constitutes a crime, the sponsor shall be subject to criminal liabilities according to the law.

Should the Amendment come into full force on 1 September 2017, by choosing to be registered as non-profit private schools, private schools established prior to the publication date of the Amendment shall revise their articles of association in accordance with the Amendment and can maintain their *status quo*, and upon liquidation of these private schools in the future, their sponsors may apply for reasonable compensations or receive awards that are to be paid from the residual property of their private schools. The remaining assets shall continue to be used for the operation of non-profit schools. Private schools that choose to be registered as for-profit private schools, on the other hand, shall perform a financial liquidation procedure so as to authenticate various parties' property rights, pay taxes and fees accrued thereto, re-register as for-profit institutions and continue their operation of private schools. Specific measures relating to conversion into for-profit and non-profit private schools will be formulated by the people's governments of provinces, autonomous regions and municipalities directly under the Central Government where the schools are located.

On 29 December 2016, the State Council issued the Several Opinions of the State Council on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》) (the “**State Council Opinions**”), which require, among other things, to relax access to the operation of private schools and encourage social forces to enter the education industry. The State Council Opinions also provide that each level of the people's government shall increase its support to the private schools in terms of financial investment, financial support, autonomous policies, preferential tax treatments, land policies, fee policies, autonomous operation, and protection of teachers' and students' rights. The State Council Opinions further require each level of the people's government to improve its local policies on governmental support to for-profit and non-profit private schools by way of, among others, preferential tax treatments.

On 30 December 2016, the MOE, the MCA, the SAIC, the Ministry of Human Resources and Social Welfare and the State Commission Office of Public Sectors Reform jointly issued the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》), reflecting the new classification system for private schools as set out in the Amendment. Pursuant to these implementation rules, if a private

REGULATIONS

school established before promulgation of the Amendment chooses to register as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration process. If such private school chooses to register as a for-profit school, it shall conduct financial liquidation process, have the property rights of its assets such as lands, school buildings and net balance being authenticated by relevant governmental authorities, pay up relevant taxes, apply for a new Permit for Operating a Private School, re-register as for-profit schools and continue its operation. Specific provisions regarding the above registrations are yet to be introduced by the people's government at the provincial level.

On 30 December 2016, the MOE, the SAIC and the Ministry of Human Resources and Social Welfare jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》), pursuant to which the establishment, division, merger and other material changes of a for-profit private school shall first be reported by the board of directors of the relevant school to the relevant authorities and approved by relevant approving organs, which may include the education authorities, the authorities in charge of labour and social welfare and the people's government at the provincial level, and subsequently be registered with the competent branch of the SAIC.

Besides the Amendment and the above rules and regulations, the details of the operation requirement of non-profit schools and for-profit schools will further be provided in implementation regulations that are yet to be introduced (the “**Implementation Regulations**”), all of which will affect the decisions we may make in response to the Amendment and the impact on our business model brought by the Amendment:

- the amendment to the Implementation Rules for the Law for Promoting Private Education of the PRC;
- the local regulations relating to legal person registration of for-profit and non-profit private schools; and
- the specific measures to be formulated and promulgated by the competent authorities responsible for the administration of private schools in the province(s) in which our schools are located, including but not limited to the specific measures for re-registration as for-profit schools, the specific requirements for authenticating various parties' property rights and payment of taxes and fees of for-profit private schools, taxation policies for for-profit private schools, measures for the collection of non-profit private schools' fees.

We will adjust our structure in accordance with our business needs and circumstances when the Amendment comes into effect and the Implementation Regulations become available. We will keep the non-profit status of our schools engaged in compulsory education and we will consider adjusting other schools' structure to operate as for-profit or non-profit private schools pursuant to the Amendment and the Implementation Regulations when they come into force, by taking into account, among other things, the following factors:

- the practicability, costs and benefits of operating for-profit private schools and non-profit private schools;
- the legal requirements applicable to for-profit private schools and non-profit private schools and our ability to meet these requirements;
- the costs of authenticating various parties' property rights and taxes and fees to be paid for registration as for-profit private schools; and
- the favourable policies applicable to for-profit schools and non-profit schools (e.g., tax benefits and rates of discount for for-profit schools).

The decision to adjust our schools' structure will ultimately be made in the best interests of our Company and our Shareholders and in compliance with all of the applicable laws and regulations (including but not limited to the Listing Rules and guidance letters issued by the Stock Exchange from time to time). Given the significant uncertainty regarding the Implementation Regulations, we are unable to predict or estimate the impact on our operations and financial performance should we adjust the structure of our schools to operate as for-profit private schools or non-profit private schools in accordance with the enacted Amendment and Implementation Regulations.

Integration of Three Certificates into One

According to the Circular of the State Council on Approving and Forwarding the General Scheme of System Construction of Uniform Social Credit Code for Legal Persons and Other Organisations by the National Development and Reform Commission and Other Departments (《國務院關於批轉發展改革委等部門法人和其他組織統一社會信用代碼制度建設總體方案的通知》) promulgated and came into effect on 11 June 2015 and the Circular of the Central Office of the MCA on Printing and Distributing the Implementation Scheme of Uniform Social Credit Code for Social Organisations (Trial) (民政部辦公廳關於印發《社會組織統一社會信用代碼實施方案(試行)》的通知) promulgated and came into effect on 30 December 2015, a registration system of uniform social credit code shall be implemented for social organisations (including social groups, privately run non-enterprise institutions and foundations). Newly registered social organisations shall be issued registration certificates with uniform social credit codes by the civil affairs departments, while neither organisation code certificates nor tax registration certificates shall be issued to such social organisations. All of our schools have applied to renew their registrations with the local counterparts of the MCA in Henan province and most of them have completed such renewal of registration and have been allocated the Uniform Social Credit Code.

Sponsor's Reasonable Returns

According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as “sponsors” rather than “owners” or “shareholders”. The economic substance of “sponsorship” with respect of private schools is substantially similar to that of ownership in terms of legal, regulatory and tax matters. Private education is treated as a public welfare undertaking under the regulations. Nonetheless, sponsors of a private school may choose to require “reasonable returns” from the annual net balance of the school after deduction of costs for school operations, donations received, government subsidies (if any), the reserved development fund and other expenses as required by the regulations.

The election to establish a private school whose sponsor requires reasonable returns must be set out in the articles of association of the school. The percentage of the school's annual net balance that can be distributed as reasonable return shall be determined by the school's executive council, board of directors or other forms of the decision-making body, taking into consideration the following factors: (i) items and criteria for the school's fees; (ii) the ratio of the school's expenses used for educational activities and improving the educational conditions to the total fees collected; and (iii) the school operation level and educational quality. The relevant information relating to the school operation level and the quality of education shall be publicly disclosed before the determination of the percentage of the school's annual net balance that can be distributed as reasonable returns. Such information and the decision to distribute reasonable returns shall also be filed with the approval authorities within 15 days from the decision made. However, none of the current PRC laws and regulations provides a formula or guidelines for determining the extent to which “reasonable return” can be distributed. In addition, none of the current PRC laws or regulations set forth any requirements or restrictions on a private school's ability to operate its education business that differ based on whether such school's sponsor requires reasonable returns. All of our schools elected to be private school whose sponsor does not require reasonable returns.

At the end of each fiscal year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school whose sponsor requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school whose sponsor does not require reasonable returns, this amount shall be equal to no less than 25% of the annual increase in the net assets of the school, if any. Private schools whose sponsor does not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools whose sponsor require reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. To date, however, no regulations have been promulgated by such authorities in this regard.

REGULATIONS

The sponsor of a private school has the obligation to make capital contributions to the school in a timely manner. The contributed capital can be in the form of tangible or non-tangible assets such as materials in kind, land use rights or intellectual property rights. The capital contributed by the sponsor becomes assets of the school and the school has independent legal person status. In addition, the sponsor of a private school has the right to exercise ultimate control over the school by becoming the member of (if sponsor is individual) and controlling the composition of the school's decision-making body. Specifically, the sponsor has control over the private school's constitutional documents and has the right to elect and replace the majority of the private school's decision-making bodies, such as the school's board of directors, and therefore controls the private school's business and affairs.

Pursuant to the Amendment, sponsors of private school may choose to establish non-profit or for-profit private schools and will no longer be required to indicate whether they require reasonable returns or not requiring reasonable returns. Sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law (as defined below) and other relevant laws and regulations. Sponsors of non-profit private schools are not entitled to any distribution of profits or revenue from the non-profit schools they operate and all operation surpluses of the schools shall be used for the operation of the schools.

Interim Measures for the Management of the Collection of Private Education Fees

Pursuant to the Interim Measures for the Management of the Collection of Private Education Fees (《民辦教育收費管理暫行辦法》), which was promulgated by the NDRC, the MOE and the Ministry of Labour and Social Security (currently known as the Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部) on 2 March 2005, and the Implementation Rules for the Law for Promoting Private Education and the Henan Province Interim Measures for the Management of the Collection of Private Education Fees (《河南省民辦學校收費管理暫行辦法》) which became effective on 1 August 2005, the types and amounts of fees charged by a private school providing academic qualifications education shall be examined and verified by the education authorities or the labour and social welfare authorities and approved by the governmental pricing authority, and the school shall obtain the Fee Charge Permit (收費許可證). A private school that provides non-academic qualifications education shall file its pricing information with the governmental pricing authority and publicly discloses such information. If a school raises its tuition levels without obtaining the proper approval or making the relevant filing with the relevant government pricing authorities, the school would be required to return the additional tuition fees obtained through the raise and become liable for compensation of any losses caused to the students in accordance with the relevant PRC laws. However the governmental pricing authorities in Henan province, where all our schools are located, have in practice stopped using the Fee Charge Permits in their daily administration. As a result, all of our schools do not have Fee Charge Permits. All our schools have also obtained certification from the competent governmental pricing authorities certifying that each of our schools is in compliance with the regulations regarding the collection of tuition.

According to the Notice on the Cancellation of the Fee Charge Permit System and Strengthening the Supervision (《國家發展改革委財政部關於取消收費許可證制度加強事中事後監管的通知》, “**Circular 36**”), which was issued jointly by the NDRC and the Ministry of Finance on 9 January 2015, the Fee Charge Permit certificate issuance and annual review system shall be cancelled nationwide from 1 January 2016. According to the Forward Notice on the Cancellation of the Fee Charge Permit System and Strengthening the Supervision (《關於轉發<國家發展改革委財政部關於取消收費許可證制度加強事中事後監管的通知>的通知》), the Fee Charge Permit annual review shall be cancelled in Henan Province from 1 January 2016. Furthermore Fee Charge Permit certificates shall not be issued in Henan Province and all issued Fee Charge Permits shall become automatically invalid from 1 April 2015.

On 11 June 2015, the People's Government of Henan Province (河南省人民政府) published the Opinions of the People's Government of Henan Province on Further Deepening Price Reform (《河南省人民政府關於進一步深化價

REGULATIONS

格改革的意見》，the “**Price Reform Opinions**”). The Price Reform Opinions aim to further reform the pricing of public utilities and public services in Henan Province. Among other things, the Price Reform Opinions provide that: (i) the government control over the education related fees for part-time postgraduate educational services shall be uplifted; (ii) the government control over the education related fees for privately-run formal education shall be uplifted gradually; and (iii) the record-filling requirement for the fees charged by privately-run kindergartens shall be abolished. The Price Reform Opinions also encourage the social community to run education businesses on their own.

In view of the promulgation of the Price Reform Opinions, we are no longer required to file the fee charges for our kindergartens with the relevant government authorities and now enjoy better flexibility in terms of determining the fees charged by our kindergartens. We also expect that there will be less restrictions over the tuition fees charged by our other schools or University in the foreseeable future.

Collecting Fees

Pursuant to the Notice on Regulations Applicable to Service Charges and Fees Collected-on-behalf in the Primary and Middle Schools (《關於規範中小學服務性收費和代收費管理有關問題的通知》) jointly promulgated by the NDRC and the MOE on 23 July 2010, services charges and fees collected-on-behalf should be publicly disclosed and paid on a voluntary and non-profit basis. “Service charges” refer to fees charged by primary or middle schools for services provided by the school after completion of normal teaching that are selected by students or parents on a voluntary basis. “Fees collected-on-behalf” refer to fees collected by primary and middle schools on behalf of third parties that provide services (that are selected on a voluntary basis by students or parents) for the convenience of students’ learning and living in primary and middle schools.

Regulations on Safety and Health Protection of Schools

Pursuant to the Food Safety Law of the PRC (《中華人民共和國食品安全法》), which was amended on 24 April 2015 and became effective on 1 October 2015, collective canteens of schools and kindergartens shall obtain licences in accordance with the laws and strictly abide by the laws, regulations and food safety standards. Schools and kindergartens should only order meals from off-site providers that have obtained the relevant food production licences and should conduct regular inspections on the meal provided.

In accordance with the Regulation on Hygiene Administration of School Canteens and Collective Dining of Students (《學校食堂與學生集體用餐衛生管理規定》), which was promulgated on 20 September 2002 and became effective on 1 November 2002, hygiene administration of school canteens and collective dining of students should (a) follow a policy of precaution in the first place, and (b) observe the principles of being supervised and instructed by hygiene administrative department, being managed and inspected by education administrative department, and being executed by school. School canteens should keep the environment inside and outside clean and tidy, and strictly supervise the process of food procurement. Staff members and management personnel of canteens should master the basic requirements of food hygiene. The principal shall be responsible for the food safety of the school canteen, and full-time or part-time food hygiene management personnel shall be appointed.

According to the Circular on Strengthening Hygiene and Epidemic Prevention and Food Hygiene and Safety of Private Schools (《關於加強民辦學校衛生防疫與食品衛生安全工作的通知》), which was promulgated on 29 April 2006, private schools should pay high attention to and strengthen the school hygiene and epidemic prevention and the food hygiene and safety.

According to the Administrative Measures of Safety of Kindergartens, Primary and Middle School (《中小學幼兒園安全管理辦法》), which was promulgated on 30 June 2006 and became effective on 1 September 2006, schools should strictly implement Regulations on Hygiene Administration of School Canteens and Collective Dining of Students (《學校食堂與學生集體用餐衛生管理規定》) and Standards on Hygiene of Catering

REGULATIONS

Industry and Delivery Entity of Collective Dining (《餐飲業和集體用餐配送單位衛生規範》), and should strictly comply with the hygiene operation norms. In order to ensure the hygiene and safety of food and drink of teachers and students, schools should (a) establish a system of procurement of canteen supplies from designated suppliers, (b) establish a system of demanding for certificate and keeping record during procurement, (c) establish a system of retention of food for check-up and record, and (d) examine the situation of hygiene and safety of drinking water.

Pursuant to the Circular on Further Strengthening Food Safety of School Canteens (《關於進一步加強學校食堂食品安全工作的通知》) issued on 11 August 2011, school canteens are comprehensively required to carry out food safety self-inspection. Local food and drug administration at all levels are required to comprehensively strengthen supervision and inspection on food safety of school canteens before commencement of each term, and, before the commencement of every spring term and every autumn term, should consider school canteens as key point of supervision and strengthen the supervision and inspection. School food safety responsibility system should be comprehensively carried out.

According to the Regulation on Catering Food Safety Supervision and Management of School Canteens (《河南省學校食堂餐飲食品安全監督管理辦法》), which was promulgated on 2 March 2015 and became effective on the same day, subject to delegate management of the school canteens, the entrusted operators of the canteens are required to have a business licence and other related qualifications, and operate and manage catering services in strict accordance with related laws and regulations on food safety.

According to the Law on the Protection of Minors of the PRC (《中華人民共和國未成年人保護法》), which was amended on 26 October 2012 and became effective in January 2013, schools, kindergartens and nurseries shall establish safety system, improve safety education among the minors and adopt measures to guarantee their personal safety.

In accordance with the Regulation on Safety Management of Middle, Primary Schools and Kindergartens (《中小學幼兒園安全管理辦法》), which was promulgated on 30 June 2006 and became effective on 1 September 2006, schools shall be responsible for safety management and education, establish and improve internal safety management system and safety emergency response mechanism, incorporate safety education into its teaching content and carry out safety education among students.

According to the Regulation on Sanitary Work of Schools (《學校衛生工作條例》), which was promulgated on 4 June 1990 and became effective on the same day, schools shall carry out sanitary work. The main tasks of the sanitary work include monitoring health conditions of students, carrying out health education among students, helping students develop good health habits, improving health environment and health conditions for teachers and enhancing prevention and treatment of infectious disease and common diseases among students.

Regulations on Compulsory Education

According to the Law for Compulsory Education of the PRC (《中華人民共和國義務教育法》), which was promulgated by the NPC on 12 April 1986 and was amended by the tenth Standing Committee of the NPC on 29 June 2006 and by the twelfth Standing Committee of the NPC on 24 April 2015, a nine-year system of compulsory education, including six years of primary school and three years of middle school, was adopted.

Further, the MOE issued the Reform Guideline on the Curriculum System of Compulsory Education (Trial) (《基礎教育課程改革綱要(試行)》) on 8 June 2001, which became effective on the same day, pursuant to which schools providing compulsory education shall follow a “state-local-school” three-tier curriculum system. In other words, schools must follow the state curriculum standard for state courses, while the local educational authorities have the power to determine the curriculum standard for other courses, and schools may also develop curriculum that are suitable for their specific needs.

Regulations on the Operation of High Schools

The MOE has promulgated several regulations on the operation of high schools, which mainly concern the choice of textbooks, the curriculum system and the graduation exam system.

According to the Circular of the Central Office of the MOE on the Selection of the Trial Textbooks for the Curriculum of High Schools (《教育部辦公廳關於做好普通高中新課程實驗教材選用工作的通知》) promulgated on 26 April 2005 and the Interim Measures for the Management of the Selection of the Primary and Middle School Textbooks (《中小學教科書選用管理暫行辦法》) promulgated and came into effect on 30 September 2014, the textbooks used by the primary and middle schools can only be selected from the catalogue issued by the MOE; and the provincial education authority is in charge of textbook selection within its relevant administrative jurisdiction and has the power to approve the curriculum system applied in the primary and middle schools within the province.

Further, the MOE issued the Notice on Developing Trial Curriculum System in High Schools (《教育部關於開展普通高中新課程實驗工作的通知》), the Guidance on Strengthening Instruction on Developing Trial Curriculum System in High Schools (《教育部關於進一步加強普通高中新課程實驗工作的指導意見》), the Notice on Propelling 2006 Trial Curriculum System in High Schools (《教育部辦公廳關於2006年推進普通高中新課程實驗工作的通知》) and the Notice on Propelling 2007 Trial Curriculum System in High Schools (《教育部辦公廳關於2007年推進普通高中新課程實驗工作的通知》) from 2003 through 2007, pursuant to which the MOE developed a new curriculum system in high schools nationwide, and the implementation of such curriculum system is carried on mainly by the provincial educational authorities while the MOE mainly provides guidance to its local counterparts. Under the guidelines of the MOE and subject to approval by the respective provincial educational authorities, the high schools may adopt their own unique curriculum system.

In addition to the supervision and administration in textbooks and curriculum system applied in high schools, the PRC government also provides strict guidelines on the graduation exam system. According to the National Educational Committee's Opinions on Carrying Graduation Exam System in High Schools (《國家教委關於在普通高中實行畢業會考制度的意見》), the “**Graduation Exam System Opinions**”) which became effective from 20 August 1990, the graduation exam is a standard exam uniformly organised by the provincial educational authorities to determine the studying results of high school graduates, who can only obtain a high school diploma after passing such graduation exam. Thereafter, the MOE promulgated the Opinions on the Reform of the Graduation Exam System in High Schools (《關於普通高中畢業會考制度改革的意見》), the “**Reform Opinions**”) on 15 March 2000. Based on the Reform Opinions, passing the uniform Graduation Exam is no longer a prerequisite condition for obtaining a high school diploma. Upon approval by a provincial educational administration, a high school may conduct the graduation exam its own way, including selecting the subjects and determining the scope of such exam.

The Regulations on the Administration of Independent College and Private University

On 29 August 1998, the Standing Committee of the NPC (全國人大常務委員會) enacted the Higher Education Law of the PRC (《中華人民共和國高等教育法》, the “**Higher Education Law**”), which was amended by the Standing Committee of the NPC on 27 December 2015. The Higher Education Law sets forth provisions relating to the higher education systems of the PRC, including an education for academic qualifications system comprising special course education, regular course education and graduate programme, and a system of education for non-academic qualifications. The Higher Education Law stipulates that the government formulates plans for the development of higher education, runs higher education institutions and promotes higher education in various ways. Furthermore, it provides that in principle, enterprises, institutions, public organisations and individual citizens are encouraged to run higher education institutions in accordance with PRC laws and regulations. The Higher Education Law also stipulates that some basic conditions shall be fulfilled for the establishment of a higher education institution, and the establishment, modification or termination of a higher education institution shall, in accordance with the relevant PRC laws and regulations, go through the procedures

of appraisal, approval, confirmation, registration or filing. On 27 December 2015, the Higher Education Law was amended (the “**amended Higher Education Law**”), which became effective on 1 June 2016. The amended Higher Education Law revised Article 24 of the old law, which prohibits any organisation or individual from establishing or operating a higher education institution for profit-making purposes. Accordingly, the amended Higher Education Law allows the establishment or operation of higher education institutions for profit-making purposes. Furthermore, the amended Higher Education Law allows a higher education institution to raise funds via multiple channels. Where the parties running a higher education institution shall bear the bulk of investment, the persons receiving higher education shall bear the costs in a reasonable manner.

According to the Measures for the Establishment and Administration of Independent Colleges (《獨立學院設置與管理辦法》), which was promulgated on 22 February 2008 and came into effect on 1 April 2008, the term “independent college” refers to higher education institutions engaging in undergraduate diploma education, which are set up by the cooperation between colleges and universities providing undergraduate and graduate diploma education, on the one hand, and non-state social organisations or individuals, on the other hand, with non-state funds. In 2009, YuHua Investment Management set up an independent college, i.e. Wanfang College of Science & Technology Henan Polytechnic University via the cooperation with Henan Polytechnic University.

According to the Opinions of the MOE to Establishment of Ordinary Tertiary Schools of Eleventh Five-year (《教育部關於“十一五”期間普通高等學校設置工作的意見》), the conversion of an independent college into a private higher education institution shall conform with the procedure for establishment of a higher education institution.

The Higher Education Law of the PRC and Interim Provisions on Establishment of Ordinary Undergraduate Schools (《普通本科學校設置暫行規定》) provides for the procedure of the establishment of an ordinary undergraduate school, which Zhengzhou Technology and Business University has followed in its conversion process. As required by the procedure, the board of directors of Wanfang College of Science & Technology Henan Polytechnic University has filed an application for conversion into a private higher education institution (i.e. Zhengzhou Technology and Business University) with the Henan Provincial Government and the MOE for conversion and the MOE has released such approval to the Henan Provincial Government. Zhengzhou Technology and Business University is in the process of obtaining the new Permit for Operating a Private School (民辦學校辦學許可證) and Registration Certificate for a Privately Run Non-Enterprise Institution (民辦非企業單位登記證). As advised by our PRC Legal Adviser, there is currently no legal impediment for Zhengzhou Technology and Business University to obtain these permits.

The Guidelines for Overseas Study Tour participated by the Primary and Middle School Students (Trial)

The MOE promulgated the Guidelines for Overseas Study Tour Participated by the Primary and Middle School Students (Trial) (《中小學學生赴境外研學旅行活動指南(試行)》), the “**Overseas Study Tour Guidelines**”) on 14 July 2014. The Overseas Study Tour Guidelines stipulate that overseas study tours participated in by primary and middle school students (the “**Overseas Study Tours**”) means, by adapting to the characteristics of the primary and middle school students and the educational needs, programmes that organise the primary and middle school students to go overseas to learn foreign languages and attend other short-term curriculum, participate in artistic performances, compete in contests, visit schools, attend summer or winter school programmes, or take part in other activities that help the students expand their horizons and promote enrichment and enhancement, in the manner of group travel and group accommodation during the academic term or vacation. Overseas Study Tours attended by the primary and middle school students shall follow the principles of safety, civility and efficiency. The schedule for study, from the perspective of both the content and the duration, shall be no less than half of the entire schedule. The organiser shall choose legitimate and qualified cooperation institutions, and stress the importance of safe education, and shall appoint a guiding teacher for each group. The organiser shall apply the rules of cost accounting, notify the students and their supervisors of the composition of the fees and expenses,

REGULATIONS

and enter into an agreement as required by law. The school and its staff shall not seek any economic benefit from organising its own students to attend an Overseas Study Tour. Our schools do not charge students for organising Overseas Study Tours.

Outline of China's National Plan for Medium- and Long-Term Education Reform and Development (2010-2020)

On 8 July 2010, the PRC central government promulgated the Outline of China's National Plan for Medium and Long-Term Education Reform and Development (2010-2020) (《國家中長期教育改革和發展規劃綱要(2010-2020)》) which for the first time announced the policy that the government will implement a reform to divide private education entities into two categories, profit-making private education entities and non-profit private education entities. On 24 October 2010, the General Office of the State Council (國務院辦公廳) issued the Notices on the National Education System Innovation Pilot (《關於開展國家教育體制改革試點的通知》, the **"Pilot Notice"**). Following the Pilot Notice, the MOE submitted to the State Council A Series of Suggested Amendments to the Educational Law (《教育法律一攬子修訂建議草案(送審稿)》, the **"Suggested Draft Education Law Amendments"**) which were published by the legislation office of the State Council on 5 September 2013 and led to the amended Education Law and the Proposed Amendments mentioned above.

Decision on Amending Four Inbound Investment Laws

On 3 September 2016, the Standing Committee of the National People's Congress of the PRC (全國人大常務委員會) published the Decision of the Standing Committee of the National People's Congress on Revising Four Laws Including the "Law of the People's Republic of China on Wholly Foreign-Owned Enterprises" (《全國人大常委會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》, the **"Decision"**) which came into effect on 1 October 2016. The Decision revises the current foreign investment legal regime consisting of four laws: the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》), the Sino-Foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Law on the Protection of Investment of Taiwan Compatriots (《中華人民共和國臺灣同胞投資保護法》).

The Decision makes significant changes to the PRC foreign investment legal regime whereby the current system of examination and approval of foreign investments, in areas where the PRC government does not implement special entry administration measures, will be replaced with the new record-filing approach. The Decision means that the establishment of any foreign invested enterprise operating in industries where the PRC government does implement special entry administration measures, or, industries on the "Negative List", will still require entry clearance and other approvals that are not required for PRC domestic entities. On 8 October 2016, the NDRC and the MOFCOM published the No. 22 Announcement of 2016 (中華人民共和國國家發展和改革委員會和中華人民共和國商務部2016年第22號公告) (the **"Announcement"**). Pursuant to the Announcement, the State Council approved that the categories of the industries for which the PRC government will implement special entry administration measures and still require entry clearance and other approvals under the Decision (i.e., the "Negative List"), should be consistent with the Catalogue of Industries for Guiding Foreign Investment (2015 Revision) (外商投資產業指導目錄(2015年修訂)).

PRC LAWS AND REGULATIONS RELATING TO PROPERTY IN THE PRC

Pursuant to the Property Law of the PRC (《中華人民共和國物權法》, the **"Property Law"**) which was promulgated on 16 March 2007 and became effective on 1 October 2007, educational, medical and health and other public welfare facilities and other properties of institutions and social groups with the aim of benefiting the public such as schools, kindergartens and hospitals are not allowed to be mortgaged. As advised by our PRC Legal Adviser, educational facilities in our schools cannot be mortgaged.

REGULATIONS

According to the Property Law, transferable fund units and equity, property rights in intellectual property rights of transferable exclusive trademark rights, patent rights, copyrights, accounts receivable and other property rights as stipulated by any law or administrative regulation to be pledgeable may be pledged. As advised by our PRC Legal Adviser, as no law or administrative regulation stipulates that a sponsor's right is pledgeable, the pledge of a sponsor's right in a private school will not be accepted by the MOE or MCA.

PRC LAWS AND REGULATIONS RELATING TO TRADEMARK AND DOMAIN NAME

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》, the “**Trademark Law**”), which was revised on 30 August 2013 and with effect from 1 May 2014, registered trademarks refer to trademarks that have been approved and registered by the Trademark Office of the State Administration for Industry & Commerce (國家工商行政管理總局商標局), which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by law.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China (《中國互聯網絡域名管理辦法》), which was promulgated by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) on 5 November 2004 and with effect from 20 December 2004, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer and the principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the registrant becomes the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on time in accordance with the schedule set by the relevant domain name registrar. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar will cancel the domain name and notify the holder in writing.

PRC LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION

According to the Labour Law of the PRC (《中華人民共和國勞動法》, the “**Labour Law**”), which was promulgated by the Standing Committee of the NPC on 5 July 1994 and became effective on 1 January 1995 and was amended on 27 August 2009, an employer shall establish a comprehensive management system to safeguard the rights of its employees, including developing and improving its labour safety and health system, stringently implementing national protocols and standards on labour safety and health, conducting labour safety and health education for workers, guarding against labour accidents and reducing occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide employees with the necessary labour protection equipment that comply with labour safety and health conditions stipulated under national regulations, as well as provide regular health check for workers that engage in operations with occupational hazards. Labourers who engage in special operations shall have received specialised training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labour Contract Law (《勞動合同法》), which was promulgated by the Standing Committee of the NPC on 29 June 2007 and became effective on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on Labour Contract Law (《勞動合同法實施條例》), which was promulgated and became effective on 18 September 2008, regulate employer and employee relations and contain specific provisions on the terms of the labour contract. Labour contracts must be made in writing. An employer and an employee may enter into a fixed-term labour contract, an un-fixed term labour contract, or a labour contract that

REGULATIONS

concludes upon the completion of certain work assignments, after reaching due negotiations. An employer may legally terminate a labour contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labour contracts concluded prior to the enactment of the Labour Law and subsisting within the validity period thereof shall continue to be honoured.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Social Insurance Law (No.35 of the President) (《社會保險法》), which was promulgated on 28 October 2010 and became effective on 1 July 2011, has included pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with the relevant laws and regulations on social insurance.

According to the Interim Measures for Participation in the Social Insurance System by Foreigners Working within the Territory of China (《在中國境內就業的外國人參加社會保險暫行辦法》), which was promulgated by the Ministry of Human Resources and Social Security on 6 September 2011 and became effective on 15 October 2011, employers who employ foreigners shall participate in the basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and maternity leave insurance in accordance with the law, with the social insurance premiums to be contributed respectively by the employers and foreigner employees as required. In accordance with such Interim Measures, the social insurance administrative agencies shall supervise and examine the legal compliance of foreign employees and employers and the employers who do not pay social insurance premium in conformity with the laws shall be subject to the administrative provisions provided in the Social Insurance Law and the relevant regulations and rules mentioned above.

According to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated and became effective on 3 April 1999, and was amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to housing provident funds.

The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration centre. The employer shall timely pay up and deposit housing provident fund contributions in full amount, any employer who violates the above regulations shall be fined and ordered to make good the deficit within a designed period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration centre shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply with such order after the expiry of such period.

PRC LAWS AND REGULATIONS RELATING TO TAX

Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), the “EIT Law”), which was promulgated on 16 March 2007 and became effective from 1 January 2008, and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated on 6 December 2007 and became effective from 1 January 2008 by the State Council, enterprises are classified as either resident enterprises or non-resident enterprises. The income tax rate for resident enterprises, including both domestic and

foreign-invested enterprises shall typically be 25% commencing from 1 January 2008. An enterprise established outside China with its “de facto management bodies” located inside China is considered as a “resident enterprise”, which means it can be treated as domestic enterprise for enterprise income tax purposes. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10%.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Tax Policies Relating to Education (《財政部國家稅務總局關於教育稅收政策的通知》), “**Circular 39**”) and Notice of the Ministry of Finance and the State Administration of Taxation on Issues Concerning Strengthening the Administration over the Collection of Business Tax on Educational Services (《財政部、國家稅務總局關於加強教育勞務營業稅徵收管理有關問題的通知》), “**Circular 3**”), schools shall be exempt from enterprise income tax on fees they have collected upon approval and have incorporated under the fiscal budget management or the special account management of the funds outside the fiscal budget. Schools shall be exempt from enterprise income tax on the financial allocations they have received and special subsidies they have obtained from their administrative departments or institutions at higher levels.

According to the Law for Promoting Private Education and its implementing rules, a private school that does not require reasonable returns enjoys the same preferential tax treatment as public schools, whereas the preferential tax treatment policies applicable to private schools that require reasonable returns are separately formulated by the relevant authorities under the PRC State Council. All of our schools elected to be schools whose sponsor does not require reasonable return.

According to the Amendment, private schools will be entitled to preferential tax treatments, among which non-profit private schools will be entitled to the same preferential tax treatment as public schools and taxation policies for for-profit private schools after the Amendment taking effect are yet to be introduced. Therefore, the preferential tax treatment of our schools after the Amendment comes into full force will be subject to (i) the decision we make to operate our schools as for-profit or non-profit schools, and (ii) the tax treatment of the for-profit schools which should be stipulated in the Implementation Regulations that are to be introduced.

Income Tax in relation to Dividend Distribution

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》), the “**Double Tax Avoidance Arrangement**”) on 21 August 2006. According to the Double Tax Avoidance Arrangement, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests in the aforesaid enterprise, the tax levied shall be 5% of the distributed dividends. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in the PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) promulgated by the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局), the “**SAT**”) and became effective on 2 February 2009, all of the following requirements shall be satisfied in order for a Chinese resident company to enjoy the preferential tax rates provided under the tax agreements: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

REGULATIONS

Pursuant to the Administrative Measures for Tax Agreements Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》), which became effective on 1 November 2015, a non-resident taxpayer meeting conditions for enjoying the tax agreement treatment may be entitled to the tax agreement treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

Business Tax

According to the Provisional Regulations on Business Tax (《營業稅暫行條例》), which was promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994 and amended on 10 November 2008, and the Detailed Implementing Rules on the Temporary Regulations on Business Tax (《營業稅暫行條例實施細則》), which was promulgated by the MOF and the SAT and came into effect on 25 December 1993, amended on 22 May 1997, 15 December 2008 and 28 October 2011, business tax is imposed on the income derived from the furnishing of specified services and transfer of immovable property or intangible property at rates ranging from 3% to 20%, depending on the activity.

According to Circular 39, Circular 3 and the Provisional Regulations of the PRC on Business Tax, kindergartens and educational services provided by schools and other educational institutions shall be exempt from business tax.

Value-added Tax

According to the Temporary Regulations on Value-added Tax (《增值稅暫行條例》), which was promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and was amended on 10 November 2008 and 6 February 2016, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (《增值稅暫行條例實施細則》), which was promulgated by the MOF and came into effect on 25 December 1993, and was amended on 15 December 2008 and 28 October 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點方案》), which was promulgated by the MOF and the SAT and came into effect on 1 January 2012, the State began to launch taxation reforms in a gradual manner. The collection of value added tax in lieu of business tax items was implemented on a trial basis and has not been implemented in education consulting service industries. According to the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》, “Circular 36”), which was promulgated on 23 March 2016 and became effective from 1 May 2016, education services provided by schools engaged in diploma education shall be exempted from VAT. “Circular 36” stipulates that income from the provision of education services that is exempted from VAT refers to the income from the provision of degree education services for student enrolled within the officially prescribed admission plans, specifically including: income from tuitions, accommodation fees, textbook fees, exercise-book fees, and exam entry fees that are examined and approved by the relevant government authorities and charged according to the prescribed standards, as well as income from boarding fees for catering services provided by school canteens. Except for the aforesaid income, income from the sponsorship fees and school-selection fees charged by schools in any name is not exempted from VAT.

Other Tax Exemptions

According to Circular 39 and Circular 3, the real properties and land used by schools, nurseries and kindergartens established by enterprises shall be exempt from house property tax and urban land use tax. Schools and kindergartens which expropriate arable land upon approval shall be exempt from arable land use tax. Schools and educational institutions established by any enterprises, government affiliated institutions, social groups or other

REGULATIONS

social organisations or individuals and citizens with non-state fiscal funds for education and open to the public upon the approval of the administrative department for education or for labour of the relevant people's government at the county level or above which has also issued the relevant school running licence, shall be exempted from deed tax on their ownerships of land and houses used for teaching activities.

PRC LAWS AND REGULATIONS RELATING TO COMPANIES

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》), the “**PRC Company Law**”), which was promulgated on 29 December 1993 and amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and limited companies by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment have provided otherwise, such other laws shall prevail.

The latest amendment to the PRC Company Law took effect from 1 March 2014, pursuant to which there is no longer a prescribed timeframe for the shareholders to make full capital contribution to a company, except otherwise provided in other relevant laws, administrative regulations and State Council decisions. Instead, shareholders are only required to state the capital amount that they commit to subscribe in the articles of association of the company. Further, the initial payment of a company's registered capital is no longer subject to a minimum amount requirement and the business licence of a company will not show its paid-up capital. In addition, shareholders' contribution of the registered capital is no longer required to be verified by capital verification agencies.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》), the “**Foreign Exchange Administration Rules**”). These were promulgated by the State Council of the PRC on 29 January 1996 and with effect from 1 April 1996 and were amended on 14 January 1997 and 5 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China, unless the prior approval of the SAFE or its local counterparts is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may, without the approval of SAFE, make a payment from their foreign exchange accounts at designated foreign exchange banks for paying dividends with certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with SAFE or its local counterparts and approval form or filing with the relevant PRC government authorities (if necessary).

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), “**Circular 37**”), which was promulgated on 14 July 2014 and with effect from the same day, the domestic resident shall be required to register with the local branch of SAFE for foreign exchange registration of overseas investments before contributing the domestic and overseas lawful assets or interests to a SPV, and to update such registration in the event of any change of basic information of the registered SPV or major change in the SPV's capital, including increases and decreases of capital, share

REGULATIONS

transfers, share swaps, mergers or divisions. The SPV is defined as an “offshore enterprise directly established or indirectly controlled by the domestic resident (including domestic institution and individual resident) with their legally owned assets and equity of the domestic enterprise, or legally owned offshore assets or equity, for the purpose of investment and financing”; “Round Trip Investments” refer to “the direct investment activities carried out by a domestic resident directly or indirectly via an SPV, i.e. establishing a foreign-invested enterprise or project within the PRC through a new entity, merger or acquisition and other ways, while obtaining ownership, control, operation and management and other rights and interests”. In addition, according to the procedural guidelines as attached to the Circular 37, the principle of review has been changed to “the domestic individual resident is only required to register the SPV directly established or controlled (first level)”.

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》), “**Circular 13**”), which was promulgated on 13 February 2015 and implemented 1 June 2015, the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau, and the Circular 13 also simplifies some procedures relating to foreign exchange for direct investments.

On 30 March 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》, “**Circular 19**”), which came into effect from 1 June 2015. According to Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement (“**Discretionary Foreign Exchange Settlement**”). The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined to be 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks.

Furthermore, Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes:

1. directly or indirectly used for the payment beyond the business scope of the enterprises or the payment as prohibited by relevant laws and regulations;
2. directly or indirectly used for investment in securities unless otherwise provided by the relevant laws and regulations;
3. directly or indirectly used for granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and
4. directly or indirectly used for expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》, or “**Circular 16**”), on 9 June 2016, which became effective simultaneously. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on self-discretionary basis. Circular 16 provides an integrated standard for conversion of foreign exchange under

REGULATIONS

capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis which applies to all enterprises registered in the PRC. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

As Circular 16 is newly issued and SAFE has not provided detailed guidelines with respect to its interpretation or implementations, it is uncertain how these rules will be interpreted and implemented.

Regulations on Loans to and Direct Investment in the PRC Entities by Offshore Holding Companies

According to the Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt (《外債統計監測實施細則》) promulgated by SAFE on 24 September 1997 and the Interim Provisions on the Management of Foreign Debts (《外債管理暫行辦法》) promulgated by SAFE, the NDRC and the MOF and effective from 1 March 2003, loans by foreign companies to their subsidiaries in China, which accordingly are foreign-invested enterprises, are considered foreign debt, and such loans must be registered with the local branches of the SAFE. Under the provisions, these foreign-invested enterprises must submit the registration application to the local branches of SAFE within 15 days from the date on which the loan agreements for the foreign debt are executed and the registration should be completed within 20 working days from the date on which the local branch of SAFE receives all application materials. In addition, the total amount of accumulated medium-term and long-term foreign debt and the balance of short-term debt borrowed by a foreign-invested enterprise is limited to the difference between the total investment and the registered capital of the foreign-invested enterprise. Total investment of a foreign-invested enterprise is the total amount of capital that can be used for the operation of the foreign-invested enterprise, as approved by the MOFCOM or its local counterpart, and may be increased or decreased upon approval by the MOFCOM or its local counterpart. Registered capital of a foreign-invested enterprise is the total amount of capital contributions of the foreign-invested enterprise subscribed to by its foreign holding company or owners, as approved by the MOFCOM or its local counterpart and registered at the SAIC or its local counterpart.

According to applicable PRC regulations on foreign-invested enterprises, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered foreign-invested enterprises, may only be made when approval by the MOFCOM or its local counterpart is obtained. In approving such capital contributions, the MOFCOM or its local counterpart examines the business scope of each foreign invested enterprise under review to ensure it complies with the Foreign Investment Catalogue, which classifies industries in China into three categories: “encouraged foreign investment industries”, “restricted foreign investment industries” and “prohibited foreign investment industries”. Our PRC subsidiaries, WFOE and Henan Hantang, each of which is a foreign-invested enterprise, are not engaged in any prohibited or restricted businesses listed in the Foreign Investment Catalogue and none of them has incurred foreign debt.

Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009)

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009) (《關於外國投資者併購境內企業的規定》), the “**M&A Rules**”), a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic company which is related to or connected with it/him/her, approval from the MOFCOM is required.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering (assuming that the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), our ultimate Controlling Shareholder, Mr. Li, will, through his control over Baikal Lake Investment and GuangYu Investment, be interested in an aggregate of 75% of the issued share capital of our Company.

Mr. Li, our ultimate Controlling Shareholder, is one of our executive Directors and the chairman of the Board. For further background of Mr. Li, see the section headed “Directors and Senior Management” in this prospectus.

Competition

Each of our Controlling Shareholders confirms that as of the Latest Practicable Date, he or it did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after the Listing.

Management Independence

Our Directors consider that our Board and senior management will function independently from our Controlling Shareholders because:

(a) Board structure

Our Board comprises six Directors, among them are three executive Directors and three independent non-executive Directors. Even though two of our executive Directors are one of our Controlling Shareholders (i.e. Mr. Li) and his daughter (i.e. Ms. Li), none of the other Directors, who form the majority of our Board, is a Controlling Shareholder, or a party acting in concert with our Controlling Shareholders.

Furthermore, our independent non-executive Directors have extensive experience in corporate management and have been appointed to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions.

Our Directors believe that the balanced mix of Directors with different professional backgrounds and expertise will provide us with balanced views and opinions, which are in the interests of the Company and our Shareholders as a whole. Our Board acts collectively and makes decisions in accordance with the Articles and applicable laws and regulations, so no single Director or Controlling Shareholder is supposed to be able to make any decisions unless authorised by our Board.

(b) Disclosure of interests

According to the Articles, a Director who to his or her knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his or her interest at the meeting of our Board at which the question of entering into the contract or arrangement is first considered, if he or she knows his or her interest then exists, or in any other case at the first meeting of our Board after he or she knows that he or she is or has become so interested. In addition, a Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or any other proposal in which he or she or any of his or her close associates (as defined in the

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Articles) is materially interested except for certain circumstances as set out in the Articles. For details, see the section headed “Summary of the Constitution of our Company and Cayman Companies Law” in Appendix IV to this prospectus.

(c) *Participation and voting in our Board meeting*

According to the Articles, questions arising at our Board meetings shall be determined by a majority of votes. In the case of any equality of votes, the chairman of the meeting shall have an additional or casting vote. As noted above, the majority of our Board is represented by Directors who are not our Controlling Shareholders or parties acting in concert with our Controlling Shareholders, and therefore we are of the view that our Board is capable of making corporate decisions independently from our Controlling Shareholders.

(d) *Participation and voting in general meeting*

There are no limitations under the Cayman Companies Law or the Memorandum and Articles on the rights of any holders of Shares to hold or vote such Shares in accordance with the Memorandum and Articles. Where our Company has knowledge that any Shareholder is under the rules of the Designated Stock Exchange (as defined in the Articles) required to abstain from or restricted from voting on any particular resolution of our Company or restricted to vote only for or only against any particular resolution of our Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted. Any transaction or arrangement between us and our Controlling Shareholders or their associates shall be governed by Chapter 14A of the Listing Rules, which provides that certain categories of connected transactions shall be subject to independent Shareholders’ approval.

Operational Independence

Save as disclosed in the section headed “Business — Properties” and “Business — Licences and Permits” in this prospectus, our Group holds all relevant licences and owns all relevant intellectual properties and facilities necessary to carry on our business of providing education services. We have sufficient capital, facilities and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and suppliers and an independent management team to operate our business.

To the best knowledge of our Directors, all our suppliers are Independent Third Parties.

Financial Independence

We have an independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

No loans or guarantees provided by, or granted to, any of our Controlling Shareholders or their respective associates will be outstanding as of the Listing Date.

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance on our Controlling Shareholders and their close associates after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors recognise the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (a) under the Articles, where a Shareholders' meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or any of their associates has a material interest, the relevant Controlling Shareholders or their associate will not vote on the relevant resolutions;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between the Group and our Controlling Shareholders (the "**Annual Review**") and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expenses; and
- (g) we have appointed Guotai Junan Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the Listing.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into the following continuing agreements and arrangements with our connected persons in our ordinary and usual course of business. Upon the Listing, these transactions will constitute continuing connected transactions under the Listing Rules.

| | | | | Proposed annual cap for the year ending 31 August | | |
|----------------------------------------------|--------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------|-------------------------------|
| Transactions | | Applicable Listing Rules | Waiver Sought | 2017 (in RMB) | 2018 (in RMB) | 2019 (in RMB) |
| Exempt continuing connected transactions | | | | | | |
| 1. | Unit 19 Lease | 14A.34, 14A.52, 14A.53 and 14A.76 | Not applicable | 154,392 | 154,392 ⁽¹⁾ | Not applicable ⁽²⁾ |
| 2. | Unit 20 and 22 Lease | 14A.34, 14A.52, 14A.53 and 14A.76 | Not applicable | 383,088 | 383,088 ⁽¹⁾ | Not applicable ⁽²⁾ |
| 3. | Unit 21 Lease | 14A.34, 14A.52, 14A.53 and 14A.76 | Not applicable | 178,884 | 178,884 ⁽¹⁾ | Not applicable ⁽²⁾ |
| Non-exempt continuing connected transactions | | | | | | |
| 1. | Contractual Arrangements | 14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 to 59 and 14A.71 | Requirements as to announcement, circular, shareholders approval, annual cap, and terms not more than three years | Not applicable | Not applicable | Not applicable |

Notes:

- (1) The annual cap is calculated on the basis that the lease will terminate in accordance with its terms (i.e. by the end of August 2018).
- (2) The Group will reassess its business needs before considering whether it will renew these leases at the expiry of the terms, and will comply with the relevant requirements under the Listing Rules when it enters into new lease agreements.

EXEMPT CONTINUING CONNECTED TRANSACTION

1. Unit 19 Lease

On 1 September 2016, Zhengzhou YuHua Education Investments entered into lease agreements with Ms. Li (the “**Unit 19 Lease**”), pursuant to which Zhengzhou YuHua Education Investments leased from Ms. Li an office located in Zhengzhou City, Henan Province. The term of the lease shall be two years from 1 September 2016 and the annual rent payable shall be RMB154,392. The Directors are of the view that the transactions contemplated in the Unit 19 Lease are on normal commercial terms.

Listing Rules implication

Ms. Li is the chief executive officer and an executive director of our Company upon the Listing, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.

2. Unit 20 and 22 Lease

On 1 September 2016, Zhengzhou YuHua Education Investments entered into lease agreements with Zhengzhou Corn Culture Communication Co., Ltd. (鄭州粟米文化傳播有限公司) (the “**Unit 20 and 22 Lease**”), pursuant to which Zhengzhou YuHua Education Investments leased from Zhengzhou Corn Culture Communication Co., Ltd. an office located in Zhengzhou City, Henan Province. The term of the lease shall be two years from 1 September 2016 and the annual rent payable shall be RMB383,088. The Directors are of the view that the transactions contemplated in the Unit 20 and 22 Lease are on normal commercial terms.

Listing Rules implication

Zhengzhou Corn Culture Communication Co., Ltd is held as to 99.75% by Ms. Li and the remaining 0.25% by Mr. Li. As Ms. Li is a connected person of our Company, Zhengzhou Corn Culture Communication Co., Ltd. is an associate of Ms. Li and hence a connected person of our Company pursuant to Rules 14A.07(4) and 14A.12(1)(c) of the Listing Rules.

3. Unit 21 Lease

On 1 September 2016, Zhengzhou YuHua Education Investments entered into lease agreements with Ms. Liu Chunhua (the spouse of Mr. Li) (the “Unit 21 Lease”), pursuant to which Zhengzhou YuHua Education Investments leased from Ms. Liu Chunhua an office located in Zhengzhou City, Henan Province. The term of the lease shall be two years from 1 September 2016 and the annual rent payable shall be RMB178,884. The Directors are of the view that the transactions contemplated under the Unit 21 Lease are on normal commercial terms.

Listing Rules implication

Mr. Li is an executive director and a substantial shareholder of our Company, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules. Ms. Liu Chunhua is the spouse of Mr. Li, and therefore an associate of Mr. Li and hence a connected person of our Company pursuant to Rules 14A.07(4) and 14A.12(1)(a) of the Listing Rules.

As the appropriate annual rent payable by us for the Unit 19 Lease, the Unit 20 and 22 Lease and the Unit 21 Lease will be less than HK\$3,000,000, the connected transactions contemplated under the leases constitute de minimis connected transactions under Rule 14A.76 of the Listing Rules and are exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Annual Cap

Before we entered into the above lease agreements, we did not incur any amount relating to such leases. The proposed annual cap for each of the years ending 31 August 2017 and 2018 is RMB154,392, RMB383,088 and RMB178,884 for the Unit 19 Lease, the Unit 20 and 22 Lease and the Unit 22 Lease, respectively, which is determined based on the prevailing market rent in the area in Zhengzhou City, Henan Province.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION**Contractual Arrangements***Background*

As disclosed in the section headed “Contractual Arrangements” in this prospectus, due to regulatory restrictions on foreign ownership in our schools in the PRC, we conduct a substantial portion of our business through our consolidated affiliated entities in the PRC. We do not hold any equity interests in our consolidated affiliated entities which are held by Mr. Li and Ms. Li. Rather, through the 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, WFOE, our consolidated affiliated entities and the Registered Shareholders enable us to (i) receive substantially all of the economic benefits from our consolidated affiliated entities in consideration for the services provided by WFOE; (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.

The Contractual Arrangements consist of five types of agreements: (a) the Exclusive Management Consultancy and Business Cooperation Agreements, (b) the Exclusive Call Option Agreements, (c) the Equity Pledge Agreements, (d) the Powers of Attorney and (e) the Spouse’s Undertakings (terms are defined in the section headed “Contractual Arrangements” in this prospectus). See the section headed “Contractual Arrangements” in this prospectus for detailed terms of these agreements.

CONNECTED TRANSACTIONS

Listing Rules implications

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their connection with our Group. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

| Name | Connected relationships |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr. Li | Mr. Li is an executive director and a substantial shareholder of our Company, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules. |
| Ms. Li | Ms. Li is the chief executive officer and an executive director of our Company upon the Listing, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules. |

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our PRC Holdcos and any member of our Group ("**New Intergroup Agreements**" and each of them, a "**New Intergroup Agreement**") technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent shareholders' approval requirements.

Application for waiver

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of the independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders'

CONNECTED TRANSACTIONS

approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the consolidated affiliated entities through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the consolidated affiliated entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the consolidated affiliated entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOE by our consolidated affiliated entities under the exclusive management consultancy and business cooperation agreements, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the consolidated affiliated entities.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the consolidated affiliated entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and, or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our consolidated affiliated entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the consolidated affiliated entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of the Shareholders as a whole.
- Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered

CONNECTED TRANSACTIONS

into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our consolidated affiliated entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, our consolidated affiliated entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the consolidated affiliated entities and its associates will be treated as connected persons of our Company (excluding for this purpose, the consolidated affiliated entities), and transactions between these connected persons and our Group (including for this purpose, the consolidated affiliated entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our consolidated affiliated entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the consolidated affiliated entities will provide our Group’s management and our Company’s auditor full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions. In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated by any New Intergroup Agreements, (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from our consolidated affiliated entities in any New Intergroup Agreements, and (iii) the requirement to limit the term of any New Intergroup Agreement to three years or less, for so long as Shares are listed on the Stock Exchange. The waiver is subject to the condition that the Contractual Arrangements subsist and that the consolidated affiliated entities will continue to be treated as our Company’s subsidiaries, but their directors, chief executives or substantial shareholders of the consolidated affiliated entities and its associates will be treated as connected persons of our Company (excluding for this purpose, our consolidated affiliated entities), and transactions between these connected persons and our Group (including for this purpose, our consolidated affiliated entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, has obtained necessary representations and confirmations from our Company and our Directors and has participated in the due diligence and discussions with our management and our PRC Legal Adviser. Based on the above, the Sole Sponsor is of the view that the Contractual Arrangements are fundamental to our Group’s legal structure and business operations and that the Contractual Arrangements have been entered into in our ordinary and usual course of business, on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole.

The Sole Sponsor is of the view that with respect to the term of the relevant agreements underlying the Contractual Arrangements which is of an indefinite duration, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of the consolidated affiliated entities can be effectively controlled by the WFOE, (ii) the WFOE can obtain the economic benefits derived from the consolidated affiliated entities, and (iii) any possible leakages of assets and values of the consolidated affiliated entities can be prevented, on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

Our Board comprises three executive Directors and three independent non-executive Directors:

| Name | Age | Position | Date of joining our Group | Date of appointment as a Director | Roles and responsibilities |
|---------------------------------------|-----|----------------------------------------------------------------------------|---------------------------|-----------------------------------|---------------------------------------------------------------------------------|
| Li Guangyu ^(Note) (李光宇) | 53 | Chairman of the Board and executive Director | 19 February 2000 | 25 April 2016 | Strategic development, overall operational management and major decision making |
| Li Hua (李花) ^(Note) | 29 | Vice chairman of the Board, chief executive officer and executive Director | 1 July 2009 | 7 September 2016 | Strategic development and daily management |
| Qiu Hongjun (邱紅軍) | 50 | Executive Director, financial controller, vice president | 1 July 2004 | 7 September 2016 | Overseeing financial operations and public relations |
| Chen Lei (陳磊) | 44 | Independent non-executive Director | Date of this prospectus | 7 September 2016 | Supervising and providing independent judgement to our Board |
| Xia Zuoquan (夏佐全) | 53 | Independent non-executive Director | Date of this prospectus | 7 September 2016 | Supervising and providing independent judgement to our Board |
| Zhang Zhixue (張志學) | 49 | Independent non-executive Director | Date of this prospectus | 7 September 2016 | Supervising and providing independent judgement to our Board |

Note:

Ms. Li is the daughter of Mr. Li.

Executive Directors

Mr. Li Guangyu (李光宇) was first appointed as a Director on 25 April 2016. He was redesignated as an executive Director and appointed as the chairman of the Board and the chairman of the nomination committee on 7 September 2016. Mr. Li also holds the following positions with other members of our Group:

- director of YuHua Investment Management (since 19 February 2000);
- director of Zhengzhou YuHua Education Investments (since 9 April 2004);
- chairman of the board of directors of Zhengzhou Technology and Business University (since 13 March 2009); and
- chairman of the board of directors of Zhengzhou Zhongmei Education Investments (since 21 July 2011).

Mr. Li has more than 15 years of experience in the education industry, and is the chairman of the board of directors of our University and all of our 24 private schools for grades K-12. In July 2004, he was selected as one

DIRECTORS AND SENIOR MANAGEMENT

of the ten outstanding figures in the private education industry in China (中國民辦教育十大傑出人物) by Guangming Daily (光明日報). In April 2010, Mr. Li received the National Outstanding Worker Award (全國先進工作者) from the State Council of the PRC. Mr. Li was also a member of the National People's Congress and the vice chairman of the China Association for Non-Government Education (中國民辦教育協會). During the past three years, Mr. Li was not a director of any listed companies.

Mr. Li graduated from the Changchun Institute of Optics and Fine Mechanics (長春光學精密機械學院, currently known as the Changchun University of Science and Technology (長春理工大學)), majoring in laser technology in July 1983, and received his master's degree in Business Administration from the Guanghua School of Management, Peking University (北京大學光華管理學院) in July 2007.

Ms. Li Hua (李花) was first appointed as an executive Director and as the vice chairman of the Board on 7 September 2016. Ms. Li is also our chief executive officer and holds the following positions with other members of our Group:

- director of Zhengzhou Zhongmei Education Investments (since 21 July 2011); and
- director of Zhengzhou YuHua Education Investments (since 19 April 2016).

Ms. Li has more than seven years of experience in the education industry, and is a member of the board of directors of Zhengzhou Technology and Business University and all of our 24 private schools of grades K-12. Ms. Li worked as an officer at Zhengzhou YuHua Elite School between March to July 2009, where she was responsible for managing the daily operations and strategic planning of the school. From July 2009 to July 2010, Ms. Li was a teaching assistant and counsellor at Zhengzhou Technology and Business University, where she was responsible for lecturing and managing the counselling programme and student activities.

Ms. Li has been a committee member of the 12th Session of All-China Youth Federation (中華全國青年聯合會第十二屆) since July 2015. She was also a representative of Henan Province for the 17th Communist Youth League National Representative Conference (中國共產主義青年團第十七次全國代表大會) and a representative of Xinzheng (新鄭) for the 14th People's Congress of Zhengzhou (鄭州市第十四屆人民代表大會). In May 2012, Ms. Li received the Henan Province May Fourth Youth Prize (河南省五四青年獎章榮耀) from the Henan Communist Youth League (中國共青團河南省委) and the Henan Youth Federation (河南省青年聯合會). She also received the Henan Province Individual Honour for Innovative Women (河南省婦女創先爭優先進個人榮譽) in July 2012 from the Henan Woman Federation (河南省婦女聯合會) and the Outstanding Committee Member Honour (河南省青年聯合會優秀委員榮譽) from the Henan Youth Federation in January 2013. In November 2014, Ms. Li was awarded the Individual Award for Innovations in Henan Private Education (河南省民辦教育先進個人榮譽) by the Henan Province Education Department (河南省教育廳). During the past three years, Ms. Li was not a director of any listed companies.

Ms. Li received her bachelor's degree in Philosophy from Peking University in July 2010.

Ms. Qiu Hongjun (邱紅軍) was first appointed as an executive Director on 7 September 2016. Ms. Qiu is also our financial controller and vice president. She is responsible for overseeing our financial affairs. Ms. Qiu also holds the following positions with other members of our Group:

- director of Zhengzhou Zhongmei Education Investments (since 21 July 2011); and
- director of Zhengzhou YuHua Education Investments (since 19 April 2016).

Ms. Qiu has more than 12 years of experience in the education industry, and is a member of the board of directors of all of our 24 private schools of grades K-12. From 2002 to 2004, she was the deputy branch president of Nanjing branch of Shenzhen Development Bank (currently known as Pingan Bank). Since joining our Group, Ms. Qiu has been overseeing our financial affairs and has since then accumulated substantial financial experience. During the past three years, Ms. Qiu was not a director of any listed companies.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Qiu received her diploma in Finance from the Central Radio and Television University (中央廣播電視大學, currently known as the Open University of China (國家開放大學)) (distance learning) in October 2003.

Independent Non-Executive Directors

Mr. Chen Lei (陳磊) was appointed as an independent non-executive Director and the chairman of the audit committee on 7 September 2016, taking effect on the date of this prospectus. Mr. Chen is primarily responsible for supervising and providing independent judgement to our Board. Mr. Chen is our Director who has the appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below.

Mr. Chen has been serving as an associate professor of accounting and assistant dean at the Guanghua School of Management, Peking University since July 2008. Mr. Chen served as an assistant professor of accounting at Robinson College of Business, Georgia State University in the United States from August 2004 to June 2008.

Mr. Chen currently serves as an independent non-executive director of Sugon Information Industry Co., Ltd (曙光信息產業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603019) (since May 2015), Huadian Heavy Industries Co., Ltd (華電重工股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601226) (since July 2014) and Beijing Da Bei Nong Technology Holdings Co., Ltd (北京大北農科技集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002385) (since December 2013).

Mr. Chen received his bachelor's degree in Economics from Tsinghua University, his master's degree in Economics from Indiana University and his doctorate degree in Accounting from the University of Texas at Dallas in July 1996, September 1999 and August 2004, respectively.

Mr. Chen has been and remains responsible for the following areas in his capacity as an associate professor of Accounting and a director of listed companies, through which he has gained the financial management expertise required under Rule 3.10(2) of the Listing Rules:

- lecturing on and teaching accounting, auditing and financial management related courses as associate professor of Accounting at Guanghua School of Management, Peking University;
- acting as the executive director of the master in Professional Accounting programme (會計碩士專業學位課程) at the Guanghua School of Management, Peking University;
- acting as a specialist in audit committees of the listed companies mentioned above and involvement in their financial management, including in annual budget meetings, periodic financial reviews, annual financial audits and reporting; and
- working closely with the listed companies in the preparation of their financial statements, valuation analysis, participation in pricing and negotiation of transaction terms, preparation of offer document disclosures and other related financial documents in advance of their public offerings in the Shenzhen Stock Exchange and the Shanghai Stock Exchange.

Mr. Xia Zuoquan (夏佐全) was appointed as an independent non-executive Director on 7 September 2016, taking effect on the date of this prospectus. Mr. Xia is primarily responsible for supervising and providing independent judgement to our Board.

Mr. Xia is one of the founders of the BYD Group (比亞迪集團), and currently serves as a non-executive director of BYD Company Limited, a rechargeable battery, handset components and automobile manufacturer listed on

DIRECTORS AND SENIOR MANAGEMENT

the Stock Exchange (stock code: 1211) (since March 2008) and the Shenzhen Stock Exchange (stock code: 002594) (since June 2002). He also currently serves as an independent non-executive director of China Baofeng (International) Limited (since February 2016), a company listed on the Stock Exchange (stock code: 3966) and a director of Guangdong Beizhi Cepin Network Technology Co., Ltd. (廣東倍智測聘網絡科技股份有限公司) (since June 2015), a technology company listed on the PRC National Equities Exchange and Quotations (stock code: 833907). Mr. Xia is also the vice chairman (副理事長) of the BYD Charity Foundation (比亞迪慈善基金會).

Mr. Xia received his bachelor's degree in Computer Science (correspondence course) from the Beijing Institute of Iron and Steel Engineering (北京鋼鐵學院, currently known as the University of Science & Technology of Beijing (北京科技大學)) in September 1987 and his master's degree in Business Administration from the Guanghua School of Management, Peking University in 2007.

Mr. Zhang Zhixue (張志學) was appointed as an independent non-executive Director and the chairman of the remuneration committee in 7 September 2016, taking effect on the date of this prospectus. Mr. Zhang is primarily responsible for supervising and providing independent judgement to our Board.

Mr. Zhang has been a professor of Organisation and Strategic Management at the Guanghua School of Management, Peking University since August 2008.

Mr. Zhang currently serves as an independent non-executive director of Ever-Glory International Group, Inc. (since March 2008), a company listed on NASDAQ (stock symbol: EVK). Mr. Zhang is also currently an independent director of the Bank of Guizhou (貴州銀行) and Sunshine Insurance Group Inc. (陽光保險集團股份有限公司). He also served as an independent non-executive director of Creative Distribution Automation Co., Ltd. (北京科銳配電自動化股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002350), from March 2010 to March 2016.

Mr. Zhang received his bachelor's degree in Education from Henan University (河南大學), his master's degree in Psychology from Beijing Normal University (北京師範大學) and his doctorate degree in Philosophy from the University of Hong Kong in July 1988, July 1991 and December 1998, respectively.

SENIOR MANAGEMENT

The following table provides information about our senior management (besides our executive Directors):

| Name | Age | Position | Date of joining our Group | Date of appointment as senior management | Roles and responsibilities |
|------------------|-----|-------------------------|---------------------------|------------------------------------------|---------------------------------|
| Xu Bin | 33 | Chief financial officer | 1 January 2016 | 1 January 2016 | Overseeing financial operations |

Mr. Xu Bin (徐斌) was appointed as our chief financial officer on 1 January 2016. He is responsible for overseeing our Company's financial affairs.

Before joining our Group, Mr. Xu was the vice president and co-chief financial officer of China Maple Leaf Education Systems Limited, a company listed on the Stock Exchange (stock code: 1317), from 16 February 2013 to 16 June 2015. He also worked as an accountant at Citco Financial Group, an international financial services provider, from November 2007 to May 2010, and an investment banking associate at Essence Securities Co., Ltd., a financial and securities brokerage services provider based in China, from November 2011 to February 2013.

Mr. Xu received his bachelor's degree in Economics and Finance from the University of Toronto, Canada in November 2007 and a master's degree in Finance from the University of Cambridge, United Kingdom in May 2012.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Xu Bin (徐斌), one of our joint company secretaries, was appointed on 7 September 2016. He is also our senior management. See the paragraph above in this section for details of his qualification.

Ms. Lai Siu Kuen (黎少娟), one of our joint company secretaries, was appointed on 7 September 2016. Ms. Lai is a senior manager of the listing services department of TMF Hong Kong Limited. She has over 16 years of professional and in-house experience in the company secretarial field. Prior to joining TMF Hong Kong Limited, Ms. Lai worked in the corporate services division of KPMG Hong Kong, Hutchison International Limited (from 22 June 2009 to 13 February 2013), and Chow Sang Sang Holdings International Limited (from 14 January 2005 to 21 June 2009). Ms. Lai received her bachelor of Arts degree in Accountancy from The Hong Kong Polytechnic University in 1997. Ms. Lai is a fellow member of the Hong Kong Institute of Chartered Secretaries (since 9 October 2012) and the Institute of Chartered Secretaries and Administrators in United Kingdom (since 9 October 2012).

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

For the details of the service contracts and appointment letters that we have entered into with our Directors, see the section headed "Statutory and General Information — C. Further Information about our Directors — 1. Particulars of Directors' service contracts and appointment letters" in Appendix V to this prospectus.

The aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to our Directors in respect of the financial years ended 31 August 2014, 2015 and 2016 were RMB0.474 million, RMB0.627 million and RMB0.687 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in note 31 to the Accountants' Report as set out in Appendix I to this prospectus.

During the Track Record Period, no remuneration was paid to our Directors as an inducement to join or upon joining our Group. No compensation was paid to, or receivable by, our Directors or past Directors during the Track Record Period for the loss of office as Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the financial year ending 31 August 2017 is expected to be approximately RMB0.805 million.

The five highest paid individuals of our Group for the financial years ended 31 August 2014, 2015 and 2016 included one, one and one Director, respectively, whose remunerations are included in the aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to the relevant Directors set out above. For the financial years ended 31 August 2014, 2015 and 2016, the aggregate amount of fees, salaries, allowances and retirement benefits scheme contributions we paid to the remaining four, four and four highest paid individuals who are neither a Director nor chief executive of our Group were RMB0.931 million, RMB0.990 million and RMB1.094 million, respectively.

During the Track Record Period, no remuneration was paid to the five highest paid individuals of our Group as an inducement to join or upon joining our Group. No compensation was paid to or receivable by such individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any member of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

CORPORATE GOVERNANCE

Audit Committee

We have established an audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. The audit committee comprises three independent non-executive Directors, namely Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue. Mr. Chen Lei, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Remuneration Committee

We have established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The remuneration committee comprises one executive Director, namely Ms. Li, and two independent non-executive Directors, namely Mr. Zhang Zhixue and Mr. Xia Zuoquan. Mr. Zhang Zhixue is the chairman of the committee.

Nomination Committee

We have established a nomination committee in compliance with the Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding the appointment of Directors and Board succession. The nomination committee comprises one executive Director, namely Mr. Li, and two independent non-executive Directors, namely Mr. Zhang Zhixue and Mr. Xia Zuoquan. Mr. Li is the chairman of the committee.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Adviser will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Adviser will advise our Company in certain circumstances including:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of our Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE CODE

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we expect to comply with the Corporate Governance Code after the Listing.

COMPETITION

Each of our Directors confirms that as of the Latest Practicable Date, he or she did not have any interest in a business, apart from the business of our Group in which Mr. Li and Ms. Li are interested, which competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme, the following persons are expected to have an interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

| Name of substantial shareholder | Capacity/Nature of Interest | Number of Shares / underlying shares | Approximate percentage of interest in our Company |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------------|
| LI Guangyu (李光宇) (Notes 1 and 3) | Founder and beneficiary of a discretionary trust; interest in a controlled corporation; beneficial owner | 2,250,592,470 | 75.02% |
| Baikal Lake Investment Holdings Limited (Note 1) | Interest in a controlled corporation | 2,250,000,000 | 75.00% |
| GuangYu Investment Holdings Limited (Note 1) | Registered owner | 2,250,000,000 | 75.00% |
| TMF (Cayman) Ltd. (Note 2) | Trustee of the discretionary trust | 2,250,000,000 | 75.00% |
| BOCOM International Prosperity Investment Limited (Note 4) | Beneficial owner | 195,914,000 | 6.53% |

Notes:

- (1) The entire share capital of GuangYu Investment is held by Baikal Lake Investment, as the nominee of TMF (Cayman) Ltd., the trustee of Nan Hai Trust. Nan Hai Trust was established by Mr. Li (as the settlor) on 6 September 2016 as a discretionary trust for the benefit of, among others, Mr. Li and Ms. Li.
- (2) TMF (Cayman) Ltd. is the trustee of Nan Hai Trust.
- (3) Includes Mr. Li's entitlement to receive up to 592,470 Shares pursuant to the exercise of options granted to him under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of these options.
- (4) BOCOM International Prosperity Investment Limited is a direct wholly-owned subsidiary of BOCOM International Asset Management Limited, which is wholly owned by BOCOM International Holdings Company Limited, which is in turn wholly owned by Bank of Communications Co., Ltd.. Therefore each of BOCOM International Asset Management Limited, BOCOM International Holdings Company Limited and Bank of Communications Co., Ltd. is deemed to be interested in the Shares held by BOCOM International Prosperity Investment Limited under the SFO. The number of Shares and percentage of shareholding of BOCOM International Prosperity Investment Limited are calculated based on the Offer Price of HK\$1.98 (being the low-end of the Offer Price range set out in this prospectus).

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering:

Authorised Share Capital

| Number of Shares | Aggregate nominal value of Shares |
|------------------|-----------------------------------|
| 50,000,000,000 | HK\$500,000 |

Issued Share Capital

The issued share capital of our Company immediately following the completion of the Global Offering will be as follows:

| Number of Shares | Description of Shares | Aggregate nominal value of Shares (HK\$) | % of the issued share capital |
|------------------|---------------------------------------------------|------------------------------------------|-------------------------------|
| 2,250,000,000 | Shares in issue as of the date of this prospectus | 22,500 | 75.0% |
| 750,000,000 | Shares to be issued under the Global Offering | 7,500 | 25.0% |
| 3,000,000,000 | Shares in total | 30,000 | 100.0% |

ASSUMPTIONS

The above table assumes that (i) the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering and (ii) any options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme. The above tables also do not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

RANKING

The Offer Shares will rank pari passu in all respects with all Shares currently in issue or to be issued as mentioned in this prospectus, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company has only one class of Shares, namely ordinary shares, and each ranks pari passu with the other Shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. See the section headed “Summary of the Constitution of our Company and Cayman Companies Law — Summary of the Constitution of the Company — Articles of Association — Alteration of capital” in Appendix IV to this prospectus for further details.

SHARE CAPITAL

PRE-IPO SHARE OPTION SCHEME AND SHARE AWARD SCHEME

We adopted the Pre-IPO Share Option Scheme and the Share Award Scheme. See the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme” in Appendix V to this prospectus for further details of the Pre-IPO Share Option Scheme and the Share Award Scheme.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and the Share Award Scheme); and
- the aggregate nominal value of Shares repurchased by us under the authority referred to in the paragraph headed “— General Mandate to Repurchase Shares” in this section.

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information — A. Further Information about our Company, Subsidiaries and Consolidated Affiliated Entities — 4. Resolutions of the sole shareholder of our Company dated 8 February 2017” in Appendix V to this prospectus for further details of this general mandate to allot, issue and deal with Shares.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and the Share Award Scheme).

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about our Company, Subsidiaries and Consolidated Affiliated Entities — 5. Repurchase of our own securities” in Appendix V to this prospectus.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information — A. Further Information about our Company, Subsidiaries and Consolidated Affiliated Entities — 5. Repurchase of our own securities” in Appendix V to this prospectus for further details of the repurchase mandate.

THE CORNERSTONE PLACING

Pursuant to the cornerstone investment agreement entered into between BOCOM International Prosperity Investment Limited (“**BOCOM Investment**”), our Company, the Sole Sponsor and First Capital Securities Limited dated 14 February 2017, BOCOM Investment has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board of 2,000 Offer Shares) which may be purchased with an aggregate amount of US\$50 million at the Offer Price.

Assuming an Offer Price of HK\$2.26 (being the mid-point of our Offer Price range of HK\$1.98 to HK\$2.54 per Offer Share as set out in the prospectus), the total number of Shares BOCOM Investment would subscribe for would be approximately 171,640,000 Shares, representing approximately 22.9% of the Offer Shares and approximately 5.7% of our total number of shares in issue upon completion of the Global Offering (without taking into account any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme).

Assuming an Offer Price of HK\$1.98 (being the low-end of our Offer Price range of HK\$1.98 to HK\$2.54 per Offer Share as set out in the prospectus), the total number of Shares BOCOM Investment would subscribe would be 195,914,000 Shares, representing approximately 26.1% of the Offer Shares and approximately 6.5% of our total number of shares in issue upon completion of the Global Offering (without taking into account any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme).

Assuming an Offer Price of HK\$2.54 (being the high-end of our Offer Price range of HK\$1.98 to HK\$2.54 per Offer Share as set out in the prospectus), the total number of Shares BOCOM Investment would subscribe would be 152,720,000 Shares, representing approximately 20.4% of the Offer Shares and approximately 5.1% of our total number of shares in issue upon completion of the Global Offering (without taking into account any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme).

BOCOM Investment is a direct wholly-owned subsidiary of BOCOM International Asset Management Limited. BOCOM Investment is an investment holding company. BOCOM International Asset Management Limited acts as the investment manager of BOCOM Investment. BOCOM International Asset Management Limited is wholly owned by BOCOM International Holdings Company Limited, which is in turn ultimately wholly owned by Bank of Communications Co., Ltd.

BOCOM Investment is an Independent Third Party, is not a connected person of our Company, and is not an existing Shareholder or close associate of our Company. The Shares to be subscribed for by BOCOM Investment will be counted towards the public float of our Company and will rank *pari passu* with the Shares then in issue and to be listed on the Stock Exchange. Immediately following the completion of the Global Offering, BOCOM Investment will not have any Board representation in our Company, nor will it become a substantial shareholder of our Company. The cornerstone placement under the cornerstone investment agreement forms part of the International Offering.

CONDITIONS PRECEDENT

The subscription obligation of BOCOM Investment to subscribe for the Shares is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into, become effective and having become unconditional (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties);

CORNERSTONE INVESTOR

- (b) the Offer Price having been agreed upon between the Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);
- (c) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and that such approval or permission having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated under the Global Offering or under the cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of the transactions contemplated under the Global Offering or the cornerstone investment agreement; and
- (e) the respective representations, warranties, acknowledgements, undertakings and confirmations of BOCOM Investment and the Company are (as of the date of the cornerstone investment agreement) and will be (as of the Listing Date and, where applicable, the Delayed Delivery Date (as defined in the cornerstone investment agreement)) accurate and true and not misleading and that there is no material breach of the cornerstone investment agreement on the part of BOCOM Investment.

RESTRICTIONS ON DISPOSAL

BOCOM Investment has agreed that, without the prior written consent of each of the Company, the Sole Sponsor and the Joint Bookrunners, it will not, and where the Shares are to be held by a subsidiary of the BOCOM Investment (an “**Investor Subsidiary**”), will procure that such subsidiary will not, at any time during the period of six months following the Listing Date (i) offer, pledge, charge, sell, contract to sell, mortgage, lend, create, transfer or otherwise dispose of any of the Relevant Shares (as defined below) or any legal or beneficial interest including by creation of any agreement to create or sell or grant any option or contract to purchase any warrant or right to purchase or purchasing any option or contract to sell in any company or entity (directly or indirectly) holding any of the Shares to be subscribed by it pursuant to the cornerstone investment agreement (the “**Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for or representing the right to receive such Relevant Shares; or (ii) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any economic consequences or incidence of ownership of the Relevant Shares; (iii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transactions; (iv) publicly announce any intention to enter into any aforesaid transactions; or (v) agree or contract to do any of the aforesaid transactions.

BOCOM Investment may transfer the Shares so subscribed in certain limited circumstances, such as transfer to a wholly-owned subsidiary of BOCOM Investment, provided, among others, that such wholly-owned subsidiary provides a written undertaking in favour of the Company, the Sole Sponsor and First Capital Securities Limited agreeing to, and BOCOM Investment and the Investor Subsidiary (if applicable) undertakes to procure that such wholly-owned subsidiary will, be bound by BOCOM Investment’s obligations under the cornerstone investment agreement.

FINANCIAL INFORMATION

You should read the following discussion and analysis with our audited combined financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this prospectus. Our combined financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis may contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

For the purpose of this section, unless the context otherwise requires, references to 2014, 2015 and 2016 school years refer to years ended 31 August of such years. Unless the context otherwise requires, financial information described in this section is described on a combined basis.

OVERVIEW

We were the largest provider of private education from kindergarten to university in China by student enrolments for the 2015/2016 school year, according to the Frost & Sullivan Report. We had 48,220 students enrolled at our schools for the 2015/2016 school year, giving us a market share of approximately 0.11% in the fragmented PRC private education industry according to the Frost & Sullivan Report. Our university, Zhengzhou Technology and Business University, had 25,063 students enrolled in the 2015/2016 school year, while our 24 private schools for grades K-12 on 16 campuses across Henan Province had an aggregate of 23,157 students enrolled in the same school year. With our significant scale and extensive experience in the private education industry, we believe we are well-placed to benefit from growth and consolidation within the fragmented private education industry.

We have experienced significant growth in our student enrolments, revenue, gross profit and Adjusted Net Profit over the Track Record Period. Our overall student enrolment grew from 35,431 for the 2013/2014 school year to 48,220 for the 2015/2016 school year. Our revenue increased from RMB599.3 million for the year ended 31 August 2014 to RMB697.7 million for the year ended 31 August 2015, and further to RMB781.3 million for the year ended 31 August 2016. Our gross profit increased from RMB266.8 million for the year ended 31 August 2014 to RMB318.3 million for the year ended 31 August 2015, and further to RMB406.2 million for the year ended 31 August 2016. Our profit for the year decreased from RMB207.8 million for the year ended 31 August 2014 to RMB91.2 million for the year ended 31 August 2015, but then increased to RMB311.7 million for the year ended 31 August 2016. Our Adjusted Net Profit increased from RMB207.8 million for the year ended 31 August 2014 to RMB245.1 million for the year ended 31 August 2015, and further to RMB322.1 million for the year ended 31 August 2016. For discussions of Adjusted Net Profit, see the paragraph headed "— Non-IFRS Measure" in this section.

BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the section headed "History, Reorganisation and Corporate Structure — Corporate Reorganisation" in this prospectus, our Company became the holding company of the companies now comprising our Group in September 2016. The Reorganisation represents business combinations involving entities under common control of the Controlling Shareholders. Therefore, the Reorganisation has been accounted for as a business combination under common control in a manner similar to the principles of merger accounting. The Combined Financial Statements of our Group for the Track Record Period include the combined financial position, results, cash flows and changes in equity of the companies now comprising our Group as if the existing Group structure had been in existence throughout the Track Record

FINANCIAL INFORMATION

Period or since their respective dates of incorporation/establishment or acquisition, whichever is the shorter period. The combined financial information of the certain combined affiliated entities that have been disposed of was included in the Combined Financial Statements of our Group up to the date of their respective disposal as they formed an integral part of our business and they were under common control of the Controlling Shareholders. Intra-group transactions, balances and unrealised gains/losses on transactions between our Group companies are eliminated on combination.

During the Track Record Period, due to regulatory restrictions on foreign ownership in the schools in the PRC, our business operations were carried out by our combined affiliated entities in PRC. The wholly-owned subsidiary of our Company, WFOE, has entered into the Contractual Arrangements with, among others, our combined affiliated entities and their respective equity holders. The Contractual Arrangements enable WFOE to exercise effective control over our combined affiliated entities and obtain substantially all economic benefits of them. Accordingly, our combined affiliated entities are combined in the Combined Financial Statements continuously. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in this prospectus.

Our Group does not have any equity interest in our combined affiliated entities. However, our combined affiliated entities were ultimately under the control of the Controlling Shareholders, and through the Contractual Arrangements, both our combined affiliated entities and the business carried out by them are under the effective control of the Controlling Shareholders. Consequently, our Company regards our combined affiliated entities as indirect subsidiaries for the purpose of the Combined Financial Statements and related notes. The companies now comprising our Group were under the common control of the Controlling Shareholders before and after the Reorganisation. Accordingly, for the purpose of this prospectus, the Combined Financial Statements have been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

For the purpose of preparing and presenting the Combined Financial Statements for the Track Record Period, we have adopted IFRS which are effective for our financial period beginning on 1 September 2013 consistently throughout the Track Record Period.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Demand for Private Education in China

During the Track Record Period, we derived all of our revenue from the private education services provided through our schools in China. As a result, our results of operations and financial conditions are significantly affected by the demand for private education in China.

The key factors that drive the demand for private education in China primarily include increases in living expenditure of urban households on education, growth of school-age population and favourable policies and regulations on private education. Our business has benefited from the growth of China’s economy and the increasing living expenditure of urban households on education. According to the Frost & Sullivan Report, the overall economic growth and the increase in per capita GDP in China have increased the level of per capita living expenditure of urban households on education in China, which increased at a CAGR of 7.7% from 2011 to 2015. According to the Frost & Sullivan Report, Chinese parents have historically placed a high value on their children’s education, and they are willing to incur significant costs so that their children are able to receive high-quality education. This, together with the increasing PRC urban household income and wealth, has played a significant role in the increase in the demand for private education in China.

FINANCIAL INFORMATION

Furthermore, the “one-child policy” in China had historically kept the PRC urban population growth low during the past four decades. However, such policy was relaxed by the PRC government recently and the effect on such relaxation on the growth in the PRC urban population and school-age population is expected to show from 2016 and 2019 according to the Frost & Sullivan Report. Therefore, we anticipate the demand for private education in China, in particular the K-12 education, to continue to increase. In addition, the Chinese government has issued a series of policies and regulations to encourage and promote the development of private education, such as encouraging private capitals to flow into the education business and calling for equal treatment to private schools and public schools. It is expected that more favourable policies are likely to be introduced to further drive the development of PRC private education, according to the Frost & Sullivan Report.

Student Enrolments

Our revenue generally depends on the number of students enrolled at our schools and the level of tuition fees we charge. During the Track Record Period, the total number of students enrolled in our University increased from 19,568 in the 2013/2014 school year to 25,063 in the 2015/2016 school year. In addition, the number of students enrolled in our K-12 schools increased from 15,863 in the 2013/2014 school year to 23,157 in the 2015/2016 school year. We believe student enrolment is generally dependent on, among other things, the reputation and capacity of our schools.

One of the most important factors that the students and parents would consider when choosing their schools is the reputation of the school. For our University, our reputation is built on our higher than average graduate employment rate and average starting salary than the averages of universities in Henan Province, which are attributable to our practical curriculum and emphasis on career services. For our K-12 schools, our students’ excellent achievements in Zhongkao and Gaokao, our diverse and internationalised curriculum and our philosophy of focusing on the well-rounded development of our students have established our outstanding reputation as a leading private school operator in Central China. If we were not able to maintain and continue to enhance our reputation, we may not be able to maintain or increase our student enrolment level.

Student enrolment may be restrained by the capacity of our schools if we do not increase our school capacity in line with our student enrolment growth. Certain of our schools have unused land that could be used to build more dormitories, teaching buildings and other necessary facilities to accommodate additional students that we intend to enrol in the future and drive the growth in our revenue. For our University, the student enrolment may also be restrained by the admission quota set by the local PRC education bureau. We may apply for an additional annual admission quota in the future, taking into account various factors, including, among others, the demand for places in our University, the capacity of our University and our operating efficiency. See the section headed “Business – Our Students and Student Recruitment – Our Students” in this prospectus for more information.

Tuition Fees

Our revenue is affected by the level of tuition fees that we are able to charge. For our schools other than kindergartens, we generally require students to pay tuition fees, including boarding fees and meal fees, if any, prior to the commencement of each new school year. The tuition fees we charge are typically based on the demand for our educational programmes, the cost of our operations, the geographic markets where we operate our schools, the tuition fees charged by our competitors, our pricing strategy to gain market share and general economic conditions in China and the areas in which our schools are located. For the tuition fee information, see the section headed “Business — Overview of Our Schools — Tuition Fees” in this prospectus. For our schools other than our kindergartens, any proposed tuition fee raise is normally subject to necessary governmental approvals. See section headed “Risk Factors — Risks Relating to Our Business and Our Industry — Our business and results of operations depend on the level of tuition we are able to charge and our ability to maintain and raise tuition levels.”

Our revenue is also affected by the mix of our tuition fees income. For our University, the tuition fees vary depending on the different academic programmes that our students choose to enrol. Generally, the tuition fee level for our bachelor’s degree programmes is higher than that of our junior college diploma programmes. In addition, the tuition fee level for our applied technology majors, such as civil engineering and gem and material technology, is generally higher than that of our other majors, such as accounting and foreign languages. For our

FINANCIAL INFORMATION

K-12 schools, the tuition fee level of our high school programmes is generally higher than our other K-12 programmes, which is the industry norm. Also, the tuition fees level of different campus of our K-12 schools may vary, which is primarily attributable to our pricing strategy based on the economic conditions of the regions, demand for private educations and local competitions. Therefore, due to the changes in the number of students enrolled in different academic programmes, majors and campuses, the mix of our tuition fees income may subject to fluctuations.

According to the Frost & Sullivan report, the private education industry has fairly high entry barriers. Given our leading position in our existing markets, our outstanding reputation, our premium education quality and the strong demand for our services, we believe we will be able to optimise our pricing without compromising our competitive edges. While we have successfully increased tuition rates of certain of our schools during the Track Record Period, there is no guarantee we will be able to continue to raise tuition rates in the future. See the section headed “Risk Factors — Risks Relating to our Business and our Industry — Our business and results of operations depend on the level of tuition we are able to charge and our ability to maintain and raise tuition levels” in this prospectus. For those students who did not complete their study with us, we also have refund policies in line with relevant rules.

Our School Utilisation Rate

In addition to student enrolment and tuition fees, the utilisation rate of our schools’ facilities is a key driver of revenue growth and gross margin. Utilisation rate is calculated as the number of students enrolled divided by the capacity for a given school.

Independent of the level of student enrolment in any given year, we incur a significant amount of fixed costs relating to the operation of our business. Certain schools of ours have not reached their full capacity. We intend to increase their utilisation rate by recruiting more students for our K-12 schools and University. Enrolment of additional students in those schools will not increase fixed costs, but the increased utilisation rate may result in lower per student costs and higher potential profits. For the 2015/2016 school year, our school utilisation rate was 67.7% based on a maximum capacity to accommodate approximately 71,200 students in all of our schools. For our developed schools, which commenced operations in or before the 2013/2014 school year, our school utilisation rate was 75.1% for the 2015/2016 school year. See the section headed “Business — Overview of our Schools — Capacity and Utilisation” in this prospectus. The utilisation rate of schools in newly entered markets is typically lower because a period of time is needed for us to build brand recognition and market our educational programmes in new geographic areas. If we expand our campus facilities at the schools we presently operate, our overall utilisation rate may decrease temporarily until we are able to enrol more students. Accordingly, a key driver of success is identifying the proper time to expand our capacity, whether by entering new markets or by constructing additional buildings at existing facilities, and, following such expansion, quickly increase student enrolment in the new facilities.

Ability to Control Our Costs and Expenses

Our profitability also depends, in part, on our ability to control our operating costs and expenses. For the years ended 31 August 2014, 2015 and 2016, our cost of revenue represented approximately 55.5%, 54.4% and 48.0% of our total revenue, respectively. Our cost of revenue consists primarily of teaching staff costs and depreciation and amortisation expenses. Our teaching staff costs mainly comprise teachers’ salaries and benefits and constitute approximately 19.3%, 21.3% and 23.2% of our total revenue for the years ended 31 August 2014, 2015 and 2016, respectively. Teaching staff costs increased from RMB115.9 million for the year ended 31 August 2014 to RMB148.5 million for the year ended 31 August 2015, and further to RMB181.2 million for the year ended 31 August 2016, mainly reflecting our continuing efforts to recruit additional qualified teachers and to retain our dedicated teachers by increasing their compensation to improve the quality of education we provide and support the increase in our student enrolment.

FINANCIAL INFORMATION

Furthermore, for the years ended 31 August 2014, 2015 and 2016, the total amount of administrative expenses and selling expenses as a percentage of our total revenue was approximately 8.4%, 8.4% and 9.5%, respectively. The major component of our administrative expenses and selling expenses is administrative staff costs and selling staff costs, respectively. The total amount of administrative staff costs and selling staff costs as a percentage of our total revenue was approximately 4.4%, 5.0% and 5.0%, respectively.

As a result, the staff costs, which include the teaching staff costs, administrative staff costs and selling staff costs, which constitute approximately 23.7%, 26.2% and 28.2% of our revenue for the years ended 31 August 2014, 2015 and 2016, respectively. We expect the staff cost to continue to be our most significant costs and expenses going forward, particularly in light of our plan to expand our school network and increase our school capacity, which requires more teachers and other employees. We have adopted the Pre-IPO Share Option Scheme and the Share Award Scheme to selectively reward and incentivise our key teachers and management. Leveraging our centralised management system, we expect to benefit from the economy of scale with the expansion of our school network and the growth of our administrative staff cost will be slower than the growth of our revenue. We also plan to offer a variety of employee benefits to our teachers and other staff, including more professional trainings and improved career development programmes, which would help us maintain our low turnover rate without incurring significant staff cost.

We have adopted the Pre-IPO Share Option Scheme to selectively reward and incentivise our key teachers and management. The Pre-IPO Share Option Scheme is conditional on the completion of the Listing which is estimated to be in February 2017. The pre-IPO share options granted under the Pre-IPO Share Option Scheme will not be vested until the relevant grantees complete specified period of service. Accordingly, we will account for the amounts of the fair value of options granted as costs for such services provided by the relevant grantees to us during the relevant vesting period, with a corresponding increase in equity from February 2017. No compensation expenses will be recognised until the completion of the Listing. We have engaged an independent third party valuer to perform an valuation of the fair value of the pre-IPO share options. The fair value of the pre-IPO share options was measured based on the binomial lattice model. The key bases and assumptions used in the valuation include, among others, (i) the maturity of up to 20 years; (ii) grant date share price of HK\$2.58 and exercise price of HK\$0.00001; (iii) expected volatility of 62% for the pre-IPO share options, which is based on the historical daily price movements of comparable listed companies in the same industry as the Company; (iv) the risk-free rate of 1.10%, which is determined by reference to the yield of Hong Kong sovereign bond with similar maturities; (v) the pre-IPO share options being granted under a service condition, which has not been taken into account in the grant date fair value measurement of the services received; and (vi) no market conditions associated with the share option grants. After the Listing, the fair value of the pre-IPO share options will be amortised over the relevant vesting period of respective grantees and recognized as expenses, which may increase our staff cost in the future. Our financial results might be materially and adversely affected by an increase in staff costs as a result of the grant of pre-IPO share options.

CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our Combined Financial Statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our material assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. When reviewing our Combined Financial Statements, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

FINANCIAL INFORMATION

Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 4 to the Accountants' Report in Appendix I to this prospectus. Our critical accounting estimates and judgements that were used in the preparation of our Combined Financial Statements are set forth in Note 6 to the Accountants' Report in Appendix I to this prospectus.

RESULTS OF OPERATIONS

The following table presents a summary of our combined statements of comprehensive income for the years ended 31 August 2014, 2015 and 2016, which are derived from, and should be read in conjunction with, our Combined Financial Statements, including the notes thereto, included in the section headed "Accountants' Report" in Appendix I to this prospectus.

| | For the year ended 31 August | | |
|------------------------------------------------|------------------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Revenue | 599,337 | 697,706 | 781,331 |
| Cost of revenue | (332,495) | (379,404) | (375,133) |
| Gross profit | 266,842 | 318,302 | 406,198 |
| Selling expenses | (4,010) | (4,395) | (4,196) |
| Administrative expenses | (46,256) | (54,283) | (70,421) |
| Other income | 7,864 | 9,534 | 6,442 |
| Other gains/(losses) | 874 | (153,645) | (337) |
| Operating profit | 225,314 | 115,513 | 337,686 |
| Finance income | 2,820 | 3,612 | 1,328 |
| Finance expenses | (20,306) | (27,925) | (27,338) |
| Profit before taxation | 207,828 | 91,200 | 311,676 |
| Income tax expense | — | — | — |
| Profit for the year | 207,828 | 91,200 | 311,676 |
| Non-IFRS Measure: | | | |
| Adjusted Net Profit⁽¹⁾ | <u>207,828</u> | <u>245,070</u> | <u>322,056</u> |

Note:

- (1) Adjusted Net Profit represents profit for the year plus (i) the one-off termination fee paid to Henan Polytechnic University pursuant to the HPU Termination Agreement in July 2015 and (ii) the expenses in relation to the Listing incurred in the year ended 31 August 2016. For details of our prior cooperation with Henan Polytechnic University and the subsequent termination of the cooperation, see the section headed "Business — Overview of our Schools — Prior Cooperation with Henan Polytechnic University" in this prospectus. Adjusted Net Profit is not a measure of performance under IFRS. The use of Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. See the paragraph headed "— Non-IFRS Measure" in this section.

NON-IFRS MEASURE

To supplement our Combined Financial Statements which are presented in accordance with IFRS, we also use Adjusted Net Profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that this non-IFRS measure provides additional information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted Net Profit eliminates the effect of certain non-recurring items, namely (i) the one-off termination fee payment made to Henan Polytechnic University pursuant to the HPU Termination Agreement in July 2015 and (ii) the expenses relating to the Listing. For details of our prior cooperation with Henan Polytechnic University

FINANCIAL INFORMATION

and the subsequent termination of the cooperation, see the section headed “Business — Overview of Our Schools — Prior Cooperation with Henan Polytechnic University” in this prospectus. The term “Adjusted Net Profit” is not defined under IFRS. The use of Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our net profit for the relevant years. The effect of the one-off termination fee and expenses relating to the Listing that is eliminated from Adjusted Net Profit is significant component in understanding and assessing our operating and financial performance.

In light of the foregoing limitations for Adjusted Net Profit, when assessing our operating and financial performance, you should not view Adjusted Net Profit in isolation or as a substitute for our profit for the year or any other operating performance measure that is calculated in accordance with IFRS. In addition, because this non-IFRS measure may not be calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

The following table reconciles our Adjusted Net Profit for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit for the year:

| | For the year ended 31 August | | |
|----------------------------------|------------------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Profit for the year | 207,828 | 91,200 | 311,676 |
| Add: | | | |
| One-off termination fee | — | 153,870 | — |
| Expenses relating to the Listing | — | — | 10,380 |
| Adjusted Net Profit | 207,828 | 245,070 | 322,056 |

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Our revenue is measured at the fair value of the amounts receivable for the education services that we provided in normal course of business, net of discounts, financial assistance and refunded tuitions. We derive all of our revenue from tuition fees our schools collect from students. For our schools other than kindergartens, we generally require students and their families to pay tuition fees (including the boarding fees and meal fees, if any) for the entire school year upfront, and recognise revenue proportionately over the relevant year of the applicable programme. For the tuition fees information, see the section headed “Business — Overview of Our Schools — Tuition Fees” in this prospectus.

For the boarding students, the tuition fees include boarding fees. For students in our kindergartens and certain primary schools, the tuition fees also include meal fees for (i) the meal services provided by the canteens operated by our schools and (ii) the meal services procured by our schools from Independent Third Parties. In the event a student leaves his/her school during the school year, we have tuition refund policies in line with relevant rules. The tuition fees refunded each year during the Track Record Period were minimal.

FINANCIAL INFORMATION

The following table sets forth the listed tuition fees information for our schools for the 2013/2014, 2014/2015, 2015/2016 and 2016/2017 school years:

| | Listed Tuition Fees ⁽¹⁾⁽²⁾ | | | |
|---------------------------------------------|---------------------------------------|--------------------------|--------------------------|--------------------------|
| | 2013/2014 school year | 2014/2015 school year | 2015/2016 school year | 2016/2017 school year |
| | (RMB) | (RMB) | (RMB) | (RMB) |
| University | | | | |
| Bachelor's degree programmes | 13,100~15,100 | 13,100~15,100 | 13,100~15,100 | 13,100~15,100 |
| Junior college diploma programmes | 8,900 | 8,900 | 8,900 | 8,900 |
| High schools | 20,000~33,000 | 21,000~31,500 | 19,500~33,500 | 20,500~35,500 |
| Middle schools | 8,000~33,000 | 11,000~31,500 | 12,000~33,500 | 13,000~35,500 |
| Primary schools | 8,000~30,000 | 14,500~32,000 | 14,000~34,000 | 15,000~39,000 |
| Kindergartens | 17,000~26,500 | 16,000~28,500 | 16,000~32,500 | 17,000~35,000 |

Notes:

- (1) Tuition fees shown above for our University, high schools, middle schools and primary schools include boarding fees. Tuition fees shown above for our kindergartens and certain primary schools include meal fees.
- (2) The tuition fees information shown above does not cover the tuition fees of the foreign language programmes, namely China-Korea programme, China-U.S. programme and China-Australia programme, offered by our high schools to a limited number of students. Our foreign language programmes are PRC education programmes with enhanced foreign language courses. For the 2013/2014 school year, 2014/2015 school year, 2015/2016 school year and 2016/2017 school year, the tuition fees of our foreign language programmes were approximately RMB36,000, RMB34,500~RMB58,500, RMB38,500~60,500 and RMB40,500~62,500, respectively.

During the Track Record Period, the listed tuition fees of our University remained stable. During the Track Record Period, we generally raised the tuition fees for our K-12 schools each school year. For the 2013/2014 school year, the lower end of the listed tuition fees range of our middle schools and primary schools was approximately RMB8,000, because we launched our Kaifeng YuHua Elite School campus in September 2012, which charged relatively lower tuition fees per student for the 2012/2013 and the 2013/2014 school years to attract student enrolment as part of our marketing strategy. For each of the 2014/2015 school year and 2015/2016 school year, the lower end and/or higher end of the listed tuition fees range of our K-12 schools dropped by RMB500~RMB1,500 as compared to the previous year, respectively. The slight drop was primarily because we excluded the meal fees from the listed tuition fees of certain schools, as we ceased to procure catering services for students at such schools. Instead, students at those schools started to purchase meals directly from the canteens operated by Independent Third Parties.

For our University, according to our tuition fees policy, the tuition fee raise will be only applicable to the incoming freshman year students and the tuition fee rate of the existing students throughout their university life remains at the rate they paid for their freshman year. For our K-12 schools, we normally raise the tuition fees every school year. Our existing K-12 students are eligible to the “existing student discount” of paying tuition fees at the pre-raise rate if they can pay the tuition fees in full for the upcoming school year before a deadline set by our schools, which is normally mid-to-late May. During the Track Record Period, almost all of our existing K-12 students had chosen to pay tuition fees in advance and received the “existing student discount”.

For the years ended 31 August 2014, 2015 and 2016, we generated a total revenue of RMB599.3 million, RMB697.7 million and RMB781.3 million, respectively. As advised by our PRC Legal Adviser, according to relevant PRC laws and regulations, our schools were exempt from PRC business tax and VAT during the Track Record Period.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our revenue by segment for the years indicated:

| | For the year ended 31 August | | |
|-------------------------------------|------------------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| University tuition fees | 235,930 | 280,202 | 294,551 |
| Grade 1-12 tuition fees | 331,129 | 374,979 | 435,773 |
| Kindergarten tuition fees | 32,278 | 42,525 | 51,007 |
| Total | <u>599,337</u> | <u>697,706</u> | <u>781,331</u> |

The following table sets forth a breakdown of our student enrolment by segment for the years indicated:

| | For the year ended 31 August | | |
|------------------------------|------------------------------|---------------------|---------------------|
| | 2014 ⁽¹⁾ | 2015 ⁽²⁾ | 2016 ⁽³⁾ |
| University | 19,568 | 23,692 | 25,063 |
| Grade 1-12 schools | 13,948 | 17,491 | 20,400 |
| Kindergartens | 1,915 | 2,396 | 2,757 |
| Total | <u>35,431</u> | <u>43,579</u> | <u>48,220</u> |

Notes:

- (1) Represents the student enrolment data for the 2013/2014 school year.
- (2) Represents the student enrolment data for the 2014/2015 school year.
- (3) Represents the student enrolment data for the 2015/2016 school year.

The following table sets forth a breakdown of our average tuition fees by segment for the years indicated:

| | For the year ended 31 August | | |
|---------------------------------------------------------------------|------------------------------|--------|--------|
| | 2014 | 2015 | 2016 |
| | (RMB) | (RMB) | (RMB) |
| Average tuition fees of University ⁽¹⁾ | 12,057 | 11,827 | 11,752 |
| Average tuition fees of Grade 1-12 schools ⁽¹⁾ | 23,740 | 21,438 | 21,361 |
| Average tuition fees of kindergartens ⁽¹⁾ | 16,855 | 17,748 | 18,501 |

Note:

- (1) Average tuition fees of a segment for a given year equal to the revenue of such segment for such year divided by the student enrolments for the corresponding school year.

The fluctuations in the average tuitions fees of our University during the Track Record Period were mainly due to the changes in the student mix of different academic programmes and majors as the tuition fees for different academic programmes and majors may vary. Generally, the tuition fee level for our bachelor's degree programmes is higher than that of our junior college diploma programmes. In addition, the tuition fee level for our applied technology majors, such as civil engineering and gem and material technology, is generally higher than that of our other majors, such accounting and foreign languages.

Although we generally had increased the tuition fees for our K-12 schools during the Track Record Period, the average tuition fees of our K-12 schools experienced certain fluctuations due to a number of factors as discussed below.

Average tuition fees of our Grade 1-12 schools decreased from RMB23,740 for the year ended 31 August 2014 to RMB21,438 for the year ended 31 August 2015, primarily because we launched four new Grade 1-12 schools on two new campuses in September 2014, namely Xuchang YuHua Elite School campus and JiYuan YuHua Elite School campus. The tuition fees charged for these new schools were generally lower than our existing Grade 1-12 schools, which resulted in a decrease in the average tuition fees of Grade 1-12 schools. The decrease was also partially attributable to the exclusion of meal fees from the tuition fees charged by certain schools of ours as we

FINANCIAL INFORMATION

ceased to procure catering services for students at such schools. Average tuition fees of our Grade 1-12 schools remained stable at RMB21,361 for the year ended 31 August 2016, because the increase in tuition level of certain schools was offset by the relatively lower tuition fees charged by those new schools that continued to ramp up student recruitments.

Average tuition fees of our kindergartens increased from RMB16,855 for the year ended 31 August 2014 to RMB17,748 for the year ended 31 August 2015, primarily because we increased the tuition level of certain kindergartens, partially offset by the exclusion of meal fees from the tuition fees charged by certain kindergartens, as we outsourced the canteens in those kindergartens to Independent Third Parties. As we continued to raise the tuition level of our kindergartens, the average tuition fees increased to RMB18,501 for the year ended 31 August 2016.

Cost of Revenue

Cost of revenue consists primarily of teaching staff costs, depreciation and amortisation, catering service expenses, annual fee, training and scholarship expenses, school consumables and other expenses. The following table sets forth the components of our cost of revenue for the years indicated:

| | For the year ended 31 August | | |
|-----------------------------------------------------|------------------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Teaching staff costs | 115,886 | 148,487 | 181,201 |
| Depreciation and amortisation | 53,406 | 61,620 | 69,014 |
| Catering service expenses | 42,846 | 32,778 | 27,095 |
| School consumables | 18,712 | 22,818 | 26,900 |
| Annual fee | 37,240 | 40,656 | 963 |
| Student training and scholarship expenses | 23,259 | 30,246 | 24,107 |
| Other expenses | 41,146 | 42,799 | 45,853 |
| Total | <u>332,495</u> | <u>379,404</u> | <u>375,133</u> |

Teaching staff costs consist of salaries and other compensations paid to our teachers and other staff involved in teaching activities, which we incurred and booked as our cost of revenue. Depreciation and amortisation relate to the depreciation and amortisation of land use right, buildings, equipment and teaching software. Catering service expenses consist primarily of (i) the expenses relating to a limited number of canteens run by certain primary schools and kindergartens of ours; and (ii) the fees for the catering services we procured from Independent Third Parties for our students at certain primary schools and kindergartens of ours. School consumables primarily consist of textbooks, teaching materials and school uniforms. Annual fee consists of (i) the annual fee paid to Henan Polytechnic University pursuant to HPU Cooperation Agreement, which was terminated in July 2015; and to a lesser extent, (ii) the annual fee paid to the Affiliated High School of Peking University pursuant to the PKU Cooperation Agreement, which was terminated in July 2016. Student training and scholarship expenses consists of expenses relating to the exchange programmes provided to certain outstanding students free of charge as well as the scholarships provided to our students. Other expenses primarily consist of utilities expenses, operating lease expenses, maintenance expenses, office expenditure and travel expenses. For the years ended 31 August 2014, 2015 and 2016, teaching staff costs was the largest component of our cost of revenue, which amounted to RMB115.9 million, RMB148.5 million and RMB181.2 million, respectively, representing 19.3%, 21.3% and 23.2% of our total revenue, respectively.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our cost of revenue by segment for the years indicated:

| | For the year ended 31 August | | |
|--------------------------|------------------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| University | 128,989 | 142,428 | 108,043 |
| Grade 1-12 schools | 184,138 | 212,381 | 237,860 |
| Kindergartens | 19,368 | 24,595 | 29,230 |
| Total | <u>332,495</u> | <u>379,404</u> | <u>375,133</u> |

Gross Profit and Gross Margin

Gross profit represents revenue less cost of revenue. For the years ended 31 August 2014, 2015 and 2016, our gross profit was RMB266.8 million, RMB318.3 million and RMB406.2 million, respectively, and our gross profit margin was 44.5%, 45.6% and 52.0%, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by segment for the years indicated:

| | For the year ended 31 August | | | | | |
|--------------------------|------------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2014 | | 2015 | | 2016 | |
| University | 106,941 | 45.3% | 137,774 | 49.2% | 186,508 | 63.3% |
| Grade 1-12 schools | 146,991 | 44.4% | 162,598 | 43.4% | 197,913 | 45.4% |
| Kindergartens | 12,910 | 40.0% | 17,930 | 42.2% | 21,777 | 42.7% |
| Overall | <u>263,842</u> | <u>44.5%</u> | <u>318,302</u> | <u>45.6%</u> | <u>406,198</u> | <u>52.0%</u> |

Selling Expenses

Selling expenses consist primarily of salaries and other compensations paid to our selling and marketing staff and marketing expenses relating to our general promotion and marketing activities. For the years ended 31 August 2014, 2015 and 2016, our selling expenses were RMB4.0 million, RMB4.4 million and RMB4.2 million, respectively. The following table sets forth the breakdown of our selling expenses for the years indicated:

| | For the year ended 31 August | | |
|---------------------------|------------------------------|--------------|--------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Selling staff costs | 326 | 411 | 542 |
| Marketing expenses | 3,684 | 3,984 | 3,654 |
| Total | <u>4,010</u> | <u>4,395</u> | <u>4,196</u> |

Administrative Expenses

Administrative expenses primarily consist of salaries and other compensations paid to our administrative staff (including principals, vice principals and other non-teaching staff), depreciation and amortisation of office buildings, equipment and software for general administrative purposes, expenses in relation to the Listing and other expenses. For the years ended 31 August 2014, 2015 and 2016, our administrative expenses were RMB46.3 million, RMB54.3 million and RMB70.4 million, respectively. For the years ended 31 August 2014, 2015 and 2016, our administrative staff costs were the largest component of our administrative expenses, which amounted to RMB25.8 million, RMB34.2 million and RMB38.8 million, respectively, representing 4.3%, 4.9% and 5.0% of our revenue, respectively. We incurred RMB10.4 million expenses in relation to the Listing for the year ended

FINANCIAL INFORMATION

31 August 2016, which primarily consist of fees paid to certain professional parties. The following table sets forth the breakdown of our administrative expenses for the years indicated:

| | For the year ended 31 August | | |
|-------------------------------------------|------------------------------|-----------|-----------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Administrative staff costs | 25,789 | 34,153 | 38,768 |
| Depreciation and amortisation | 3,481 | 4,668 | 4,998 |
| Expenses in relation to the Listing | — | — | 10,380 |
| Other expenses | 16,986 | 15,462 | 16,275 |
| Total | 46,256 | 54,283 | 70,421 |

Other Income

Other income consists primarily of government grants and subsidies. Government grants and subsidies consist primarily of the one-off discretionary subsidies we received from the relevant PRC government to construct teaching facilities when establishing schools and to promote private education, among other objectives, the amount of which may vary from period to period. For the years ended 31 August 2014, 2015 and 2016, our other income was RMB7.9 million, RMB9.5 million and RMB6.4 million, respectively.

Other Gains and Losses

Other gains and losses consist primarily of (i) profit or loss on disposal of property, plant and equipment, (ii) one-off termination fee of RMB153.9 million paid to Henan Polytechnic University in July 2015 pursuant to the HPU Termination Agreement, (iii) passive gains on the wealth management products that we purchased and (iv) other gains or loss. For the year ended 31 August 2014, we recorded other gains of RMB0.9 million. For the year ended 31 August 2015 and 2016, we recorded other losses of RMB153.6 million and RMB0.3 million, respectively.

Operating Profit

For the years ended 31 August 2014, 2015 and 2016, our operating profit was RMB225.3 million, RMB115.5 million and RMB337.7 million, respectively.

Finance Income

Finance income consists primarily of interest income from deposits and net foreign exchange gains. For the years ended 31 August 2014, 2015 and 2016, our finance income was RMB2.8 million, RMB3.6 million and RMB1.3 million, respectively.

Finance Expenses

Our finance expenses consist primarily of the interest expenses on our bank borrowings, other charges in relation to our financings and net foreign exchange gains. For the years ended 31 August 2014, 2015 and 2016, our finance expense was RMB20.3 million, RMB27.9 million and RMB27.3 million, respectively.

Profit for the Year

For the years ended 31 August 2014, 2015 and 2016, our profit for the year was RMB207.8 million, RMB91.2 million and RMB311.7 million, respectively.

Adjusted Net Profit

For the years ended 31 August 2014, 2015 and 2016, our Adjusted Net Profit was RMB207.8 million, RMB245.1 million and RMB322.1 million, respectively.

FINANCIAL INFORMATION

Sensitivity Analysis

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

The following tables set forth the sensitivity of our profit for the year to the hypothetical reasonable changes in our tuition fees income and staff cost for the years ended 31 August 2014, 2015 and 2016:

| | For the year ended 31 August | | |
|----------------------------------------------------|------------------------------|-----------------------------|-----------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| <i>Sensitivity analysis of tuition fees income</i> | | | |
| Tuition fees income (decrease)/increase | | Impact on our profit | |
| (10)% | (59,934) | (69,771) | (78,133) |
| (5)% | (29,967) | (34,885) | (39,067) |
| 5% | 29,967 | 34,885 | 39,067 |
| 10% | 59,934 | 69,771 | 78,133 |
| <i>Sensitivity analysis of staff costs</i> | | | |
| Staff costs (decrease)/increase | | Impact on our profit | |
| (10)% | 14,200 | 18,305 | 22,051 |
| (5)% | 7,100 | 9,153 | 11,026 |
| 5% | (7,100) | (9,153) | (11,026) |
| 10% | (14,200) | (18,305) | (22,051) |

TAXATION

Cayman Island

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly is not subject to income tax of the Cayman Islands.

Hong Kong

The applicable Hong Kong profits tax rate is 16.5% for the Track Record Period. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

China

For our operations in the PRC, we are generally subject to the PRC enterprise income tax at a rate of 25% on our taxable income. According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools providing academic qualification education are eligible to enjoy income tax exemption treatment if the school sponsors of such schools do not require reasonable

FINANCIAL INFORMATION

returns. All of our schools have elected to be private schools of which the sponsors do not require reasonable returns and therefore they have been confirmed enterprise income tax exemption by relevant local tax authorities.

We have paid all relevant taxes in accordance with tax regulations and do not have any disputes or unresolved tax issues with the relevant tax authorities.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 August 2016 Compared to year ended 31 August 2015

Revenue

Our revenue increased by 12.0% from RMB697.7 million for the year ended 31 August 2015 to RMB781.3 million for the year ended 31 August 2016. This increase was primarily due to an increase in student enrolment by 10.6% from 43,579 in 2014/2015 school year to 48,220 in 2015/2016 school year.

Revenue derived from University tuition fees increased by 5.1% from RMB280.2 million for the year ended 31 August 2015 to RMB294.6 million for the year ended 31 August 2016. This increase was primarily due to an increase in the student enrolment in our University by 5.8% from 23,692 in 2014/2015 school year to 25,063 in 2015/2016 school year.

Revenue derived from Grade 1-12 tuition fees increased by 16.2% from RMB375.0 million for the year ended 31 August 2015 to RMB435.8 million for the year ended 31 August 2016. This increase was primarily due to an increase in student enrolment by 16.6% from 17,491 in the 2014/2015 school year to 20,400 in the 2015/2016 school year primarily due to the ramp-up of student recruitment in (i) our Xuchang YuHua Elite School campus and Jiyuan YuHua Elite School campus, (ii) our Luohe YuHua Elite School opened in September 2013, and (iii) our Kaifeng YuHua Elite School that moved from the leased premises to the premises we own and were able to enrol more students, and to a less extent, an increase in the tuition fee level in 2015/2016 school year.

Revenue derived from kindergarten tuition fees increased by 19.9% from RMB42.5 million for the year ended 31 August 2015 to RMB51.0 million for the year ended 31 August 2016. This increase was primarily due to an increase in student enrolment by 15.1% from 2,396 in 2014/2015 school year to 2,757 in the 2015/2016 school year primarily due to the ramp-up of student recruitment in our newly opened Xuchang Weidu District YuHua Elite Bilingual Kindergarten campus and Jiyuan YuHua Elite Bilingual Kindergarten campus, and to a less extent, a raise in the tuition fee level in the 2015/2016 school year.

Cost of Revenue

Cost of revenue decreased by 1.1% from RMB379.4 million for the year ended 31 August 2015 to RMB375.1 million for the year ended 31 August 2016. This slight decrease was primarily due to a decrease in cost of revenue of our University and partially offset by increases in cost of revenue of our Grade 1-12 programmes and kindergartens.

Cost of revenue of our University decreased by 24.1% from RMB142.4 million for the year ended 31 August 2015 to RMB108.0 million for the year ended 31 August 2016, primarily because we ceased to pay the annual fee for the tuition fees collected by our University after the termination of cooperation with Henan Polytechnic University in July 2015.

Cost of revenue of our Grade 1-12 schools increased by 12.0% from RMB212.4 million for the year ended 31 August 2015 to RMB237.9 million for the year ended 31 August 2016, primarily due to an increase in teaching staff cost as a result of the increased headcount of our teachers as part of our expansion strategy and the increased compensation level of our teachers, partially offset by a decrease in canteen expenses because we ceased to procure catering services for students at certain primary schools.

Cost of revenue of our kindergartens increased by 18.8% from RMB24.6 million for the year ended 31 August 2015 to RMB29.2 million for the year ended 31 August 2016, primarily due to (i) an increase in teaching staff

FINANCIAL INFORMATION

cost as a result of the increased headcount in teachers and the increased compensation level of our teachers and (ii) the expenses incurred relating to the renovation and upgrade of the school facilities of Zhengzhou Yuhua Elite Bilingual Kindergarten.

Gross Profit and Gross Profit Margin

Gross profit increased by 27.6% from RMB318.3 million for the year ended 31 August 2015 to RMB406.2 million for the year ended 31 August 2016. Our gross profit margin increased from 45.6% for the year ended 31 August 2015 to 52.0% for the year ended 31 August 2016. The increase in our gross profit and improvement of our gross profit margin were primarily due to increases in the gross profit margin of our University and Grade 1-12 schools.

Gross profit of our University increased by 35.4% from RMB137.8 million for the year ended 31 August 2015 to RMB186.5 million for the year ended 31 August 2016. Gross profit margin of our University increased from 49.2% for the year ended 31 August 2015 to 63.3% for the year ended 31 August 2016. The improvement of the gross profit margin of our University was primarily because we ceased to pay the annual fee for the tuition fees collected by our University to Henan Polytechnic University after the termination of our cooperation.

Gross profit of our Grade 1-12 schools increased by 21.7% from RMB162.6 million for the year ended 31 August 2015 to RMB197.9 million for the year ended 31 August 2016. Gross profit margin of our Grade 1-12 schools increased from 43.4% for the year ended 31 August 2015 to 45.4% for the year ended 31 August 2016. The improvement of the gross profit margin of our G 1-12 programmes was primarily because we ceased to procure catering services for students at certain primary schools.

Gross profit of our kindergartens increased by 21.5% from RMB17.9 million for the year ended 31 August 2015 to RMB21.8 million for the year ended 31 August 2016. Gross profit margin of our kindergartens increased from 42.2% for the year ended 31 August 2015 to 42.7% for the year ended 31 August 2016. The increase in the gross profit margin of our kindergartens was primarily due to the rise in tuition fee level in the 2015/2016 school year.

Selling Expenses

Our selling expenses decreased by 4.5% from RMB4.4 million for the year ended 31 August 2015 to RMB4.2 million for the year ended 31 August 2016, primarily due to our gradual adoption of more cost-effective marketing methods, such as social media advertising.

Administrative Expenses

Our administrative expenses increased by 29.7% from RMB54.3 million for the year ended 31 August 2015 to RMB70.4 million for the year ended 31 August 2016, primarily due to (i) the increased compensation level of our administrative staff as part of our strategy to retain talent, (ii) an increase in the headcount of our administrative staff due to the expansion of our school network and (iii) the listing related expenses incurred in the year ended 31 August 2016.

Other Income

Our other income decreased by 32.4% from RMB9.5 million for the year ended 31 August 2015 to RMB6.4 million for the year ended 31 August 2016. The decrease was primarily attributable to a decrease of RMB3.2 million in government grants.

Other Gains and Losses

We recorded other losses of RMB153.6 million for the year ended 31 August 2015 and RMB0.3 million for the year ended 31 August 2016. The change was primarily due to the one-off termination fee of RMB153.9 million paid to Henan Polytechnic University in July 2015 pursuant to the HPU Termination Agreement. For details of our prior cooperation with Henan Polytechnic University and the subsequent termination of cooperation, see the

FINANCIAL INFORMATION

section headed “Business — Overview of Our Schools — Prior Cooperation with Henan Polytechnic University” in this prospectus.

Operating Profit

As a result of the above factors, our operating profit increased by 192.3% from RMB115.5 million for the year ended 31 August 2015 to RMB337.7 million for the year ended 31 August 2016.

Finance Income

Our finance income decreased by 63.2% from RMB3.6 million for the year ended 31 August 2015 to RMB1.3 million for the year ended 31 August 2016. The decrease was primarily attributable to a decrease of RMB2.3 million in interest income from deposits because we had lower average bank deposit balance in the year ended 31 August 2016 due to the payment to Henan Polytechnic University consisting of annual fees and a one-off termination fee and the repayment of certain bank loans.

Finance Expenses

Our finance expenses decreased by 2.1% from RMB27.9 million for the year ended 31 August 2015 to RMB27.3 million for the year ended 31 August 2016. The decrease was primarily due to the repayment of certain bank loans in the year ended 31 August 2016.

Profit for the Year and Adjusted Net Profit

As a result of the above factors, our profit increased by 241.8% from RMB91.2 million for the year ended 31 August 2015 to RMB311.7 million for the year ended 31 August 2016. Our Adjusted Net Profit increased by 31.4% from RMB245.1 million for the year ended 31 August 2015 to RMB322.1 million for the year ended 31 August 2016.

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

Revenue

Our revenue increased by 16.4% from RMB599.3 million for the year ended 31 August 2014 to RMB697.7 million for the year ended 31 August 2015. The increase was primarily due to an increase in student enrolment by 23.0% from 35,431 in the 2013/2014 school year to 43,579 in the 2014/2015 school year mainly because we launched six new K-12 schools in four new campuses in September 2014.

Revenue derived from University tuition fees increased by 18.8% from RMB235.9 million for the year ended 31 August 2014 to RMB280.2 million for the year ended 31 August 2015. This increase was primarily due to an increase in student enrolment by 21.1% from 19,568 for the 2013/2014 school year to 23,692 for 2014/2015 school year. The student enrolment increase was mainly because the number of graduating students for the 2013/2014 school year was much smaller than the number of incoming students for the 2014/2015 school year.

Revenue derived from Grade 1-12 tuition fees increased by 13.2% from RMB331.1 million for the year ended 31 August 2014 to RMB375.0 million for the year ended 31 August 2015. This increase was primarily due to an increase in student enrolment by 25.4% from 13,948 for the 2013/2014 school year to 17,491 for the 2014/2015 school year because (i) our new K-12 campuses, namely Xuchang YuHua Elite School campus, Jiyuan YuHua Elite School campus and Gongyi YuHua Elite School campus were put into operation in September 2014, (ii) the ramp-up of student recruitment in our Luohe YuHua Elite School campus opened in September 2013 and Kaifeng YuHua Elite School campus opened in September 2012 and (iii) to a less extent, a raise in the tuition fee level in the 2014/2015 school year.

Revenue derived from kindergarten tuition fees increased by 31.7% from RMB32.3 million for the year ended 31 August 2014 to RMB42.5 million for the year ended 31 August 2015. This increase was primarily due to an increase in student enrolment by 25.1% from 1,915 for the 2013/2014 school year to 2,396 for the 2014/2015

FINANCIAL INFORMATION

school year because we launched two new kindergartens, namely Xuchang Weidu District YuHua Elite Bilingual Kindergarten campus and Jiyuan YuHua Elite Bilingual Kindergarten campus, in September 2014. The raise in the tuition level in the 2014/2015 school year also contributed to the revenue increase.

Cost of revenue

Our cost of revenue increased by 14.1% from RMB332.5 million for the year ended 31 August 2014 to RMB379.4 million for the year ended 31 August 2015.

Cost of revenue of our University increased by 10.4% from RMB129.0 million for the year ended 31 August 2014 to RMB142.4 million for the year ended 31 August 2015, primarily due to an increase in teaching staff cost as a result of the increased compensation level of our teachers.

Cost of revenue of our Grade 1-12 schools increased by 15.3% from RMB184.1 million for the year ended 31 August 2014 to RMB212.4 million for the year ended 31 August 2015, primarily due to (i) an increase in teaching staff cost because we launched four new schools in September 2014 and increased compensation level of our teachers and (ii) an increase in student training and scholarship expenses because we introduced more student training programmes, partially offset by a decrease in canteen expenses because we ceased to procure catering services for students at certain primary schools.

Cost of revenue of our kindergartens increased by 27.0% from RMB19.4 million for the year ended 31 August 2014 to RMB24.6 million for the year ended 31 August 2015, primarily due to an increase in teaching staff cost because we launched two new kindergartens in September 2014 and increased the compensation levels of our teachers.

Gross Profit and Gross Margin

Gross profit increased by 19.3% from RMB266.8 million for the year ended 31 August 2014 to RMB318.3 million for the year ended 31 August 2015, primarily due to the expansion of our school network. Our gross profit margin improved from 44.5% for the year ended 31 August 2014 to 45.6% for the year ended 31 August 2015, primarily due to an increase in the gross profit margin of our University and kindergartens, partially offset by a decrease in the gross profit margin of our Grade 1-12 schools.

Gross profit of our University increased by 28.8% from RMB106.9 million for the year ended 31 August 2014 to RMB137.8 million for the years ended 31 August 2015. Gross profit margin of our University increased from 45.3% for the year ended 31 August 2014 to 49.2% for the year ended 31 August 2015. The improvement of the gross profit margin of our University was primarily because the increase in the student enrolment in the year ended 31 August 2015 which resulted in improved economy of scale.

Gross profit of our Grade 1-12 schools increased by 10.6% from RMB147.0 million for the year ended 31 August 2014 to RMB162.6 million for the years ended 31 August 2015. Gross profit margin of our Grade 1-12 schools decreased from 44.4% for the year ended 31 August 2014 to 43.4% for the year ended 31 August 2015. The decrease in the gross margin of our Grade 1-12 schools was primarily due to the increased staff cost because we launched four new schools in September 2014 and increased the compensation level of our teachers, partially offset by a decrease in canteen expenses because we ceased to procure catering services for students at certain primary schools.

Gross profit of our kindergartens increased by 38.9% from RMB12.9 million for the year ended 31 August 2014 to RMB17.9 million for the year ended 31 August 2015. Gross profit margin of our kindergartens increased from 40.0% for the year ended 31 August 2014 to 42.2% for the year ended 31 August 2015. The improvement of the gross profit margin of our kindergartens was primarily because the increase in the teacher-to-student ratio of our kindergartens for the year ended 31 August 2015.

FINANCIAL INFORMATION

Selling Expenses

Our selling expenses increased by 9.6% from RMB4.0 million for the year ended 31 August 2014 to RMB4.4 million for the year ended 31 August 2015. The increase was primarily due to the enhanced marketing effort in promoting our brand and an increase in the headcount of our selling and marketing staff.

Administrative Expenses

Our administrative expenses increased by 17.4% from RMB46.3 million for the year ended 31 August 2014 to RMB54.3 million for the year ended 31 August 2015, primarily due to the increased number of administrative staff and the increased compensation level because we added six new schools to our school network in September 2014.

Other Income

Our other income increased by 20.3% from RMB7.9 million for the year ended 31 August 2014 to RMB9.5 million for the year ended 31 August 2015, which was primarily due to an increase of RMB1.7 million in government grants and subsidies.

Other Gains and Losses

We recorded other gains of RMB0.9 million for the year ended 31 August 2014, while we recorded other losses of RMB153.6 million for the year ended 31 August 2015. The change was primarily due to the one-off termination fee of RMB153.9 million paid to Henan Polytechnic University in July 2015 pursuant to the HPU Termination Agreement. For details of our prior cooperation with Henan Polytechnic University and the subsequent termination of cooperation, see the section headed “Business — Overview of Our Schools — Prior Cooperation with Henan Polytechnic University” in this prospectus.

Operating Profit

As a result of the above factors, our operating profit decreased by 48.7% from RMB225.3 million for the year ended 31 August 2014 to RMB115.5 million for the year ended 31 August 2015.

Finance Income

Our finance income increased by 28.1% from RMB2.8 million for the year ended 31 August 2014 to RMB3.6 million for the year ended 31 August 2015, primarily due to an increase of RMB0.8 million in interest income from deposit as a result of the interest income from our restricted cash deposit.

Finance Expenses

Our finance expenses increased by 37.5% from RMB20.3 million for the year ended 31 August 2014 to RMB27.9 million for the year ended 31 August 2015, primarily due to (i) an one-off transaction fee of RMB5.8 million relating to our bank borrowings in the year ended 31 August 2015, and (ii) an increase of RMB3.4 million in interest expenses on bank borrowings as we borrowed long-term bank loans of RMB140.0 million to finance the construction of additional teaching facilities and certain short-term bank loans to supplement our working capital.

Profit for the Year and Adjusted Net Profit

As a result of the above factors, our profit decreased by 56.1% from RMB207.8 million for the year ended 31 August 2014 to RMB91.2 million for the year ended 31 August 2015. Our Adjusted Net Profit increased by 17.9% from RMB207.8 million for the year ended 31 August 2014 to RMB245.1 million for the year ended 31 August 2015.

FINANCIAL INFORMATION

CURRENT ASSETS AND LIABILITIES

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

| | As of 31 August | | | As of |
|-------------------------------------------------------|------------------|------------------|----------------|----------------|
| | 2014 | 2015 | 2016 | 31 December |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2016 |
| | | | | (RMB'000) |
| | | | | (Unaudited) |
| CURRENT ASSETS | | | | |
| Trade and other receivables | 9,706 | 18,377 | 11,324 | 11,836 |
| Financial assets at fair value through profit or loss | — | 60,245 | — | — |
| Cash and cash equivalents | 259,440 | 154,339 | 304,986 | 201,394 |
| Restricted cash | — | 58,000 | — | — |
| TOTAL CURRENT ASSETS | 269,146 | 290,961 | 316,310 | 213,230 |
| CURRENT LIABILITIES | | | | |
| Accruals and other payables | 670,102 | 209,979 | 156,669 | 250,618 |
| Deferred revenue | 557,512 | 591,547 | 609,194 | 559,962 |
| Borrowings | 20,000 | 362,000 | 120,000 | 30,000 |
| TOTAL CURRENT LIABILITIES | 1,247,614 | 1,163,526 | 885,862 | 840,580 |
| NET CURRENT LIABILITIES | 978,468 | 872,565 | 569,552 | 627,350 |

As of 31 August 2014, 2015 and 2016 and 31 December 2016, we had net current liabilities of RMB978.5 million, RMB872.6 million, RMB569.6 million and RMB627.4 million, respectively. We had net current liabilities as of each of these dates primarily due to (i) the advances from our Controlling Shareholders to finance our capital expenditure and (ii) with respect to the net liabilities position as of 31 August 2015, the payment to Henan Polytechnic University in July 2015 consisting of annual fees and a one-off termination fee. For more information, see the section headed “Risk Factors — Risks Relating to our Business and our Industry — We had net current liabilities as of 31 August 2014, 2015 and 2016 and 31 December 2016. We may be exposed to liquidation risks, and our business, financial condition and results of operation may be materially and adversely affected as a result” in this prospectus. As advised by our Directors and based on our internal records, except for the kindergartens, our schools typically require students to pay the relevant tuition fees for the upcoming school year before the end of September of each year. However, we allow certain students to pay their tuition fees after September but before the end of December of each year on a limited and case by case basis.

We expect to improve our net current liabilities position by (i) receiving the net proceeds from the Global Offering; (ii) funds generated from our business operations; (iii) utilising cooperative arrangements with third parties to expand our business, which requires substantially lower capital investment compared to the traditional business model; and (iv) debt restructuring to reduce the percentage of the short-term loans in our total borrowings.

Discussion of Key Balance Sheet Items

Trade and Other Receivables

Our trade and other receivables consist primarily of trade receivables due from students, amounts due from related parties, staff advance, interest receivables, prepaid expenses and prepayment to suppliers.

FINANCIAL INFORMATION

The table below sets forth the breakdown of our trade and other receivables as of the dates indicated:

| | As of 31 August | | |
|-------------------------------------------------------|-----------------|---------------|---------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Trade receivables due from students | 396 | 742 | 35 |
| Other receivables due from related parties | — | 6,954 | — |
| Deposits | 1,207 | 1,297 | 1,359 |
| Staff advances | 1,666 | 174 | 1,668 |
| Interest receivables | — | 685 | — |
| Others receivables | 606 | 1,253 | 930 |
| Prepaid expenses | 4,337 | 3,977 | 3,903 |
| Prepayments to suppliers | 1,494 | 3,295 | 109 |
| Accrued expenses in relation to the Listing | — | — | 3,320 |
| Total | 9,706 | 18,377 | 11,324 |

Our trade and other receivables amounted to RMB9.7 million, RMB18.4 million and RMB11.3 million as of 31 August 2014, 2015 and 2016, respectively. The increase from 31 August 2014 to 31 August 2015 was primarily due to the increase in other receivables due from our Controlling Shareholders, which was attributable to the advances provided to our Controlling Shareholders. The decrease in our trade and other receivables from 31 August 2015 to 31 August 2016 was primarily due to the repayment to us by our Controlling Shareholders.

The trade receivables due from students as of 31 August 2014, 2015 and 2016 were due within one year.

Accruals and Other Payables

Our accruals and other payables consist primarily of (i) payables for purchase of property, plant and equipment in connection with our expansion and maintenance of our schools, (ii) deposits received from teachers and certain students; (iii) miscellaneous expenses collected from students, which are paid out by us to vendors on behalf of the students, (iv) salary and welfare payables, and (v) amount due to related parties and third parties. The Directors confirm that we did not have any material defaults in payment of trade and other payables, loans and borrowings or other financing obligations during the Track Record Period and as of the Latest Practicable Date.

The table below sets forth the breakdown of our accruals and other payables as of the dates indicated:

| | As of 31 August | | |
|---------------------------------------------------------------------------|-----------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Amount due to related parties | 466,591 | 10,000 | — |
| Amount due to third party | 25,000 | 36,800 | — |
| Payables for purchases of property, plant and equipment | 78,023 | 77,854 | 58,157 |
| Salary and welfare payables | 25,966 | 36,276 | 38,831 |
| Payables for annual fees | 34,841 | 1,637 | 1,300 |
| —Deposits received from teachers and students | 11,288 | 15,798 | 19,274 |
| —Miscellaneous expenses received from students | 8,941 | 12,977 | 7,192 |
| Payables for teaching materials and other operating expenditure | 10,290 | 12,802 | 13,130 |
| Payables for contracting canteens | 5,749 | 906 | 2,343 |
| Government subsidies payable to students | 676 | 1,218 | 1,887 |
| Payables in relation to the Listing | — | — | 10,629 |
| Interest payables | — | 602 | 198 |
| Others | 2,737 | 3,109 | 3,728 |
| | 670,102 | 209,979 | 156,669 |

FINANCIAL INFORMATION

Our accruals and other payables balances as of 31 August 2014, 2015 and 2016 were RMB670.1 million, RMB210.0 million and RMB156.7 million, respectively. The decrease from 31 August 2014 to 31 August 2015 was primarily due to a decrease in the amount due to related parties as a result of our repayment to our related parties. The decrease from 31 August 2015 to 31 August 2016 was primarily due to a decrease in the amount due to third party.

Financial Instruments at Fair Value through Profit or Loss

Our financial instruments at fair value through profit or loss consist primarily of wealth management products and a RMB interest rate swap contract. The table below sets forth the breakdown of our financial instruments at fair value through profit or loss as of the dates indicated:

| | As of 31 August | | |
|----------------------------------------------------------------------------|-----------------|-----------|-----------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Financial products issued by a financial institution | — | 60,003 | — |
| Derivative financial instruments for interest rate swap contract | — | 242 | — |
| | — | 60,245 | — |

We purchased wealth management products with the principal amount of RMB60.0 million, issued by PRC state-owned banks, in August 2015, which expired in January 2016, resulting the balance of RMB60.0 million recorded on our balance sheet as of 31 August 2015 as financial products as designed by a financial institution. We also purchased certain other wealth management products issued by PRC state-owned banks during the Track Record Period but subsequently disposed of them within the same financial year during which they were purchased. Therefore, those wealth management products were not reflected on our balance sheet as of 31 August 2014, 2015 and 2016, respectively. For the year ended 31 August 2014, 2015 and 2016, we purchased wealth management products with principal amount of approximately RMB2.6 million, RMB100.0 million and RMB45.0 million, respectively. The underlying financial instruments of the wealth managements product that we purchased might include various notes, bond funds, assets-backed securities, interbank deposits, money market funds, trust assets, and receivables. These wealth management products are not principal-protected. They were classified as “medium risk” by the issuing banks but were not formally rated by any credit rating agency. Other than the wealth management products disclosed above, we did not purchase any other wealth management products during the Track Record Period and up to the Latest Practicable Date.

We entered into a RMB interest rate swap contract in January 2015 which had expired in January 2016 because our management believed it exhibited high return and would be beneficial to our Company. The RMB interest rate swap was not for hedging purposes. The table below sets forth the key terms of the RMB interest rate swap contract:

| Key terms: | RMB interest rate swap contract |
|----------------------------------------------|------------------------------------|
| Trade date | 14 January 2015 |
| Interest starting date | 6 January 2015 |
| Expiration date | 6 January 2016 |
| Principal amount | RMB100.0 million |
| Fixed interest rate received by us | 6.44% annum |
| Floating interest rate paid by us | Loan Prime Rate base rate +121 BPS |
| Status of the contract | Expired as of 31 August 2016 |

Our RMB interest rate swap contract was recognised as derivative financial instruments, which amounted to nil, RMB0.2 million and nil as of 31 August 2014, 2015 and 2016. Other than the RMB interest rate swap contract

FINANCIAL INFORMATION

disclosed above, we did not enter into any other interest rate swap contract or any hedging instruments during the Track Record Period and up to the Latest Practicable Date. We do not expect to enter into any interest rate swap contract or hedging instrument in the future.

We receive most of our tuition fees before each school year starts, and we believe we can make better use of such cash by making appropriate investments in short-term investment products, which generates income without interfering with our business operation or capital expenditures. Our investment decisions are made on a case by case basis and after due and careful consideration of a number of factors, including but not limited to the market conditions, the economic developments, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment. We have established a set of investment policies and internal control measures which allow us to achieve reasonable returns on our investment while avoid exposing us to high investment risks. These policies and measures were formulated by Mr. Li, our executive Director and Chairman of the Board, Ms. Li, our executive Director and CEO, Ms. Qiu Hongjun, our executive Director and financial controller, and Mr. Xu Bin, our chief financial officer.

Our finance department, under the supervision of Mr. Xu Bin, our chief financial officer, is responsible for managing our investment activities. Before making a proposal to invest in investment products, our financial department must assess our cash flow and operational needs and capital expenditures. If the cash flow exceeds our operational needs and appropriate short-term investment opportunities are available, the financial department will submit the investment proposal to our management for approval. According to our internal policies, regardless of the investment size, a proposal to invest in investment products must first be reviewed by our chief financial officer. After our chief executive officer approves the proposal, the finance department may start to negotiate the investment terms under the supervision of our chief financial officer. If the investment exceeds RMB100 million, the proposal must be approved by our Board. Our Board will review and examine the compliance of our investment transactions, and the soundness of investment policies annually.

In assessing a proposal to invest in investment products, a number of criteria must be met, including but not limited to:

- we should generally only invest in short-term investment products;
- investments in high risk products being prohibited;
- the primary objectives of investment activities are safety, liquidity and reasonable yield;
- the proposed investment must not interfere with our business operation or capital expenditures; and
- the investment products should be issued by a reputable bank with which we have a long-term relationship.

We believe that our internal policies regarding investment in investment products and the related risk management mechanism are adequate. We may make investments in investment products that meet the above criteria as part of our treasury management where we believe it is prudent to do so after the Listing.

Deferred Revenue

We record tuition fees collected initially as a liability under deferred revenue and recognise such amounts received as revenue proportionately over the relevant year of the applicable programme. As a school year typically commences in September each year, the amounts of deferred revenue as of each of these dates generally represented the amount of tuition fees received but not yet recognised as revenue for the applicable school year.

Our deferred revenue increased from RMB557.5 million for the year ended 31 August 2014 to RMB591.5 million for the year ended 31 August 2015, and further to RMB609.2 million for the year ended 31 August 2016. The increases were primarily due to the increases in our student enrolments as result of our school network expansion as well as the raise in the tuition fee level.

FINANCIAL INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from our operation and external borrowings. We had cash and cash equivalents of RMB259.4 million, RMB154.3 million and RMB305.0 million as of 31 August 2014, 2015 and 2016, respectively. We generally deposit our excess cash in interest bearing bank accounts.

During the Track Record Period, our principal uses of cash have been for the funding of required working capital and other recurring expenses to support the expansion of our operations. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of internally generated cash, external borrowings, proceeds from the Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in the student enrolment, or our tuition fees and boarding fees, or a significant decrease in the availability of bank loans or other financing may adversely impact our liquidity.

Cash Flow

The following table sets forth a summary of our cash flows for the years indicated:

| | For the year ended 31 August | | |
|--------------------------------------------------------------|------------------------------|-----------|-----------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Net cash generated from operating activities | 445,395 | 168,304 | 420,143 |
| Net cash (used in) investing activities. | (123,807) | (303,660) | (42,068) |
| Net cash from/(used in) financing activities | (266,475) | 30,255 | (227,474) |
| Increase/(decrease) in cash and cash equivalents | 55,113 | (105,101) | 150,601 |
| Cash and cash equivalents at beginning of the year | 204,327 | 259,440 | 154,339 |
| Cash and cash equivalents at the end of the year | 259,440 | 154,339 | 304,986 |

Cash Flows Generated from Operating Activities

We generate cash from operating activities primarily from tuition fees, all of which are typically paid before the relevant services are rendered. Tuition fees are initially recorded under deferred revenue. We recognise such amounts received as revenue proportionately over the relevant year of the applicable programme.

Net cash generated from operating activities amounted to RMB420.1 million for the year ended 31 August 2016, consisting primarily of RMB446.8 million of cash generated from operations, partially offset by cash outflow of RMB26.7 million interest paid.

Net cash generated from operating activities amounted to RMB168.3 million for the year ended 31 August 2015, consisting primarily of RMB195.3 million of cash generated from operations, partially offset by cash outflow of RMB27.0 million interest paid. The decrease of net cash generated from operating activities from the year ended 31 August 2014 to the year ended 31 August 2015 was primarily attributable to a one-off termination fee of approximately RMB153.9 million we paid to Henan Polytechnic University.

Net cash generated from operating activities amounted to RMB445.4 million for the year ended 31 August 2014, consisting primarily of RMB465.1 million of cash generated from operations, partially offset by cash outflow of RMB19.7 million interest paid.

FINANCIAL INFORMATION

Cash Flows Used in Investing Activities

Our expenditures for investing activities were primarily for the purchase of property, buildings and equipment and purchases of prepaid land lease payments.

For the year ended 31 August 2016, our net cash used in investing activities was RMB42.1 million, of which (i) RMB162.5 million was primarily used to build additional teaching facilities in the University campus and our new K-12 school campuses; (ii) RMB45.0 million was used to purchase investment products, partially offset by the cash inflow of RMB106.7 million of proceeds from disposal of certain wealth management products and RMB58.0 million of restricted bank deposit that was released.

For the year ended 31 August 2015, our net cash used in investing activities was RMB303.7 million, of which (i) RMB176.7 million was used to build teaching facilities in our new K-12 school campus; (ii) RMB100.0 million was used to purchase investment products; and (iii) RMB58.0 million was deposited as restricted bank deposit, partially offset by the cash inflow of RMB40.1 million of proceeds from disposal of certain wealth management products.

For the year ended 31 August 2014, our net cash used in investing activities was RMB123.8 million, of which (i) RMB175.7 million was used to build dormitories and teaching facilities for our new K-12 school campuses; and (ii) RMB64.2 million was prepaid land leasehold payment, partially offset by the cash inflow of RMB90.0 million of restricted bank deposit that was released.

Cash Flows Generated From/Used in Financing Activities

Our expenditures for financing activities were primarily for the repayments of bank loans and payment of interest expense.

For the year ended 31 August 2016, our net cash used in financing activities was RMB227.5 million, of which (i) RMB467.0 million was used for repayments of bank borrowings; (ii) RMB90.0 million was used to repay amount due to related parties; and (iii) RMB58.6 million was used for repayments of Controlling Shareholder borrowings. We raised RMB280.0 million of new bank borrowings to finance our operations and obtained RMB80.0 million of advances from related parties, and RMB65.5 million of advances from Controlling Shareholders.

For the year ended 31 August 2015, our net cash generated from financing activities was RMB30.3 million, of which (i) RMB599.0 million was proceeds from new bank borrowings, which was primarily finance the construction of additional buildings on our University campus and to supplement our working capital; (ii) RMB347.0 million was advances from related parties; and (iii) RMB96.7 million was advances from Controlling Shareholders. We repaid bank borrowings of RMB117.0 million, amount due to related parties of RMB347.0 million and amount due to Controlling Shareholders of RMB560.3 million.

For the year ended 31 August 2014, our net cash used in financing activities was RMB266.5 million, of which (i) RMB357.0 million was used for repayments of bank borrowings; (ii) RMB92.7 million was used to repay amount due to Controlling Shareholders. We raised RMB70.0 million of new bank borrowings and obtained RMB75.5 million of advances from Controlling Shareholders to supplement our working capitals.

Working Capital

We intend to continue to finance our working capital with cash generated from our operations, external borrowings, the net proceeds from the Global Offering and other funds raised from the capital markets from time to time. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding our school network and further increase the capacity of our existing schools.

FINANCIAL INFORMATION

Our future working capital requirements will depend on a number of factors, including, but not limited to, our operating income, the size of our school network, acquisition of suitable schools, the cost of constructing new school premises, maintaining and upgrading existing school premises, purchasing additional educational facilities and equipment for our schools and hiring additional teachers and other educational staff. Based on our available cash balance, the anticipated cash flow from operations, withdrawn bank borrowings and the net proceeds from the Global Offering, our Directors are of the opinion that we will have sufficient funds to meet our working capital requirements and financial requirements for capital expenditure for at least the next 12 months from the date of this prospectus. Based on the review of financial documents and other due diligence documents, discussion with the Directors and the Directors' confirmation, the Sole Sponsor concurs with the Directors' view.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily related to maintaining and upgrading the existing school premises and purchasing additional educational facilities and equipment for our schools. Our capital expenditures consisted of the additions of property, plant and equipment, prepaid land lease payments and intangible assets. For the years ended 31 August 2014, 2015 and 2016, our capital expenditures were RMB217.0 million, RMB182.3 million and RMB127.1 million, respectively. We expect our capital expenditure for the year ended 31 August 2017 to be RMB200.0 million. The following table sets forth the breakdown of our capital expenditures for the years indicated:

| | For the year ended 31 August | | |
|-------------------------------------|------------------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Property, plant and equipment | 158,216 | 171,005 | 126,505 |
| Prepaid land lease payments | 58,435 | 10,758 | — |
| Intangible assets | 309 | 544 | 554 |
| Total | <u>216,960</u> | <u>182,307</u> | <u>127,059</u> |

Currently, we generally operate our schools in a traditional asset-heavy model. For our University and a majority of our K-12 schools, we or our schools own all of the premises that those schools occupy. This asset-heavy model requires us to obtain the relevant land use right and expend significant amount of capital outlay in connection with the establishment of schools. Going forward, in addition to operating certain schools of ours in this approach, we intend to collaborate with third party partners, including, among others, local governments, property developers and other public and private school operators, to set up new schools in an asset-light model. We expect potential third party partners to provide land use rights to the campus sites and build necessary school facilities that meet our standard and we will provide teachers and management support. We believe this transformation in our business model will likely result in less capital expenditure required for the acquisition of land and buildings in the future.

CONTRACTUAL COMMITMENTS

Capital Commitments

Our capital commitments primarily relate to acquisition of property, plant and equipment. The following table sets forth the breakdown of our capital commitments as of the dates indicated:

| | As of 31 August | | | As at |
|-------------------------------------------------------------------|-----------------|--------------|--------------|-------------|
| | 2014 | 2015 | 2016 | 31 December |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2016 |
| Commitment for acquisition of property, plant and equipment | 11,827 | 5,371 | 5,860 | — |
| Total | <u>11,827</u> | <u>5,371</u> | <u>5,860</u> | <u>—</u> |

FINANCIAL INFORMATION

Operating Lease Commitments

During the Track Record Period, we leased a number of buildings under operating leases. Leases for buildings were negotiated for a term of 20 years. The table below sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

| | As of 31 August | | | As at |
|------------------------------------------------------------|-----------------|-----------|-----------|-------------|
| | 2014 | 2015 | 2016 | 31 December |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2016 |
| No later than one year | 907 | 1,702 | 797 | 645 |
| Later than one year and no later than five years | 4,575 | 3,988 | 4,034 | 4,041 |
| Later than five years | 33,030 | 32,023 | 30,990 | 30,423 |
| Total | 38,512 | 37,713 | 35,821 | 35,109 |

INDEBTEDNESS

Bank loans and other Borrowings

Our bank borrowings primarily consisted of short-term working capital loans and long-term project loans for the construction of the school premises. Our bank borrowings as of 31 August 2014, 2015 and 2016 and 31 December 2016 were as follows:

| | As of 31 August | | | As of |
|----------------------------------------|-----------------|-----------|-----------|-------------|
| | 2014 | 2015 | 2016 | 31 December |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2016 |
| | | | | (Unaudited) |
| Bank loans and other borrowings | | | | |
| <i>Current</i> | | | | |
| Bank loans | | | | |
| —unsecured | — | 77,000 | 40,000 | 30,000 |
| —secured | 20,000 | 285,000 | 80,000 | — |
| <i>Non-current</i> | | | | |
| Bank loans | | | | |
| —unsecured | — | 140,000 | 90,000 | — |
| —secured | — | — | 105,000 | 70,000 |
| Total | 20,000 | 502,000 | 315,000 | 100,000 |
| Carrying amount repayable: | | | | |
| Within one year | 20,000 | 362,000 | 120,000 | 30,000 |
| Between one and two years | — | 50,000 | 80,000 | 20,000 |
| Between two and five years | — | 90,000 | 115,000 | 50,000 |
| Over five years | — | — | — | — |
| Total | 20,000 | 502,000 | 315,000 | 100,000 |

We primarily borrow loans from commercial banks to supplement our working capital and finance our capital expenditure. The bank loans and other borrowings as of 31 August 2014, 2015 and 2016 and 31 December 2016 were all denominated in Renminbi. Except for bank borrowings, as of 31 August 2014, 2015 and 2016 and 31 December 2016, we incurred indebtedness from amounts due to related parties of RMB466.6 million, RMB10.0 million, nil and RMB6.9 million, respectively. We recorded amounts due to related parties of RMB6.9 million as of 31 December 2016, due to advances denominated in U.S. dollars provided by a Director to us for the payment of certain professional fees in relation to the Listing. The amounts due to related parties were non-trade in nature, unsecured, non-interest bearing and repayable on demand. As of the Latest Practicable Date, the amounts due to related parties had been repaid in full. As of 31 December 2016, we had total indebtedness of RMB100.0 million. As of 31 December 2016, our undrawn banking borrowings amount to RMB100.0 million.

FINANCIAL INFORMATION

The table below sets forth the weighted average effective interest rates (per annum) of our bank borrowings as of the dates indicated:

| | As of 31 August | | |
|-----------------------|-----------------|------|------|
| | 2014 | 2015 | 2016 |
| Bank borrowings | 7.2% | 7.0% | 5.4% |

During the Track Record Period, our bank borrowings of our Group were secured by right over tuition fee, buildings owned by our Group and/or guaranteed by our subsidiaries and related parties. All guarantees and pledges provided by our Group's related parties will be released before listing. For details of the loans to be repaid by the net proceeds from the Global Offering, see the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

Except as aforesaid and apart from intra-group liabilities, as of 31 December 2016, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

CONTINGENT LIABILITIES

As of 31 August 2016, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since 31 August 2016.

LISTING EXPENSES

The total listing expenses (including underwriting commissions) payable by our Company are estimated to be approximately RMB86.8 million, assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$2.26 per Offer Share (being the mid-point of our Offer Price range of HK\$1.98 to HK\$2.54 per Offer Share). These listing expenses mainly comprise professional fees paid and payable to the professional parties, and commissions payable to the Underwriters, for their services rendered in relation to the Listing and the Global Offering.

As of 31 August 2016, the listing expenses (excluding underwriting commissions) incurred by our Company in relation to the Listing were approximately RMB13.7 million, of which approximately RMB10.4 million was charged to our combined statement of comprehensive income and approximately RMB3.3 million was capitalised. We estimate that additional listing expenses of RMB73.1 million (including underwriting commissions, assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$2.26 per Offer Share) will be incurred by our Company, of which approximately RMB23.1 million is expected to be charged to our combined statement of comprehensive income and approximately RMB50.0 million is expected to be charged against equity upon the Listing.

FINANCIAL INFORMATION

FINANCIAL RATIOS

| | As of/for the year ended 31 August | | |
|-------------------------------------------|---------------------------------------|-------|-------|
| | 2014 | 2015 | 2016 |
| Net profit margin ⁽¹⁾ | 34.7% | 13.1% | 39.9% |
| Adjusted Net Profit margin ⁽²⁾ | 34.7% | 35.1% | 41.2% |
| Return on assets ⁽³⁾ | 11.4% | 4.7% | 15.4% |
| Adjusted return on assets ⁽⁴⁾ | 11.4% | 12.5% | 15.9% |
| Return on equity ⁽⁵⁾ | 41.0% | 15.3% | 34.3% |
| Adjusted return on equity ⁽⁶⁾ | 41.0% | 41.0% | 35.4% |
| Current ratio ⁽⁷⁾ | 0.22 | 0.25 | 0.36 |
| Gearing ratio ⁽⁸⁾ | 0.04 | 0.84 | 0.35 |

Notes:

- (1) Net profit margin equals our net profit for the year divided by revenue for the year.
- (2) Adjusted Net Profit margin equals our Adjusted Net Profit for the year divided by the revenue for the year.
- (3) Return on assets equals net profit for the year divided by the total assets as of the end of the year.
- (4) Adjusted return on assets equals Adjusted Net Profit for the year divided by the total assets as of the end of the year.
- (5) Return on equity equals net profit for the year divided by the total equity amounts as of the end of the year.
- (6) Adjusted return on equity equals Adjusted Net Profit for the year divided by the total equity as of the end of the year.
- (7) Current ratio equals our current assets divided by current liabilities as of the end of the year.
- (8) Gearing ratio equals total interest-bearing bank loans divided by total equity as of the end of the year.

Analysis of Key Financial Ratios

Net Profit Margin and Adjusted Net Profit Margin

Our net profit margin decreased from 34.7% for the year ended 31 August 2014 to 13.1% for the year ended 31 August 2015, and then increased to 39.9% for the year ended 31 August 2016. The fluctuation in our net profit margin was primarily due to the one-off termination fee paid to Henan Polytechnic University, which significantly decreased our net profit for the year ended 31 August 2015. Our Adjusted Net Profit margin remained stable at 34.7% for the year ended 31 August 2014 and 35.1% for the year ended 31 August 2015. It increased to 41.2% for the year ended 31 August 2016 primarily because we ceased to pay the annual fee to Henan Polytechnic University after the termination of cooperation between us.

Return on Assets and Return on Equity

Similarly, our return on assets ratio and return on equity ratio experienced the same degree of fluctuation during the Track Record Period, which was primarily because of the one-off termination fee paid to Henan Polytechnic University.

Our adjusted return on assets increased from 11.4% for the year ended 31 August 2014 to 12.5% for the year ended 31 August 2015 and 15.9% for the year ended 31 August 2016, primarily due to the growth in our Adjusted Net Profit as a result of the expansion of our school network.

Our adjusted return on equity remained stable at 41.0% for the year ended 31 August 2014 and the year ended 31 August 2015. It decreased to 35.4% for the year ended 31 August 2016 primarily due to an increase in our total equity attributable to the RMB223.7 million increase in retained earnings.

Current Ratio

Our current ratio increased from 0.22 as of 31 August 2014 to 0.25 as of 31 August 2015, primarily due to a decrease in accruals and other payables because our repayments to our Controlling Shareholders and related parties. Our current ratio further increased to 0.36 as of 31 August 2016, primarily due to an increase in our cash and cash equivalents because we made a payment to Henan Polytechnic University in July 2015 consisting of annual fees and a one-off termination fee, while no cost of such nature was incurred in the year ended 31 August 2016.

FINANCIAL INFORMATION

Gearing Ratio

Our gearing ratio increased from 0.04 as of 31 August 2014 to 0.84 as of 31 August 2015, mainly because our Group borrowed additional loans to pay the one-off termination fee to Henan Polytechnic University and repaid the borrowings from our Controlling Shareholders. Our gearing ratio decreased to 0.35 as of 31 August 2016, mainly due to our increased total equity as a result of our increased retained earnings.

RELATED PARTY TRANSACTIONS

Historically, we entered into transactions with our related parties from time to time.

Transactions with Related Parties

For the year ended 31 August 2014, 2015 and 2016, we obtained advances of RMB75.5 million, RMB96.7 million and RMB65.5 million, respectively, from our Controlling Shareholders, and repaid RMB92.7 million, RMB560.3 million and RMB58.6 million, respectively, to our Controlling Shareholders. The advances from Controlling Shareholders during the Track Record Period were to finance our capital expenditure and supplement our working capitals.

For the year ended 31 August 2014, 2015 and 2016, we obtained advances of RMB10.0 million, RMB347.0 million and RMB80.0 million, respectively, from our related parties other than our Controlling Shareholders, and repaid nil, RMB347.0 million and RMB90.0 million, respectively, to our related parties other than our Controlling Shareholders. The advances from related parties other than our Controlling Shareholders during the Track Record Period were to supplement our working capitals.

Amounts due from Related Parties

As of 31 August 2014, 2015 and 2016, amounts due from our Controlling Shareholders were nil, RMB7.0 million and nil, respectively.

As of 31 August 2014, 2015 and 2016, amounts due from our related parties other than Controlling Shareholders were nil, nil and nil, respectively.

Amounts due to Related Parties

As of 31 August 2014, 2015 and 2016, amounts due to our Controlling Shareholders were RMB456.6 million, nil and nil, respectively.

As of 31 August 2014, 2015 and 2016, amounts due to our related parties other than Controlling Shareholders were RMB10.0 million, RMB10.0 million and nil, respectively.

In accordance with the General Rules of Loans promulgated by the People's Bank of China on June, 28, 1996, enterprises are prohibited from disbursing loans without authorisation, or conducting lending and borrowing activities, between and among enterprises without authorisation. However, pursuant to the Provisions of the Supreme People's Court on Certain Issues concerning Application of Law in Trial of Cases involving Private Lending ("the Judicial Interpretation") published on June 23, 2015, a contract of private lending between enterprises for the need of production or business operation is valid, except under certain circumstances that such private lending may be viewed as involving fraud, crime or other illegal aspects or against public policies as set forth in the PRC Contract Law or the Judicial Interpretation itself. We confirm that all our lending with our affiliates has been conducted for the needs of production or business operations and did not involve fraud, crime or other illegal aspects or against public policies as set forth in the PRC Contract Law or the Judicial Interpretation. Based on the above confirmation and a review of relevant documents, our PRC Legal Adviser is of the view that lending between us, our subsidiaries and our affiliates does not violate relevant PRC laws and regulations.

FINANCIAL INFORMATION

Our Directors believe that each of the related party transactions set out in note 30 to the Accountants' Report in Appendix I to this prospectus was conducted in the ordinary course of business on an arm's length basis. Our Directors are of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of financial risks, including interest rate risk, credit risk and liquidity risk, as set out below. We regularly monitor our exposure to these risks. As of the Latest Practicable Date, we did not hedge or consider it was necessary to hedge any of these risks.

Interest Rate Risk

As we have no significant interest-bearing assets other than cash and cash equivalents, restricted cash, our income and operating cash flows are substantially independent of changes in market interest rates.

Our interest-rate risk primarily arises from borrowings. Borrowings at variable interest rates expose us to cash flow interest rate risk. Borrowings at fixed interest rates expose the Group to fair value interest rate risk. During the Track Record Period, our borrowings bore interest at variable rates.

At 31 August 2014, 2015 and 2016, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, our profit for the year would have been RMB1,170,000 higher/lower, RMB1,502,000 lower/higher and RMB62,000 higher/lower respectively.

Credit Risk

Our maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash and trade and other receivables shown on combined balance sheets.

As of 31 August 2014, 2015 and 2016, 90%, 49% and 52% of our cash and cash equivalents and restricted cash were held in state-owned financial institutions, which our management believes are of high credit quality. The rest are deposited in local banks with good reputation. Our management does not expect any losses from non-performance by these counterparties.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding trade and other receivables.

We have no significant concentrations of credit risk. The carrying amounts of receivables included in the combined balance sheets represent our maximum exposure to credit risk in relation to these financial assets. We assess the credit quality of our customers by taking into account various factors including their financial position, past experience and other factors. The utilisation of credit terms is regularly monitored and our management does not expect any losses from non-performance by these counterparties.

Liquidity risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. We expect to fund our future cash flow needs through internally generated cash flows from operations and bank borrowings.

FINANCIAL INFORMATION

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 27 of the Accountants' Report in Appendix I to this prospectus. Generally there is no specific credit period granted by the suppliers but the related payables are normally expected to be settled within three months after receipt of goods or services.

As of 31 August 2014, 2015 and 2016, we have cash and cash equivalents and restricted cash of approximately RMB259.4 million, RMB212.3 million and RMB305.0 million respectively and trade receivables of approximately RMB0.4 million, RMB0.7 million and nil respectively that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses our financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest elements computed using contracted rate or if floating based on rates at the end dates during the Track Record Period.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|-----------------------------------------------------------------------------|---------------------|--------------------------|--------------------------|----------------|
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| At 31 August 2014 | | | | |
| Borrowings (principal plus interests) | 20,160 | — | — | 20,160 |
| Accruals and other payables (excluding non-financial liabilities) | 648,424 | — | — | 648,424 |
| Other non-current liabilities (principal plus interests) | — | 11,000 | 61,000 | 72,000 |
| | <u>668,584</u> | <u>11,000</u> | <u>61,000</u> | <u>740,584</u> |
| At 31 August 2015 | | | | |
| Borrowings (principal plus interests) | 380,455 | 56,327 | 93,542 | 530,324 |
| Accruals and other payables (excluding non-financial liabilities) | 176,527 | — | — | 176,527 |
| Other non-current liabilities (principal plus interests) | — | 20,000 | 41,000 | 61,000 |
| | <u>556,982</u> | <u>76,327</u> | <u>134,542</u> | <u>767,851</u> |
| At 31 August 2016 | | | | |
| Borrowings (principal plus interests) | 134,597 | 86,250 | 116,508 | 337,355 |
| Accruals and other payables (excluding non-financial liabilities) | 120,343 | — | — | 120,343 |
| Other non-current liabilities (principal plus interests) | — | 41,000 | — | 41,000 |
| | <u>254,940</u> | <u>127,250</u> | <u>116,508</u> | <u>498,698</u> |

DISTRIBUTABLE RESERVES

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

DIVIDENDS

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our combined affiliated entities, which are incorporated in the PRC. Our

FINANCIAL INFORMATION

combined affiliated entities must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and paying dividends to us. Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises, our Company's subsidiaries and our combined affiliated entities must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of each relevant entity prior to payment of dividends. These reserves include a general reserve and a development fund. Subject to certain cumulative limits, the general reserve requires annual appropriations of 10% of after-tax profits as determined under PRC laws and regulations at each year-end until the balance reaches 50% of the relevant PRC entity's registered capital. PRC laws and regulations require private schools where the school sponsors require reasonable returns to make annual appropriations of 25% of after-tax income to its development fund prior to payments of dividend. Such appropriations are required to be used for the construction or maintenance of the school or for the procurement or upgrading of educational equipment. In the case of a private school where the school sponsors do not require reasonable returns, the school is required to make annual appropriations equivalent to no less than 25% of the annual increase of net assets of the school as determined in accordance with generally accepted accounting principles in the PRC. Each of our schools does not require reasonable returns. Pursuant to the Decision of the Standing Committee of the National People's Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the "Amendment") which will come into effect on 1 September 2017, private schools will be operated as non-profit or for-profit private schools and sponsors of private schools will no longer be required to indicate whether they require reasonable returns or not requiring reasonable returns. However, the Amendment remains silent on the requirement of the development fund of the non-profit schools or for-profit schools.

Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. There is no assurance that dividends of any amount will be declared to be distributed in any year.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

Except our properties located in Zhengdong New Area, Zhengzhou, Henan province, the value of which is appraised in the Property Valuation Report set forth in Appendix III to this prospectus, no single property we own has a carrying amount of 15% or more of our total assets. Asia-Pacific Consulting and Appraisal Limited, an independent property valuation firm, has valued the properties owned by us in Zhengdong New Area, Zhengzhou, Henan province as of 31 December 31 2016. The text of its letter and valuation certificate are set out in the Property Valuation Report as set forth in Appendix III to this prospectus.

FINANCIAL INFORMATION

The following table presents the reconciliation of the net book value of the relevant property interests, as of 31 August 2016 to their market value as of 31 December 2016 attributed by Asia-Pacific Consulting and Appraisal Limited as stated in the valuation certificate in the Property Valuation Report as set forth in Appendix III to this prospectus:

| | RMB'000 |
|--------------------------------------------------------------------------------------------------------------------------------|------------------|
| Buildings and construction in progress included in property, plant and equipment | 672,821 |
| Add: Addition in buildings and construction in progress | 23,087 |
| Less: Depreciation for the four months ended 31 December 2016 | (4,808) |
| | 691,100 |
| Valuation surplus | 101,983 |
| Reference value as of 31 December 2016 ⁽¹⁾ | 793,083 |
| Less: Buildings without commercial value due to the allocated land nature of the property and lack of title certificates | (793,083) |
| Valuation as of 31 December 2016 | — ⁽²⁾ |

Notes:

- (1) The reference value of the relevant properties is based on the depreciated replacement cost of the relevant properties attributed by Asia-Pacific Consulting and Appraisal Limited as set out in note 5 to the valuation certificate contained in the Property Valuation Report set forth in Appendix III to this prospectus. The reference value is assigned for the reference only and on the assumptions that we had obtained all title certificates of the relevant properties and the relevant properties could be freely transfer.
- (2) The relevant properties are ascribed as no commercial value by Asia-Pacific Consulting and Appraisal Limited due to the allocated land nature and lack of title certificates. For more details of the valuation of the relevant properties, see the Property Valuation Report as set forth in Appendix III to this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 August 2016 (being the date on which the latest audited combined financial information of our Group was prepared) and there is no event since 31 August 2016 which would materially affect the information shown in our Combined Financial Statements included in the section headed “Accountants’ Report” in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following our unaudited pro forma adjusted combined net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the HKICPA for illustration purpose only, and is set out below to illustrate the effect of the Global Offering on our audited combined net tangible assets as of 31 August 2016 as if it had taken place on that date.

FINANCIAL INFORMATION

Our unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of 31 August 2016 or any future date. It is prepared based on our combined net tangible assets as of 31 August 2016 as set out in the section headed “Accountants’ Report” in Appendix I to this prospectus, and adjusted as described below:

| | Audited combined net tangible assets attributable to owners of our Company as of 31 August 2016 ⁽¹⁾ | Estimated net proceeds from the Global Offering ⁽²⁾ | Unaudited pro forma adjusted combined net tangible assets | Unaudited pro forma adjusted combined net tangible assets per Share ⁽³⁾ | |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------|
| | (RMB'000) | (RMB'000) | (RMB'000) | RMB | HK\$ ⁽⁴⁾ |
| Based on an Offer Price of HK\$1.98 per Share | 907,856 | 1,241,727 | 2,149,583 | 0.72 | 0.81 |
| Based on an Offer Price of HK\$2.54 per Share | 907,856 | 1,600,535 | 2,508,391 | 0.84 | 0.95 |

Notes:

- (1) The audited combined net tangible assets attributable to owners of our Company as of 31 August 2016 is extracted from the Accountants’ Report, which is based on the audited combined net assets attributable to owners of our Company as of 31 August 2016 of approximately RMB909.6 million less the intangible assets of our Group as of 31 August 2016 of approximately RMB1.8 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.98 per Share and HK\$2.54 per Share, after deduction of the underwriting fees and other related expenses payable by our Company. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.88354 prevailing on 3 February 2017.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 3,000,000,000 Shares in issue immediately following the completion of the Global Offering and does not take into account of any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and Shares which may be granted under the Share Award Scheme.
- (4) The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.88354 prevailing on 3 February 2017.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Our Business Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,608.5 million after deducting underwriting commission and other estimated expenses paid and payable by us in the Global Offering and taking into account any additional discretionary incentive fee, assuming an Offer Price of HK\$2.26 per Share, being the mid-point of the indicative Offer Price range of HK\$1.98 to HK\$2.54 per Share. We intend to use the net proceeds we will receive from this offering for the following purposes:

- approximately 30% (approximately HK\$482.5 million) to be applied towards the expansion of our school network within Henan Province and into other attractive markets in China by building new schools by ourselves and developing new schools by partnering with third parties through asset-light model. In particular, we plan to establish new high schools on our Xuchang YuHua Elite School campus, Kaifeng YuHua Elite School campus and Jiyuan YuHua Elite School campus in the next three years;
- approximately 28% (approximately HK\$450.4 million) to be applied towards the acquisition of K-12 schools and universities in Henan Province and surrounding regions of Henan Province to supplement our school network. Our management intends to continue to assess potential acquisition targets and identify the targets in accordance with the following criteria:
 - For K-12 schools: (i) general economic condition of the city in which a target school is located; (ii) demand for private education in such city and its neighbouring areas; (iii) level of government support in promoting private education; (iv) valuation of the target school; and (v) growth potential of the target school;
 - For universities: (i) no less than 10,000 enrolled students; (ii) located in our preferred regions; and (iii) with a preference towards medical schools or normal schools (師範學校);

As of the Latest Practicable Date, we had not identified any specific acquisition target or confirmed the number of schools to be acquired or the timeframe for incurring the acquisition expenditure;

- approximately 25% (approximately HK\$402.1 million) to be applied towards school facilities upgrade and capacity expansion for our existing schools. In particular, we plan to construct additional buildings on our existing University campus;
- approximately 10% (approximately HK\$160.9 million) to supplement our working capital; and
- approximately 7% (approximately HK\$112.6 million) to repay our bank loans as follows:

| Bank | Outstanding Amount As of 31 December 2016 (RMB) | Interest rate | Maturity date | Usage |
|-------------------------------|-------------------------------------------------------------|------------------|----------------|--------------------------|
| Shanghai Pudong Development | | | | |
| Bank ⁽¹⁾ | 30.0 million | 4.90% | 29 March 2017 | Working capital purposes |
| China CITIC Bank | 70.0 million | 5.23% | 4 January 2019 | Working capital purposes |

Note:

- (1) As part of our efforts to release all related party guarantees for our bank loans, we expect to repay the RMB30.0 million bank loan borrowed from Shanghai Pudong Development Bank and guaranteed by our Controlling Shareholders with RMB30.0 million new bank loans to be drawn down before Listing. As of the Latest Practicable Date, we were still negotiating the terms for the RMB30.0 million new bank loans. The proceeds allocated to repay our bank loans after Listing are expected to repay the RMB30.0 million new bank loans.

In the event that the Offer Price is set at the high point or the low point of the indicative Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$203.1 million, respectively. Under such circumstances, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

If the Over-allotment Option is exercised in full, the net proceeds that the Over-allotment Option Grantor will receive will be approximately HK\$249.1 million, assuming an Offer Price of HK\$2.26 per Share, being the mid-point of the proposed Offer Price range. The Over-allotment Option Grantor may be required to sell up to an aggregate of 112,500,000 additional existing shares.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

Since we are an offshore holding company, we will need to make capital contributions and loans to our PRC subsidiaries or through loans to our consolidated affiliated entities such that the net proceeds of this offering can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under PRC laws and regulations. There are no costs associated with registering loans or capital contributions with relevant PRC authorities, other than nominal processing charges. Under PRC laws and regulations, the PRC governmental authorities are required to process such approvals or registrations or deny our application within a prescribed period, which are usually less than 90 days. The actual time taken, however, may be longer due to administrative delay. We cannot assure you that we can obtain the approvals from the relevant governmental authorities, or complete the registration and filing procedures required to use our net proceeds as described above, in each case on a timely basis, or at all. This is because PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiaries or consolidated affiliated entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business. See the section headed “Risk Factors — Risks Relating to our Contractual Arrangements” in this prospectus.

UNDERWRITING

HONG KONG UNDERWRITERS

CLSA Limited

Merrill Lynch Far East Limited

CCB International Capital Limited

First Capital Securities Limited

Orient Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 75,000,000 Hong Kong Public Offer Shares (subject to adjustment) for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned herein (including any additional Shares which may be sold pursuant to the exercise of the Over-allotment Option) and such approval not having been withdrawn, and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) agreeing upon the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to subscribe, or procure subscribers to subscribe for their respective applicable proportions of the Hong Kong Public Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions as set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Sole Sponsor shall be entitled by notice (orally or in writing) to the Company to terminate this Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (i) there shall develop, occur, exist or come into effect:
 - a) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting the Cayman Islands, BVI, Hong Kong, the PRC, the United States, the United Kingdom, any member of the European Union, Japan, Singapore or any other jurisdiction relevant to any member of the Group or the Global Offering (collectively, the “**Relevant Jurisdictions**” and any one of them, a “**Relevant Jurisdiction**”); or

UNDERWRITING

- b) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or
- c) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- d) any general moratorium on commercial banking activities in or affecting any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- e) any new Law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing Laws, in each case, in or affecting any of the Relevant Jurisdictions; or
- f) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- g) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- h) any proceedings of any third party being threatened or instigated against any member of the Group not specifically disclosed in this prospectus; or
- i) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- j) the chairman or chief executive officer of the Company vacating his or her office; or
- k) an authority or a political body or organisation in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- l) a contravention by any member of the Group of the Listing Rules or applicable Laws; or
- m) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares which may be sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- n) non-compliance of the prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- o) the issue or requirement to issue by the Company of any supplement or amendment to the prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

UNDERWRITING

- p) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators and the Sole Sponsor: (1) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or may have the effect of making any part of this Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has come to the notice of the Joint Global Coordinators or the Sole Sponsor:

- a) that any statement contained in this prospectus, the Application Forms, or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
- b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission of a material fact from any of the prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- c) any breach of any of the obligations imposed upon any party to this Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- d) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties under the Hong Kong Underwriting Agreement; or
- e) any material adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of the Group; or
- f) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the warranties under the Hong Kong Underwriting Agreement; or
- g) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be sold pursuant to

UNDERWRITING

the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

- h) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- i) any person (other than the Sole Sponsor) has withdrawn or is subject to withdraw its consent to being named in any of the prospectus or the Application Forms or to the issue of any of the prospectus or the Application Forms.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except: (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; (b) pursuant to the Global Offering; (c) pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme; or (d) grant of Shares under the Share Award Scheme.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option and the Stock Borrowing Agreement), it will not, and shall procure that the relevant registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of their respective shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create, any options, rights, interests or encumbrances in respect of, any of those Shares or securities of our Company in respect of which it is shown in this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires, dispose of, or enter into any agreement to dispose of or otherwise create, any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to each of the Stock Exchange and our Company that within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will immediately inform the Stock Exchange and our Company in writing of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, together with the number of such Shares or other securities of our Company so pledged or charged; and

UNDERWRITING

- (b) any indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement published in accordance with Rule 2.07 of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Our Company has, pursuant to the Hong Kong Underwriting Agreement, undertaken to, inter alia, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters not to, and to procure each of the other member of the Group not to, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and subject always to the provisions of the Listing Rules, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”):

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

In the event that our Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our

UNDERWRITING

Company shall take all reasonable steps to ensure that any such act, if done, will not create a disorderly or false market in the securities of our Company.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders undertake to us and the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Manager and the Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (1) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities, as applicable, or any interest in any of the foregoing), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts; or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities, as applicable, or any interest in any of the foregoing); or (iii) enter into any transaction with the same economic effect as any transaction specified in (1)(i) or (1)(ii) of this paragraph; or (iv) offer to or agree to or announce any intention to effect any transaction specified in (1)(i), (1)(ii) or (1)(iii) of this paragraph, and in each case, whether any of the transactions specified in (1)(i), (1)(ii) or (1)(iii) of this paragraph is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (2) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (1)(i), (1)(ii) or (1)(iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and
- (3) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in (1)(i), (1)(ii) or (1)(iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company,

provided that nothing of the above shall prevent the Controlling Shareholders from (i) purchasing additional Shares or other securities of the Company and disposing of such additional Shares or securities of the Company, (ii) using the Shares or other securities of the Company or any interest therein beneficially owned by them as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, or (iii) facilitating the share lending arrangement as described in this prospectus and undertaking any action in connection with the Over-allotment Option.

Each of the Controlling Shareholders hereby further undertakes to the Company, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters that it will, at any time within the period commencing on

UNDERWRITING

the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months after the Listing Date:

- (i) when it pledges or charges any Shares or other securities of the Company or any interests in or any of the rights attaching to any Shares or other securities of the Company, including but not limited to rights as to voting, dividend or distribution in the Shares, immediately inform the Company, the Sole Sponsor and the Joint Global Coordinators in writing of such pledge or charge together with the number and class of the Shares or securities and nature of interest so pledged or charged; and
- (ii) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in or rights attaching to the Shares or securities of the Company will be disposed of, immediately inform the Company, the Sole Sponsor and the Joint Global Coordinators in writing of such indications.

The Company agrees and undertakes to the Sole Sponsor, the Joint Global Coordinators and each of the Hong Kong Underwriters, that, upon receiving such information in writing from the Controlling Shareholders, it shall, as soon as practicable, notify the Stock Exchange and make an announcement in accordance with the Listing Rules.

Underwriting Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.0% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, if any, we will pay an underwriting commission at the rate applicable to the International Offering as set out in the International Underwriting Agreement, and such commission will be paid to the International Underwriters, and not the Hong Kong Underwriters. Our Company may also at its sole discretion pay the International Underwriters an additional incentive fee of up to 1.0% of the aggregate Offer Price in respect of all the Offer Shares offered under the Global Offering (including pursuant to the exercise of the Over-allotment Option).

We will pay the Sole Sponsor US\$0.5 million (approximately HK\$3.9 million) as the sponsor fee.

The aggregate commissions and fees (including the discretionary incentive fee), together with the sponsor fee, Stock Exchange listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering paid and payable by us, are estimated to amount to approximately RMB86.8 million in total (based on the mid-point of our indicative Offer Price range for the Global Offering, and assuming the Over-allotment Option is not exercised).

Indemnity

Each of Our Company and the Controlling Shareholders has agreed to, jointly and severally, indemnify, among others, each of the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company and any of the Controlling Shareholders of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in our Company

Save for their obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters is interested, legally or beneficially, directly or indirectly, in any Shares or other securities in our Company or any other member of the Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any Shares or other securities in our Company or any other member of the Group.

UNDERWRITING

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliates may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, amongst others, the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, the International Underwriters would severally and not jointly, agree to procure purchasers for, or to purchase, the International Offering Shares.

The Over-allotment Option Grantor will grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilisation Manager on behalf of the International Underwriters and in consultation with the Joint Global Coordinators, during the 30-day period from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantor to sell up to an aggregate of 112,500,000 additional existing Shares, representing approximately 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price to, among other things, cover over-allocations, if any, in the International Offering.

Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option and Stabilisation

Details of the arrangements relating to the Over-allotment Option and stabilisation are set forth in the section headed “Structure of the Global Offering” in this prospectus.

Sponsor’s Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Activities by Syndicate Members

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

UNDERWRITING

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilisation Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 75,000,000 Offer Shares (subject to reallocation) in Hong Kong as described in the section headed “The Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of initially 675,000,000 Shares (subject to reallocation and the Over-allotment Option), (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S (including to professional and institutional investors in Hong Kong).

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest, if qualified to do so, for International Offering Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offering Shares to institutional and professional investors and other investors expected to have a sizable demand for the International Offering Shares in Hong Kong and other jurisdictions outside the United States in accordance with Regulation S or in the United States to QIBs in reliance on Rule 144A or another available exemption. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offering Shares. Prospective investors will be required to specify the number of International Offering Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the paragraph headed “— The Hong Kong Public Offering — Reallocation” in this section, and in the case of the International Offering only, the Over-allotment Option as described in the paragraph headed “— The International Offering — Over-allotment Option” in this section.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 75,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Shares between (i) the International Offering; and (ii) the Hong Kong Public Offering, the Hong Kong Public Offer Shares will represent approximately 2.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “— Hong Kong Underwriting Agreement — Conditions of the Hong Kong Public Offering” in this section.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than

STRUCTURE OF THE GLOBAL OFFERING

others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less.
- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 37,500,000 Offer Shares being 50% of the 75,000,000 Offer Shares initially available under the Hong Kong Public Offering are liable to be rejected.

Reallocation

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 225,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering.
- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 300,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering.
- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 375,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. If either the Hong Kong Public Offering or the International Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate any or all unsubscribed Offer Shares from such offering to the other, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he has been or will be placed or allocated Offer Shares under the International Offering.

Our Company, our Directors and the Hong Kong Public Offer Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares in the International Offering and to identify and reject indications of interest in the International Offering from investors who have received Shares in the Hong Kong Public Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.54 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “— Pricing of the Global Offering” in this section, is less than the maximum price of HK\$2.54 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of 675,000,000 Offer Shares, assuming the Over-allotment Option is not exercised, representing 90% of the total number of Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “— Pricing of the Global Offering” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “— The Hong Kong Public Offering — Reallocation” in this section, the exercise of the Over-allotment Option in whole or in part described in the paragraph headed “— The International Offering — Over-allotment Option” in this section, and any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of the Joint Global Coordinators.

Over-allotment Option

It is expected that the Over-allotment Option Grantor will grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilisation Manager on behalf of the International Underwriters and in consultation with the Joint Global Coordinators at any time within 30 days from the last date for lodging applications under the Hong Kong Public Offering. Under the Over-allotment Option, the Stabilisation Manager or its agent will have the right to require the Over-allotment Option Grantor to sell up to an aggregate of 112,500,000 additional existing Shares, representing 15% of the Offer Shares initially available under the Global Offering to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.75% of our enlarged issued share capital following the completion of the Global Offering (assuming that the options granted under the Pre-IPO Share Option Scheme are not exercised and that no Shares are granted under the Share Award Scheme). These Offer Shares will be issued at the Offer Price. An announcement will be made if the Over-allotment Option is exercised.

Stock Borrowing Arrangement

To facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilisation Manager may choose to borrow, whether on its own or through its affiliates, up to 112,500,000 Offer Shares, representing 15% of the Offer Shares (being the maximum number of Offer Shares which may be sold upon exercise of the Over-allotment Option), from the Over-allotment Option Grantor to cover over-allocations through the stock borrowing arrangement under the Stock Borrowing Agreement, or acquire Shares from other sources, including by exercising the Over-allotment Option.

If the Stock Borrowing Agreement is entered into, it will only be effected by the Stabilisation Manager or its agent for settlement of over-allocations in the International Offering, and the stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Offer Shares so borrowed must be returned to the Over-allotment Option Grantor or its nominees on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been sold. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules, and regulatory requirements. No payment will be made to the Over-allotment Option Grantor by the Stabilisation Manager or its agent in relation to such stock borrowing arrangement.

STRUCTURE OF THE GLOBAL OFFERING

PRICING OF THE GLOBAL OFFERING

Determining the Offer Price

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Tuesday, 21 February 2017 and in any event no later than Monday, 27 February 2017, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor) and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

Offer Price range

The Offer Price will not be more than HK\$2.54 per Offer Share and is expected to be not less than HK\$1.98 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Reduction in indicative Offer Price range and/or number of Offer Shares

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.yuhuachina.com) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Over-allotment Option Grantor), will be fixed within such revised Offer Price range.

Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may, at its discretion, reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Shares comprised in the

STRUCTURE OF THE GLOBAL OFFERING

Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting commissions including discretionary incentive fee, brokerage, SFC transaction levy, Stock Exchange trading fees and other expenses paid and payable by our Company in relation to the Global Offering) are estimated to be approximately HK\$1,405.4 million, assuming an Offer Price per Share of HK\$1.98, or approximately HK\$1,811.5 million, assuming an Offer Price per Share of HK\$2.54.

Announcement of Offer Price and basis of allocations

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Monday, 27 February 2017 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.yuhuachina.com).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” in this prospectus.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for Offer Shares will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be sold pursuant to the exercise of the Over-allotment Option);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company (for itself and on behalf of the Over-allotment Option Grantor) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), on or around 5:00 p.m. on Monday, 27 February 2017, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public

STRUCTURE OF THE GLOBAL OFFERING

Offering will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Monday, 27 February 2017 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 28 February 2017 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, CLSA Limited, as Stabilisation Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate Shares or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilisation Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilisation Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilisation Manager will consider, among other things, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilising transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of our Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilisation Manager, its affiliates or any person acting for it to conduct any such stabilising activity, which, if commenced, will be done at the absolute discretion of the Stabilisation Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering. The number of our Shares that may be over-allocated will not exceed the number of our Shares that may be sold under the Over-allotment Option, namely, 112,500,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

The Stabilisation Manager, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the Stabilisation period:

- (i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (ii) in connection with any action described in paragraph (i) above:
 - (A) (1) over-allocate the Shares; or

STRUCTURE OF THE GLOBAL OFFERING

- (2) sell or agree to sell the Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Shares in order to close out any position established under paragraph (A) above;
- (C) sell or agree to sell any of the Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or
- (D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B), or (ii)(C) above.

The Stabilisation Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilisation Manager, its affiliates or any person acting for them, which may include a decline in the market price of the Shares.

Stabilisation cannot be used to support the price of the Shares for longer than the Stabilisation period, which begins on the Listing Date and ends on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. The stabilising period is expected to end on 23 March 2017, after which an announcement will be made pursuant to the Securities and Futures (Price Stabilising) Rules (Cap. 571W of the Laws of Hong Kong) made under the SFO. After this date, no further stabilising action may be taken, and demand for the Shares, and therefore the market price, could fall.

Any stabilising action taken by the Stabilisation Manager, its affiliates or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilising period. Stabilising bids for or market purchases of our Shares by the Stabilisation Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for our Shares by purchasers.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, our Shares and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 28 February 2017, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 28 February 2017. Our Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares is 6169.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offering Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** Service Provider at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the U.S. and not a U.S. person (within the meaning of Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- a close associate (as defined in the Listing Rules) of any of the above; or

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

The Company, the Joint Global Coordinators and the designated **White Form eIPO** Service Provider (where applicable) or their respective agents have full discretion to reject or accept any application, in full or in part, without giving any reason.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Thursday, 16 February 2017 until 12:00 noon, Tuesday, 21 February 2017 from:

- (i) the following office of the Hong Kong Underwriters:

| Hong Kong Underwriters | Address |
|---------------------------------------|--------------------------------------------------------------------------------|
| CLSA Limited | 18/F, One Pacific Place 88 Queensway Hong Kong |
| Merrill Lynch Far East Limited | 55/F Cheung Kong Center 2 Queen's Road Central Central Hong Kong |
| CCB International Capital Limited | 12/F CCB Tower 3 Connaught Road Central Central Hong Kong |
| First Capital Securities Limited | Unit 4512, 45/F, The Center 99 Queen's Road Central Central Hong Kong |
| Orient Securities (Hong Kong) Limited | 28th and 29th Floor 100 Queen's Road Central Hong Kong |

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(ii) any of the following branches and sub-branches of the receiving bank(s):

Standard Chartered Bank (Hong Kong) Limited

| District | Branch Name | Address |
|------------------|------------------------|------------------------------------------------------------------------------------|
| Hong Kong Island | Des Voeux Road Branch | Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central |
| Kowloon | Hennessy Road Branch | 399 Hennessy Road, Wanchai |
| | Kwun Tong Branch | G/F, 414 Kwun Tong Road, Kowloon |
| | Mei Foo Stage I Branch | G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok |
| New Territories | Maritime Square Branch | Shop 308E, Level 3, Maritime Square, Tsing Yi |
| | Shatin Plaza Branch | Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin |
| | Tseung Kwan O Branch | Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m., Thursday, 16 February 2017 until 12:00 noon, Tuesday, 21 February 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "HORSFORD NOMINEES LIMITED—YUHUA EDUCATION PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Thursday, 16 February 2017 – 9:00 a.m. to 5:00 p.m.

Friday, 17 February 2017 – 9:00 a.m. to 5:00 p.m.

Saturday, 18 February 2017 – 9:00 a.m. to 1:00 p.m.

Monday, 20 February 2017 – 9:00 a.m. to 5:00 p.m.

Tuesday, 21 February 2017 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 21 February 2017, the last application day or such later time as described in the paragraph headed "— 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/ or the Joint Global Coordinators (or their agents or nominees), as agent of our Company, to execute any documents

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank(s), the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the U.S. (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

paragraph headed “— 14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection” in this section to collect the share certificate(s) and/or refund cheque(s) in person;

- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE **WHITE FORM eIPO** SERVICE

General

Individuals who meet the criteria in the paragraph headed “— 2. Who Can Apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the **White Form eIPO**

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m., Thursday, 16 February 2017 until 11:30 a.m., Tuesday, 21 February 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Tuesday, 21 February 2017 or such later time under the paragraph headed “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self- serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2.0 for each “CHINA YUHUA EDUCATION CORPORATION LIMITED” White Form eIPO application submitted via the website www.eipo.com.hk to support the funding of “Source of Dongjiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the term and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
 - agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
 - agree to disclose your personal data to our Company, the Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
 - agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
 - agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Public Offer Shares. Instructions for more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 16 February 2017 – 9:00 a.m. to 8:30 p.m.⁽¹⁾

Friday, 17 February 2017 – 8:00 a.m. to 8:30 p.m.⁽¹⁾

Saturday, 18 February 2017 – 8:00 a.m. to 1:00 p.m.⁽¹⁾

Monday, 20 February 2017 – 8:00 a.m. to 8:30 p.m.⁽¹⁾

Tuesday, 21 February 2017 – 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 16 February 2017 until 12:00 noon on Tuesday, 21 February 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 21 February 2017, the last application day or such later time as described in the paragraph headed “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank(s), the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 21 February 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- (i) an account number; or
- (ii) some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- (i) the principal business of that company is dealing in securities; and
- (ii) you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- (i) control the composition of the board of directors of the company;
- (ii) control more than half of the voting power of the company; or
- (iii) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

See the section headed “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus for further details regarding the Offer Price.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (i) a tropical cyclone warning signal number 8 or above; or
- (ii) a “black” rainstorm warning,

in force in Hong Kong at any time between 9 : 00 a.m. and 12:00 noon on Tuesday, 21 February 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 21 February 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Monday, 27 February 2017 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on our Company’s website at www.yuhuachina.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- (i) in the announcement to be posted on our Company’s website at www.yuhuachina.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Monday, 27 February 2017;
- (ii) from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, 27 February 2017 to 12:00 midnight on Sunday, 5 March 2017;
- (iii) by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 27 February 2017 to Thursday, 2 March 2017; or
- (iv) in the special allocation results booklets which will be available for inspection during opening hours from Monday, 27 February 2017 to Wednesday, 1 March 2017 at all the receiving bank designated branches and sub-branches.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offering Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$2.54 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Hong Kong Underwriting Agreement — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, 27 February 2017.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Part of the Hong Kong identity card number/passport number, provided by you or the first- named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, 27 February 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 28 February 2017 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 27 February 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 27 February 2017, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 27 February 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Application Form on Monday, 27 February 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS Investor Participant)*

For Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph headed "— 11. Publication of Results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 27 February 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

- (iii) *If you apply through the White Form eIPO service*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 27 February 2017, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 27 February 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

- (iv) *If you apply via electronic application instructions to HKSCC*

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 27 February 2017, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed “— 11. Publication of Results” in this section on Monday, 27 February 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 27 February 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Monday, 27 February 2017. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 27 February 2017.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the Directors and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

16 February 2017

The Directors
China YuHua Education Corporation Limited
CITIC CLSA Capital Markets Limited

Dear Sirs,

We report on the financial information of China YuHua Education Corporation Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the combined balance sheets as at 31 August 2014, 2015 and 2016, the balance sheet of the Company as at 31 August 2016, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 August 2014, 2015 and 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the Directors and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 16 February 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 25 April 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 2 of Section II headed "Reorganisation" below, which was completed on 7 September 2016, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No statutory audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The statutory audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The details of the statutory auditors of these companies are set out in Note 2 of Section II.

The Directors have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Combined Financial Statements"). The Directors are responsible for the preparation of the Underlying Combined Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Combined

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

Financial Statements in accordance with International Standards on Auditing (the “ISAs”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Combined Financial Statements, with no adjustment made thereon, and on the basis set out in Note 3 of Section II below and the accounting policies set out in Note 4 of Section II below.

Directors' Responsibility for the Financial Information

The Directors are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 3 of Section II below and in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Opinion

In our opinion, the financial information gives, for the purpose of this report, and presented on the basis set out in Note 3 of Section II below, a true and fair view of the financial position of the Company as at 31 August 2016 and of the combined financial position of the Group as at 31 August 2014, 2015 and 2016, and of the Group's combined financial performance and cash flows for the Relevant Periods.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the Directors as at 31 August 2014, 2015 and 2016, and for the years ended 31 August 2014, 2015 and 2016 (the "Financial Information"), presented on the basis set out in Note 3 below.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

| | Note | Year ended 31 August | | |
|---------------------------------------------------------------|------|-----------------------|----------------------|-----------------------|
| | | 2014 | 2015 | 2016 |
| | | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 7 | 599,337 | 697,706 | 781,331 |
| Cost of revenue | 10 | (332,495) | (379,404) | (375,133) |
| Gross profit | | <u>266,842</u> | <u>318,302</u> | <u>406,198</u> |
| Selling expenses | 10 | (4,010) | (4,395) | (4,196) |
| Administrative expenses | 10 | (46,256) | (54,283) | (70,421) |
| Other income | 8 | 7,864 | 9,534 | 6,442 |
| Other gains/(losses) — net | 9 | 874 | (153,645) | (337) |
| Operating profit | | <u>225,314</u> | <u>115,513</u> | <u>337,686</u> |
| Finance income | 12 | 2,820 | 3,612 | 1,328 |
| Finance expenses | 12 | (20,306) | (27,925) | (27,338) |
| Finance expenses — net | | <u>(17,486)</u> | <u>(24,313)</u> | <u>(26,010)</u> |
| Profit before income tax | | <u>207,828</u> | <u>91,200</u> | <u>311,676</u> |
| Income tax expense | 13 | — | — | — |
| Profit for the year | | <u>207,828</u> | <u>91,200</u> | <u>311,676</u> |
| Other comprehensive income | | — | — | — |
| Total comprehensive income | | <u><u>207,828</u></u> | <u><u>91,200</u></u> | <u><u>311,676</u></u> |
| Profit and total comprehensive income attributable to: | | | | |
| Owner of the Company | | <u><u>207,828</u></u> | <u><u>91,200</u></u> | <u><u>311,676</u></u> |

COMBINED BALANCE SHEETS

| | Note | As at 31 August | | |
|----------------------------------------------------------------------|-------|------------------|------------------|------------------|
| | | 2014 | 2015 | 2016 |
| | | RMB'000 | RMB'000 | RMB'000 |
| Assets | | | | |
| Non-current assets | | | | |
| Prepaid land lease payments | 15 | 224,872 | 230,647 | 224,693 |
| Property, plant and equipment | 16 | 1,299,056 | 1,408,828 | 1,465,026 |
| Intangible assets | 17 | 1,171 | 1,474 | 1,792 |
| Other non-current assets | 18 | 22,827 | 24,097 | 20,587 |
| Total non-current assets | | 1,547,926 | 1,665,046 | 1,712,098 |
| Current assets | | | | |
| Trade and other receivables | 19 | 9,706 | 18,377 | 11,324 |
| Financial instruments at fair value through profit or loss | 20 | — | 60,245 | — |
| Cash and cash equivalents | 21(a) | 259,440 | 154,339 | 304,986 |
| Restricted cash | 21(b) | — | 58,000 | — |
| Total current assets | | 269,146 | 290,961 | 316,310 |
| Total assets | | 1,817,072 | 1,956,007 | 2,028,408 |
| Equity | | | | |
| Equity attributable to owner of the Company | | | | |
| Combined capital | | — | — | 65 |
| Reserves | 24 | 260,802 | 298,607 | 386,557 |
| Retained earnings | | 245,905 | 299,300 | 523,026 |
| Total equity | | 506,707 | 597,907 | 909,648 |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Borrowings | 27 | — | 140,000 | 195,000 |
| Other non-current liabilities | 28 | 62,751 | 54,574 | 37,898 |
| Total non-current liabilities | | 62,751 | 194,574 | 232,898 |
| Current liabilities | | | | |
| Accruals and other payables | 25 | 670,102 | 209,979 | 156,669 |
| Deferred revenue | 26 | 557,512 | 591,547 | 609,193 |
| Borrowings | 27 | 20,000 | 362,000 | 120,000 |
| Total current liabilities | | 1,247,614 | 1,163,526 | 885,862 |
| Total liabilities | | 1,310,365 | 1,358,100 | 1,118,760 |
| Total equity and liabilities | | 1,817,072 | 1,956,007 | 2,028,408 |

BALANCE SHEET OF THE COMPANY

| | | As at 31 August |
|----------------------------------------------------|------|-----------------|
| | Note | 2016 |
| | | RMB'000 |
| Assets | | |
| Non-current assets | | |
| Investments in subsidiaries | | — |
| Total non-current assets | | — |
| Current assets | | |
| Trade and other receivables | | 2,380 |
| Total current assets | | 2,380 |
| Total assets | | 2,380 |
| Equity and liabilities | | |
| Equity attributable to owner of the Company | | |
| Share capital | 23 | 65 |
| Accumulated losses | | (6,943) |
| Total deficit | | (6,878) |
| Liabilities | | |
| Current liabilities | | |
| Accruals and other payables | | 9,258 |
| Total current liabilities | | 9,258 |
| Total liabilities | | 9,258 |
| Total deficit and liabilities | | 2,380 |

COMBINED STATEMENTS OF CHANGES IN EQUITY

| | Note | Attributable to Owner of the Company | | | | Total |
|---------------------------------------------------------------------|------|--------------------------------------|------------------------------|----------------------------------------|-------------------|---------|
| | | Combined capital (Note 23) | Capital reserve (Note 24) | Statutory surplus reserve (Note 24) | Retained earnings | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 September 2013 | | — | 130,000 | 57,854 | 91,025 | 278,879 |
| Comprehensive income | | | | | | |
| Profit for the year | | — | — | — | 207,828 | 207,828 |
| Transactions with Owner in his capacity as owner | | | | | | |
| Capital contribution from Owner | | — | 20,000 | — | — | 20,000 |
| Profit appropriation to statutory surplus reserves | 24 | — | — | 52,948 | (52,948) | — |
| Total transactions with Owner in his capacity as owner | | — | 20,000 | 52,948 | (52,948) | 20,000 |
| At 31 August 2014 | | — | 150,000 | 110,802 | 245,905 | 506,707 |
| At 1 September 2014 | | — | 150,000 | 110,802 | 245,905 | 506,707 |
| Comprehensive income | | | | | | |
| Profit for the year | | — | — | — | 91,200 | 91,200 |
| Transactions with Owner in his capacity as owner | | | | | | |
| Profit appropriation to statutory surplus reserves | 24 | — | — | 37,805 | (37,805) | — |
| Total transactions with Owner in his capacity as owner | | — | — | 37,805 | (37,805) | — |
| At 31 August 2015 | | — | 150,000 | 148,607 | 299,300 | 597,907 |
| At 1 September 2015 | | — | 150,000 | 148,607 | 299,300 | 597,907 |
| Comprehensive income | | | | | | |
| Profit for the year | | — | — | — | 311,676 | 311,676 |
| Transactions with Owner in his capacity as owner | | | | | | |
| Capital contribution from Owner | | 65 | — | — | — | 65 |
| Profit appropriation to statutory surplus reserves | | — | — | 87,950 | (87,950) | — |
| At 31 August 2016 | | 65 | 150,000 | 236,557 | 523,026 | 909,648 |

COMBINED STATEMENTS OF CASH FLOWS

| | Note | Year ended 31 August | | |
|-----------------------------------------------------------------------------------------------------|-------|----------------------|------------------|----------------|
| | | 2014 | 2015 | 2016 |
| | | RMB'000 | RMB'000 | RMB'000 |
| Cash flows from operating activities | | | | |
| Cash generated from operations | 29(a) | 465,087 | 195,264 | 446,793 |
| Interest paid | | (19,692) | (26,960) | (26,650) |
| Net cash generated from operating activities | | 445,395 | 168,304 | 420,143 |
| Cash flows from investing activities | | | | |
| Disposal of a subsidiary, net of cash paid | 29(b) | — | — | (2,210) |
| Purchases of property, plant and equipment | | (175,737) | (176,652) | (162,509) |
| Purchases of prepaid land lease payments | | (64,224) | (11,540) | — |
| Proceeds from disposal of property, plant and equipment | | 4,394 | 7 | 416 |
| Proceeds from disposal of prepaid land lease payments | | 2,636 | — | 1,044 |
| Purchases of intangible assets | | (309) | (544) | (554) |
| Purchases of financial instruments at fair value through profit or loss | | (2,600) | (100,000) | (45,000) |
| Disposal of financial instruments at fair value through profit or loss | | 18,596 | 40,142 | 106,732 |
| Restricted bank deposits | | 90,000 | (58,000) | 58,000 |
| Interest received | | 3,437 | 2,927 | 2,013 |
| Net cash used in investing activities | | (123,807) | (303,660) | (42,068) |
| Cash flows from financing activities | | | | |
| Capital contribution from Owner | | 20,000 | — | 65 |
| Proceeds from borrowings | | 70,000 | 599,000 | 280,000 |
| Repayments of borrowings | | (357,000) | (117,000) | (467,000) |
| Borrowings from Owner | 31(a) | 75,524 | 96,709 | 65,533 |
| Repayments of borrowings to Owner | 31(a) | (92,749) | (560,254) | (58,579) |
| Borrowings from related parties | 31(a) | 10,000 | 347,000 | 80,014 |
| Repayments of borrowings to related parties | 31(a) | — | (347,000) | (90,014) |
| Borrowings from third parties | | 25,000 | 36,800 | 4,000 |
| Repayments of borrowings to third parties | | (17,250) | (25,000) | (40,800) |
| Professional expenses paid in connection with the issuance of new shares during the listing process | | — | — | (693) |
| Net cash (used)/generated in financing activities | | (266,475) | 30,255 | (227,474) |
| Net increase/(decrease) in cash and cash equivalents | | 55,113 | (105,101) | 150,601 |
| Cash and cash equivalents at beginning of year | | 204,327 | 259,440 | 154,339 |
| Exchange gains on cash and cash equivalent | | — | — | 46 |
| Cash and cash equivalents at end of year | | 259,440 | 154,339 | 304,986 |

II NOTES TO THE FINANCIAL INFORMATION

1 General information

The Company was incorporated in the Cayman Islands on 25 April 2016 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") provide private formal full-coverage non-vocational education services in Henan province of People's Republic of China (the "PRC") (collectively referred to as the "Listing Business").

The ultimate holding company of the Company is GuangYu Investment Holdings Limited. The ultimate controlling party of the Group is Mr. Li Guangyu, who is also the executive Director and chairman of the Board of the Company (the "Owner").

2 Reorganisation

Prior to the incorporation of the Company and the completion of the Reorganisation, the main operating activities of the Group were carried out by YuHua Investment Management Co., Ltd ("YuHua Investment Management"), Zhengzhou YuHua Education Investments Co., Ltd ("Zhengzhou YuHua Education Investments"), Zhengzhou Zhongmei Education Investments Co., Ltd ("Zhengzhou Zhongmei Education Investments") and their wholly owned subsidiaries (collectively the "Consolidated Affiliated Entities") which were incorporated in the PRC and owned by the Owner, Ms. Li Hua, the daughter of the Owner, and Ms. Liu Chunhua, the wife of the Owner under an act in concert arrangement of which, all parties under this arrangement in the past, present and future to act at the consent of Mr. Li Guangyu to have the ultimately control over YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments (collectively the "PRC Investment Holding Companies") respectively.

This arrangement was reaffirmed by an act in concert confirmation signed on 18 August 2016 by the Owner, Ms. Li Hua and Ms. Liu Chunhua. In preparation for the initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the following Reorganisation activities to transfer the Listing Business to the Company.

- (i) On 25 April 2016, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorised share capital of US\$50,000 divided into 50,000 shares with par value of US\$1 each. On the same day, GuangYu Investment Holdings Limited ("GuangYu Investment" a BVI company wholly-owned by Owner) acquired 1 share from the incorporator at par value. The Company then issued and allotted an additional 7,999 shares at par value to GuangYu Investment and an aggregate of 2,000 shares at par value to five BVI incorporated companies, which held for shares for GuangYu Investment as nominees on behalf of the Owner.

On 7 July 2016, these five BVI companies transferred the entirety of their respective interests in the issued share capital of the Company to GuangYu Investment at par value. Upon completion of these transfers, GuangYu Investment owned all of the issued share capital of the Company.
- (ii) On 28 April 2016, the Company established China YuHua Education Investment Limited ("BVI YuHua") as a limited liability company under the laws of the British Virgin Islands (BVI) with an authorised share capital of US\$50,000 divided into 50,000 shares with par value of US\$1 each, one share of which was issued and allotted to the Company at par value on the same date.
- (iii) On 12 May 2016, BVI YuHua established China HongKong Yuhua Education Limited ("HongKong Yuhua") as a limited liability company under the laws of Hong Kong with a share capital of HK\$1,000. 1,000 shares were issued and allotted to BVI YuHua at par value.

- (iv) On 22 July 2016, Xizang Yuanpei Information Technology Management Company Limited (“Xizang Yuanpei”) was established by HongKong Yuhua with a capital registration of US\$ 500,000.
- (v) On 8 August 2016, Henan Hantang Education Management Company Limited (“Henan Hantang”) was established by HongKong Yuhua with a capital registration of US\$500,000.

Due to the regulatory restrictions on foreign ownership in the schools in the PRC, the Group conducts a substantial portion of the business through Consolidated Affiliated Entities in the PRC. A wholly-owned subsidiary of the Company, Xizang Yuanpei, has entered into the Contractual Arrangements with the Consolidated Affiliated Entities and their respective equity holders, which, effective from 7 September 2016, enable Xizang Yuanpei and the Group to:

- exercise effective financial and operational control over the Consolidated Affiliated Entities;
- exercise equity holder’s voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the corporate management and educational services, intellectual property licensing services as well as technical and business support services provided by Xizang Yuanpei. Such services include the provision of advisory services and recommendations on asset and business operation, debt restructuring, material contracts, and mergers and acquisitions; research and development on educational software and course materials; employee on-the-job management training; technology development, transfer and consulting services; public relation services; market survey, research and consulting services; market development and planning services; human resources and internal information management; website development, upgrade and ordinary maintenance services; sales of proprietary products; software, trademark, domain name and know-how and/or the use of related intellectual property rights; and other additional services as the parties may mutually agree from time to time.
- obtain an irrevocable and exclusive right to purchase all of equity interests in the PRC Investment holding Companies from the respective equity holders at nil consideration or a minimum purchase price permitted under PRC laws and regulations. Xizang Yuanpei may exercise such options at any time until it has acquired all equity interests in and/or all assets of the PRC Investment Holding Companies permitted under PRC laws and regulations. In addition, the PRC Investment Holding Companies are not allowed to sell, transfer, or dispose any assets, or make any distributions to their equity holders without prior consent of Xizang Yuanpei.
- obtain a pledge over the entire equity interest of PRC Investment Holding Companies from their equity holders to secure performance of the obligations of the PRC Investment Holding Companies and their respective subsidiaries under the Contractual Arrangements.

Upon completion of the above Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group. As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

| Name of subsidiaries | Country/Place and date of incorporation/ establishment | Paid-in capital | Attributable equity interests of the Group | | | Principal activities | Places of operation | Statutory auditors |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------|--------------------------------------------|------|------|-------------------------------|---------------------|--------------------|
| | | | 31 August | | | | | |
| | | | 2014 | 2015 | 2016 | | | |
| Directly held: | | | | | | | | |
| China YuHua Education Investment Limited (中國宇華教育投資有限公司) | BVI/28 April 2016 | US\$1.00 | — | — | 100% | Holding company | BVI | Note (1) |
| Indirectly held: | | | | | | | | |
| China HongKong Yuhua Education Limited (中國香港宇華教育有限公司) | Hong Kong/12 May 2016 | HK\$1,000.00 | — | — | 100% | Holding company | Hong Kong | Note (1) |
| Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司) | PRC/22 July 2016 | US\$500,000.00 | — | — | 100% | Holding company | PRC | Note (1) |
| Henan Hantang Education Management Company Limited (河南漢唐教育管理有限公司) | PRC/8 August 2016 | US\$500,000.00 | — | — | 100% | Holding company | PRC | Note (1) |
| YuHua Investment Management Co., Ltd. * (宇華投資管理有限公司) | PRC/23 November 1993 | RMB 50,000,000 | 100% | 100% | 100% | Holding company | PRC | Note (1) |
| Zhengzhou YuHua Education Investments Co., Ltd. * (鄭州宇華教育投資有限公司) | PRC/9 April 2004 | RMB 50,000,000 | 100% | 100% | 100% | Holding company | PRC | Note (1) |
| Zhengzhou Zhongmei Education Investments Co., Ltd. * (鄭州中美教育投資有限公司) | PRC/21 July 2011 | RMB 50,000,000 | 100% | 100% | 100% | Holding company | PRC | Note (1) |
| Zhengzhou YuHua Elite School * (鄭州市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch” | PRC/1 September 2001 | RMB 20,000,000 | 100% | 100% | 100% | High school and middle school | PRC | Note (2) |
| Zhengzhou YuHua Elite Primary School * (鄭州市宇華實驗小學) Formerly known as “the Foreign Language Primary School of the Affiliated High School of Peking University, Henan Branch” | PRC/1 September 2005 | RMB 10,000,000 | 100% | 100% | 100% | Primary school | PRC | Note (2) |
| Zhengzhou YuHua Elite Bilingual Kindergarten * (鄭州市宇華實驗雙語幼兒園) Formerly known as “the Bilingual Kindergarten of the Affiliated High School of Peking University, Henan Branch” | PRC/ 1 September 2005 | RMB 5,000,000 | 100% | 100% | 100% | Kindergarten | PRC | Note (2) |

| Name of subsidiaries | Country/Place and date of incorporation/ establishment | Paid-in capital | Attributable equity interests of the Group | | | Principal activities | Places of operation | Statutory auditors |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------|--------------------------------------------|------|------|------------------------------------------------|---------------------|--------------------|
| | | | 31 August | | | | | |
| | | | 2014 | 2015 | 2016 | | | |
| Zhengzhou Technology and Business University * (鄭州工商學院) Formerly known as “Wanfang College of Science & Technology Henan Polytechnic University” | PRC/9 April 2013 | RMB 100,000,000 | 100% | 100% | 100% | University | PRC | Note (2) |
| Jiaozuo YuHua Elite School * (焦作市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Jiaozuo Campus” | PRC/18 July 2011 | RMB 10,000,000 | 100% | 100% | 100% | High school Middle school Primary school | PRC | Note (2) |
| Xingyang YuHua Shengshi Elite School * (滎陽宇華盛世實驗學校) Formerly known as “Zhengzhou Yizhong Middle School” | PRC/15 June 2015 | RMB 1,000,000 | 100% | 100% | 100% | Middle school | PRC | Note (2) |
| Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten * (焦作市城鄉一體化示範區宇華實驗幼兒園) Formerly known as “Jiaozuo New District Zhongmei Bilingual Kindergarten” | PRC/13 January 2012 | RMB 1,000,000 | 100% | 100% | 100% | Kindergarten | PRC | Note (2) |
| Xingyang YuHua Elite Kindergarten * (滎陽市宇華實驗幼兒園) Formerly known as “Xingyang Zhongmei Bilingual Kindergarten” | PRC/15 December 2011 | RMB 1,000,000 | 100% | 100% | 100% | Kindergarten | PRC | Note (2) |
| Hebi Qibin District YuHua Elite Bilingual Kindergarten * (鶴壁市淇濱區宇華實驗雙語幼兒園) Formerly known as “Hebi Qibin District Zhongmei Bilingual Kindergarten” | PRC/12 December 2011 | RMB 1,000,000 | 100% | 100% | 100% | Kindergarten | PRC | Note (2) |
| Xinxiang Weibin District YuHua Elite Kindergarten * (新鄉市衛濱區宇華實驗幼兒園) Formerly known as “Xinxiang Weibin District Zhongmei Bilingual Kindergarten” | PRC/15 December 2011 | RMB 1,000,000 | 100% | 100% | 100% | Kindergarten | PRC | Note (2) |
| Kaifeng YuHua Elite School * (開封市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Kaifeng Campus” | PRC/7 September 2012 | RMB 3,000,000 | 100% | 100% | 100% | Middle school Primary school | PRC | Note (2) |

| Name of subsidiaries | Country/Place and date of incorporation/ establishment | Paid-in capital | Attributable equity interests of the Group | | | Principal activities | Places of operation | Statutory auditors |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------|--------------------------------------------|------|------|---------------------------------|---------------------|--------------------|
| | | | 31 August | | | | | |
| | | | 2014 | 2015 | 2016 | | | |
| Luohe YuHua Elite School * (漯河市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Luohe Campus” | PRC/23 August 2013 | RMB 10,000,000 | 100% | 100% | 100% | Middle school Primary school | PRC | Note (2) |
| Luohe YuHua Elite Bilingual Kindergarten * (漯河市宇華實驗雙語幼兒園) Formerly known as “Luohe Zhongmei Bilingual Kindergarten” | PRC/29 September 2013 | RMB 1,000,000 | 100% | 100% | 100% | Kindergarten | PRC | Note (2) |
| Xuchang YuHua Elite School * (許昌宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Xuchang Campus” | PRC/1 November 2014 | RMB 3,000,000 | — | 100% | 100% | Middle school Primary school | PRC | Note (2) |
| Jiyuan YuHua Elite School * (濟源市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Jiyuan Campus” | PRC/1 September 2014 | RMB 1,000,000 | — | 100% | 100% | Middle school Primary school | PRC | Note (2) |
| Xuchang Weidu District YuHua Elite Bilingual Kindergarten* (許昌市魏都區宇華實驗雙語幼兒園) Formerly known as “Xuchang Zhongmei Bilingual Kindergarten” | PRC/7 May 2014 | RMB 1,000,000 | 100% | 100% | 100% | Kindergarten | PRC | Note (2) |
| Jiyuan YuHua Elite Bilingual Kindergarten * (濟源市宇華實驗雙語幼兒園) Formerly known as “Jiyuan Zhongmei Bilingual Kindergarten | PRC/19 September 2014 | RMB 1,000,000 | — | 100% | 100% | Kindergarten | PRC | Note (2) |

Notes:

- (1) No audited financial statements have been prepared for these companies as they are newly incorporated or not required to issue audited financial statements under statutory requirements of their respective places of incorporation.
- (2) This subsidiary had statutory accounting year end date of 31 December 2013, 2014 and 2015 and have prepared financial information as at 31 August 2014, 2015 and 2016 for the purpose of the Group's consolidation. The statutory financial statements of the subsidiary established in the PRC were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Henan Jinfang Lianhe Certified Public Accountants (河南金方聯合會計師事務所(普通合夥)) for each of the years ended 31 December 2013, 2014 and 2015.
- * The English names of certain subsidiaries referred to above represent the best effort made by management of the Company to directly translate the Chinese names as they do not register any official English names.

3 Basis of presentation

The Owner managed and controlled the Listing Business immediately before and after the Reorganisation. Pursuant to the Reorganisation, the Listing Business was transferred to and held by the Company. The Company had not been involved in any other business prior to the Reorganisation and did not have a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and no change in the Owner as the ultimate owner of the Listing Business. The combined statements of

comprehensive income, the combined statements of cash flows and the combined statements of changes in equity of the Group for each of the years ended 31 August 2014, 2015 and 2016 and the combined balance sheets of the Group as at that dates have been prepared using the financial information of the companies engaged in the Listing Business which are under the same ownership and common control of the Owner and now comprising the Group as if the current group structure had been in existence throughout and at the end of each of the Relevant Periods with the exception of companies established within the Relevant Periods which are included from their respective dates of establishment. The combined balance sheets of the Group as at 31 August 2014, 2015 and 2016 have been prepared to present the assets and liabilities of the companies engaged in the Listing Business and the companies now comprising the Group at these dates, as if the current group structure had been in existence as at these dates. For the purpose of this report, the Financial Information of the Group has been prepared on a combined basis as prescribed by Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Inter-company transactions, balances and unrealised gains/losses on transactions between the companies within the Group are eliminated on combination.

4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Basis of preparation

The principal accounting policies applied on the preparation of the Financial Information which are in accordance with the IFRSs issued by the IASB.

The preparation of the Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 6.

The Financial Information has been also prepared in accordance with the applicable requirements of the Companies Ordinance.

The Group had net current liabilities of approximately RMB569,552,000 as at 31 August 2016. The Group assesses its liquidity by its ability to generate cash from operating activities to fund its operations and borrow funds on favourable economic terms.

Historically, the Group has relied principally on both operational sources of cash and non-operational sources of financing from the Owner and related parties to fund its operations and business development. The Group's ability to continue as a going concern is dependent on management's ability to successfully execute its business plan, which includes increasing revenues while controlling operating expenses, as well as, generating operational cash flows and continuing to gain support from outside sources of financing.

Taking into account the financial resources of the Group, including the anticipated operation cash flow and Group's undrawn bank borrowings and the ability of the management in adjusting the pace of its operation expansion and controlling the operating expenses of the Group, the Directors are of the opinion that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due during next 12 months. Therefore, the Financial Information has been prepared on a going concern basis.

4.1.1 Changes in accounting policy and disclosures

All relevant standards, amendments and interpretations to the existing standards that are effective during the Relevant Periods have been adopted by the Group consistently throughout the Relevant Periods.

The following new standards, amendments to standards and interpretations have been published but are not yet effective for the annual period beginning from 1 January 2016 and which the Group has not early adopted. The Directors of the Company have already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operation. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and positions of the Group is expected when they become effective except for IFRS 9 'Financial instruments', IFRS 16 'Lease' and IFRS 15 'Revenue from contracts with customer' in which the Directors are in the process to making an assessment of the impact.

- IFRS 15, replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The directors of the Company has performed a preliminary assessment. Based on this assessment, it is noted that IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. In accordance with IFRS 15, impact of revenue recognition may arise when multiple performance obligations are identified or when performance obligation is satisfied over time. The management is in the process of reviewing relevant service income to identify types of performance obligations and assessing whether the Group has an enforceable right to payment for performance completed to date. This may have impact of amounts and timing of recognition of revenue of service income. The new standard is not expected to apply until the financial year of 2018. The financial impacts of the application of the standard and a reasonable estimate of the effect will be available once the detailed review is completed. Hence, the Group is not yet in a position to provide quantified information. The directors of the Company are also of the view that the adoption of IFRS 15 has impact on disclosures to be made in the Group's financial statements.
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value with irrevocable option at inception to present changes in fair value in other comprehensive income not recycling, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in other comprehensive income, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The Group expects that the adoption of IFRS 9 will not have a significant impact on its financial performance and position.

- IFRS 16, 'Lease'. The Group is a lessee of various properties which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 4.25 with the Group's future operating lease commitments, which are not reflected in the combined balance sheets. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the balance sheet. Instead, almost all leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's combined balance sheets. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the combined balance sheets. In the combined statement of comprehensive income, leases will be recognised in the future as depreciation of right of use assets and interest expense on lease liability and will no longer be recorded as an operating expense on a straight line basis. Therefore, during the initial period of lease term, the lease expense (asset depreciation plus interest) under the new standard is higher compared to the operating lease expense recognised under the existing standard. The new standard is not expected to apply until the financial year 2019, which will include the adjustment of prior years. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The Group's total future minimum lease payments under non-cancelable operating leases as at 31 August 2014, 2015 and 2016 are RMB38,512,000, RMB37,713,000 and RMB35,821,000 respectively.
- IAS 12, 'Income taxes'. The IASB has issued amendments to IAS 12, 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2017.
- IAS 7, 'Statement of cash flows'. The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. These amendments to IAS 7 are effective for annual periods beginning on or after 1 January 2017.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4.2 Subsidiaries

4.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group applies the predecessor values accounting to account for business combination of entities or business under common control.

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of

common control combination, to the extent of the continuation of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve.

Except for the Reorganisation and business combination under common control, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owner of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in combined statements of comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the combined statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owner in their capacity as owner. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities or transferred to another category of equity as specified/permitted by applicable IFRS.

4.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

4.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management team, including the Owner and other Directors that make strategic decisions.

4.4 Foreign currency translation*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Since the majority of the assets and operations of the Group are located in the PRC, the Financial Information is presented in RMB, which is the Company and its subsidiaries' functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statements of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined statements of comprehensive income within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the combined statements of comprehensive income within 'Other gains/(losses) — net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

4.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, leasehold improvements, motor vehicles, electronic equipment, furniture and fixtures are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statements of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|--------------------------|---------------------------------------------------|
| — Buildings | 30-50 years |
| — Leasehold improvements | Shorter of lease terms and estimated useful lives |
| — Motor vehicles | 5 years |
| — Electronic equipment | 5 years |
| — Furniture and fixture | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 4.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses) — net' in the combined statements of comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

4.6 Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire long-term interest in the usage of land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land and other direct related costs from the date when the respective rights were granted. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the lease terms as stated in the relevant land use right certificates granted for usage by the Group in the PRC or the best estimate based on the normal terms in the PRC and is recognised in the combined statements of comprehensive income.

4.7 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives varying from 5 to 10 years. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

4.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4.9 Financial assets

4.9.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 4.13 and 4.14).

4.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the combined statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the combined statements of comprehensive income within 'Other gains/(losses) — net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the combined statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

4.11 Impairment of financial assets*(a) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statements of comprehensive income. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical experience, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statements of comprehensive income.

4.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

4.13 Trade and other receivables

Trade receivables are amounts due from students of university for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

4.14 Cash and cash equivalents

In the combined statements of cash flows, cash and cash equivalents include cash at bank and on hand and short-term bank deposits with original maturities of three months or less.

4.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.16 Accruals and other payables

Accruals and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accruals and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accruals and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value

is recognised in the combined statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

4.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the combined statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4.20 Employee benefits

(a) Pension obligations

The entities within the Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(b) Housing funds

The PRC employees of the Group are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to those funds based on a certain percentage of the employee's salaries. The Group's liabilities in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing funds.

4.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

4.22 Revenue recognition

Revenue is measured at the fair value of the amounts received or receivable for the education services that we provided in the normal course of business, net of cash discounts, financial assistance and refunded tuitions.

Service income includes tuition fees and boarding fees from university, high schools, middle schools, primary schools and kindergartens of the Group.

Tuition and boarding fees received from university, high schools, middle schools, primary schools and kindergartens are generally received in advance prior to the beginning of each school year, and are initially recorded as deferred revenue. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable programme. The portion of tuition and boarding payments received from students but not earned is recorded as deferred revenue. Amounts which will be earned within one year is reflected as a current liability, and which will be earned beyond one year is reflected as a non-current liability.

4.23 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

4.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the combined statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the combined statements of comprehensive income on a straight-line basis over the expected lives of the related assets.

4.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined statements of comprehensive income on a straight-line basis over the period of the lease.

4.26 Dividend distribution

Dividend distribution to the Company's Shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's Shareholders or Directors, where appropriate.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks. Risk management is carried out by the senior management of the Group and approved by the executive Directors.

(a) Market risk

Interest rate risk

As the Group has no significant interest-bearing assets other than cash and cash equivalents, restricted cash, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings borrowed at variable rates expose the Group to cash flow interest rate risk. Borrowings borrowed at fixed rates expose the Group to fair value interest rate risk. During the Relevant Periods, the Group's borrowings bore interest at variable rates.

At 31 August 2014, 2015 and 2016, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, the Group's profit for the year would have been RMB1,170,000 higher/lower, RMB1,502,000 lower/higher and RMB62,000 lower/higher respectively.

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash and trade and other receivables shown on combined balance sheets.

As at 31 August 2014, 2015 and 2016, 90%, 49% and 52% of the Group's cash and cash equivalents and restricted cash were held in state-owned financial institutions, which management believes are of high credit quality. The rest are deposited in local banks with good reputation. Management does not expect any losses from non-performance by these counterparties.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding trade and other receivables.

The Group has no significant concentrations of credit risk. The carrying amounts of receivables included in the combined balance sheets represent the Group's maximum exposure to credit risk in relation to these financial assets. The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. The utilisation of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash

flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and bank borrowings.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 27. Generally there is no specific credit period granted by the suppliers but the related payables are normally expected to be settled within three months after receipt of goods or services.

As at 31 August 2014, 2015 and 2016, the Group has cash and cash equivalents and restricted cash of approximately RMB259,440,000, RMB212,339,000 and RMB304,986,000 respectively (Note 21(a) and 21 (b)) and trade receivables of approximately RMB396,000, RMB742,000 and RMB35,000 respectively (Note 19) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest elements computed using contracted rate based on rates at the end dates during the Relevant Periods.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|--------------------------------------------------------------------------------|---------------------|--------------------------|--------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 31 August 2014 | | | | |
| Borrowings (principal plus interests) | 20,160 | — | — | 20,160 |
| Accruals and other payables (excluding non-financial liabilities) | 648,424 | — | — | 648,424 |
| Other non-current liabilities (principal plus interests) | — | 11,000 | 61,000 | 72,000 |
| | <u>668,584</u> | <u>11,000</u> | <u>61,000</u> | <u>740,584</u> |
| At 31 August 2015 | | | | |
| Borrowings (principal plus interests) | 380,455 | 56,327 | 93,542 | 530,324 |
| Accruals and other payables (excluding non-financial liabilities) | 176,527 | — | — | 176,527 |
| Other non-current liabilities (principal plus interests) | — | 20,000 | 41,000 | 61,000 |
| | <u>556,982</u> | <u>76,327</u> | <u>134,542</u> | <u>767,851</u> |
| At 31 August 2016 | | | | |
| Borrowings (principal plus interests) | 134,597 | 86,250 | 116,508 | 337,355 |
| Accruals and other payables (excluding non-financial liabilities) | 120,343 | — | — | 120,343 |
| Other non-current liabilities (principal plus interests) | — | 41,000 | — | 41,000 |
| | <u>254,940</u> | <u>127,250</u> | <u>116,508</u> | <u>498,698</u> |

5.2 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains constant throughout the Relevant Periods.

The capital structure of the Group consists of net debt, which includes borrowings, cash and cash equivalents, and equity attributable to owner of the parent, comprising capital, reserves and retained earnings.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through raising new debts as well as redemption of the existing debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at 31 August 2014, 2015 and 2016 was as follows:

| | As at 31 August | | |
|------------------------------------|-----------------|-------|-------|
| | 2014 | 2015 | 2016 |
| The liability-to-asset ratio | 72.1% | 69.4% | 55.2% |

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 August 2014, 2015 and 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are required to be measured at fair value as at 31 August 2014, 2015 and 2016.

| | Level 2 | Level 3 |
|------------------------------------------------------------------|------------|---------------|
| | RMB'000 | RMB'000 |
| At 31 August 2014 | | |
| Assets | | |
| Financial instruments at fair value through profit or loss | — | — |
| Total assets | — | — |
| At 31 August 2015 | | |
| Assets | | |
| Financial instruments at fair value through profit or loss | 242 | 60,003 |
| Total assets | 242 | 60,003 |
| At 31 August 2016 | | |
| Assets | | |
| Financial instruments at fair value through profit or loss | — | — |
| Total assets | — | — |

The following table presents the movement in level 2 and level 3 instruments for the years ended 31 August 2014, 2015 and 2016.

| | Derivative financial instruments for interest rate swap contract (level 2) | Financial products as designed by a financial institution (level 3) |
|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| | RMB'000 | RMB'000 |
| Balance at 1 September 2013 | — | 15,800 |
| Additions | — | 2,600 |
| Settlements | — | (18,596) |
| Gains and losses recognised in profit or loss (Note 9) | — | 196 |
| Balance at 31 August 2014 | — | — |
| Total gains or losses for the year included in profit or loss, under 'Other gains/ (losses) — net' (Note 9) | — | 196 |
| Balance at 1 September 2014 | — | — |
| Additions | — | 100,000 |
| Settlements | — | (40,142) |
| Gains and losses recognised in profit or loss (Note 9) | 242 | 145 |
| Balance at 31 August 2015 | 242 | 60,003 |
| Total gains or losses for the year included in profit or loss, under 'Other gains/ (losses) — net' (Note 9) | — | 142 |
| Changes in unrealised gains or losses for the year included in profit or loss at the end of the year (Note 9) | 242 | 3 |
| Balance at 1 September 2015 | 242 | 60,003 |
| Additions | — | 45,000 |
| Settlements | (196) | (106,536) |
| Gains and losses recognised in profit or loss (Note 9) | (46) | 1,533 |
| Balance at 31 August 2016 | — | — |
| Total gains or losses for the year included in profit or loss, under 'Other gains/ (losses) — net' (Note 9) | (46) | 1,533 |

As at 31 August 2014, 2015 and 2016, the carrying amounts of the Group's financial assets, including cash and cash equivalents, restricted cash and trade and other receivables, and financial liabilities, including accruals and other payables, short-term borrowings, approximate their fair values due to the short maturities. The carrying amount of the Group's non-current borrowings approximate their fair values due to their floating interest rates they carried.

The fair value of the financial assets are fair value through profit or loss which is estimated by discounting the future cash flows at the current market interest rate available for similar financial instruments.

6 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of

causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Contractual Arrangements

The Group conducts a substantial portion of the business through the Consolidated Affiliated Entities in the PRC due to regulatory restrictions on the foreign ownership in the Group's schools in the PRC. The Group does not have any equity interest in the Consolidated Affiliated Entities. The Directors assessed whether or not the Group has control over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the consolidated affiliated entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities has rights to variable returns from its involvement with the consolidated affiliated entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities. After assessment, the Directors concluded that the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Agreements and accordingly the financial position and their operating results of the Consolidated Affiliated Entities are included in the Group's combined financial statements throughout the Relevant Periods or since the respective dates of incorporation/establishment, whichever is the shorter period.

Nevertheless, the Contractual Agreements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The Directors, based on the advice of its other legal counsel, consider that the Contractual Agreements among the Consolidated Affiliated Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Income taxes

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether our Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes our Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such determination is made.

(c) Useful life and recoverability of prepaid land lease payments

The Group's management determines the estimated useful lives and the amortisation method in determining the related amortisation charges for its prepaid land lease payments. This estimate is based on the management's experience of the actual practice of similar nature and functions and normal terms in the PRC. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of prepaid land lease payments may not be recoverable. Management will increase the amortisation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 August 2014, 2015 and 2016, the carrying amount of prepaid land lease payments are RMB224,872,000, RMB230,647,000 and RMB224,693,000 respectively. Any change in these estimates may have a material impact on the results of the Group.

7 Segment information

The Group is principally engaged in the provision of private formal education from kindergarten to university non-vocational education service in Henan province of the PRC.

The Owner and other Directors upon completion of the Reorganisation are identified as the chief operating decision-maker (the "CODM") of the Group. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The CODM considers the business from the service perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the services; (ii) the type or class of students for their services; (iii) the methods used to provide their services; and (iv) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in three different segments which are subject to different business risks and different economic characteristics and the Group's operating and reportable segments for segment reporting purpose are Kindergartens, Grade 1-12 and University respectively.

The accounting policies of the operating segments are described in Note 4.3.

For the purposes of monitoring segment performances and allocating resources between segments, segment results represent the profit before tax earned by each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities.

The Group's principal market is Henan province of the PRC, all of the Group's revenue and operating profit are derived within Henan province of the PRC, and all of the Group's operations and non-current assets are located in Henan province of the PRC. Due to the similar risks and returns, the CODM considers the Listing Business as one geographic location. Accordingly, no geographical segment information is presented.

The Group has a large number of customers, no single customer accounted for more than 10% of the Group's total revenue for the years ended 31 August 2014, 2015 and 2016.

The segment information provided to the CODM for the reportable segments for the Relevant Periods are as follows:

| | Kindergartens | Grade 1-12 | University | Unallocated | Inter-segment elimination | Total |
|---------------------------------------------------------------------------------|---------------|----------------|----------------|-----------------|------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| For the year ended 31 August 2014 | | | | | | |
| Revenue | 32,278 | 331,129 | 235,930 | — | — | 599,337 |
| Cost of revenue | (19,368) | (184,138) | (128,989) | — | — | (332,495) |
| Gross profit | 12,910 | 146,991 | 106,941 | — | — | 266,842 |
| Selling expenses | (805) | (442) | (2,763) | — | — | (4,010) |
| Administrative expenses | (3,727) | (22,772) | (8,638) | (11,119) | — | (46,256) |
| Other income | 53 | 6,143 | 1,424 | 244 | — | 7,864 |
| Other gains/(losses) — net | 752 | 547 | 25 | (450) | — | 874 |
| Operating profit | 9,183 | 130,467 | 96,989 | (11,325) | — | 225,314 |
| Finance income/(expenses) — net | 79 | (18,406) | 504 | 337 | — | (17,486) |
| Profit before income tax | 9,262 | 112,061 | 97,493 | (10,988) | — | 207,828 |
| As at 31 August 2014 | | | | | | |
| Total assets | 86,565 | 1,414,706 | 920,021 | 992,688 | (1,596,908) | 1,817,072 |
| Total liabilities | 65,545 | 1,013,209 | 324,964 | 1,330,796 | (1,424,149) | 1,310,365 |
| Other segment information | | | | | | |
| Additions to non-current assets .. | 7,649 | 203,655 | 11,612 | 6,425 | — | 229,341 |
| Depreciation and amortisation(Note 10) | (2,195) | (24,381) | (28,193) | (2,118) | — | (56,887) |
| Gains/(losses) on disposal of property, plant and equipment(Note 9) | 752 | 360 | (239) | 741 | — | 1,614 |
| Gains on disposal of prepaid land lease payments (Note 9) | — | — | 264 | — | — | 264 |

| | Kindergartens | Grade 1-12 | University | Unallocated | Inter-segment elimination | Total |
|--------------------------------------------------------------------------|---------------|----------------|-----------------|-----------------|------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| For the year ended 31 August | | | | | | |
| 2015 | | | | | | |
| Revenue | 42,525 | 374,979 | 280,202 | — | — | 697,706 |
| Cost of revenue | (24,595) | (212,381) | (142,428) | — | — | (379,404) |
| Gross profit | 17,930 | 162,598 | 137,774 | — | — | 318,302 |
| Selling expenses | (604) | (250) | (3,541) | — | — | (4,395) |
| Administrative expenses | (4,655) | (27,102) | (9,084) | (13,442) | — | (54,283) |
| Other income | — | 8,636 | 770 | 128 | — | 9,534 |
| Other (losses)/gains — net | (15) | 51 | (153,760) | 79 | — | (153,645) |
| Operating profit | 12,656 | 143,933 | (27,841) | (13,235) | — | 115,513 |
| Finance income/(expenses) — net | 54 | (5,763) | (15,738) | (2,866) | — | (24,313) |
| Profit before income tax | 12,710 | 138,170 | (43,579) | (16,101) | — | 91,200 |
| As at 31 August 2015 | | | | | | |
| Total assets | 101,409 | 1,534,792 | 1,274,102 | 1,279,451 | (2,233,747) | 1,956,007 |
| Total liabilities | 77,333 | 1,328,678 | 778,416 | 1,233,661 | (2,059,988) | 1,358,100 |
| Other segment information | | | | | | |
| Additions to non-current assets .. | 3,072 | 144,831 | 35,499 | 175 | — | 183,577 |
| Depreciation and amortisation (Note 10) | (3,305) | (32,209) | (28,519) | (2,255) | — | (66,288) |
| Losses on disposal of property, plant and equipment (Note 9) | (10) | (20) | (132) | — | — | (162) |

| | Kindergartens | Grade 1-12 | University | Unallocated | Inter-segment elimination | Total |
|----------------------------------------------------------------------------------|---------------|----------------|----------------|-----------------|------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| For the year ended 31 August | | | | | | |
| 2016 | | | | | | |
| Revenue | 51,007 | 435,773 | 294,551 | — | — | 781,331 |
| Cost of revenue | (29,230) | (237,860) | (108,043) | — | — | (375,133) |
| Gross profit | 21,777 | 197,913 | 186,508 | — | — | 406,198 |
| Selling expenses | (38) | (707) | (3,451) | — | — | (4,196) |
| Administrative expenses | (6,011) | (28,837) | (11,997) | (23,576) | — | (70,421) |
| Other income | — | 5,637 | 618 | 187 | — | 6,442 |
| Other (losses)/ gains — net | (7) | (431) | 723 | (622) | — | (337) |
| Operating profit | 15,721 | 173,575 | 172,401 | (24,011) | — | 337,686 |
| Finance income/(expenses) — net | 30 | (11,016) | (14,943) | (81) | — | (26,010) |
| Profit before income tax | 15,751 | 162,559 | 157,458 | (24,092) | — | 311,676 |
| As at 31 August 2016 | | | | | | |
| Total assets | 123,840 | 1,537,059 | 1,174,785 | 1,243,085 | (2,050,361) | 2,028,408 |
| Total liabilities | 84,174 | 1,136,180 | 522,168 | 1,252,839 | (1,876,601) | 1,118,760 |
| Other segment information | | | | | | |
| Additions to non-current assets | 2,478 | 50,307 | 69,522 | 1,242 | — | 123,549 |
| Depreciation and amortisation (Note 10) | (3,931) | (38,613) | (29,474) | (1,994) | — | (74,012) |
| (Losses)/gains on disposal of property, plant and equipment (Note 9) | (7) | (640) | (764) | 190 | — | (1,221) |
| Gains on disposal of prepaid land lease payments (Note 9) | — | 209 | — | — | — | 209 |

8 Other income

| | Year ended 31 August | | |
|---------------------------------------|----------------------|--------------|--------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Government grants and subsidies | 7,350 | 9,000 | 5,775 |
| Others | 514 | 534 | 667 |
| | 7,864 | 9,534 | 6,442 |

9 Other gains/(losses) — net

| | Year ended 31 August | | |
|--------------------------------------------------------------------------------|----------------------|------------------|--------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Gains/(losses) on disposal of property, plant and equipment | 1,614 | (162) | (1,221) |
| Gains on disposal of prepaid land lease payments | 264 | — | 209 |
| Termination fee ^(a) | — | (153,870) | — |
| Loss on disposal of a subsidiary | — | — | (812) |
| Donation | (1,200) | — | — |
| Gains on disposal of financial products as designed by a financial institution | 196 | 142 | 1,533 |
| Fair value gains/(losses) on financial instruments: | | | |
| — Financial products as designed by a financial institution | — | 3 | — |
| — Derivative financial instruments for interest rate swap contract | — | 242 | (46) |
| | 874 | (153,645) | (337) |

- (a) YuHua Investment Management entered into an cooperation agreement with Henan Polytechnic University (河南理工大學) (“HPU”) for 30 years in 2008. Based on the agreement, HPU provided certain management services and licensing right to the Wanfang College of Science & Technology, Henan Polytechnic University in return for an annual fee. Please refer to note 10 (a) for the details. For strategic and commercial reasons, YuHua Investment Management entered into a termination agreement with HPU to terminate the cooperation in July 2015. Pursuant to the agreement, YuHua Investment Management paid a termination fee amounted to approximately RMB153,870,000.

10 Expenses by nature

| | Year ended 31 August | | |
|---------------------------------------------------------|----------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Employee benefit expenses (Note 11) | 142,001 | 183,051 | 220,511 |
| Depreciation of property, plant and equipment (Note 16) | 52,599 | 61,064 | 68,657 |
| Amortisation of prepaid land lease payments (Note 15) | 4,095 | 4,983 | 5,119 |
| Amortisation of intangible assets (Note 17) | 193 | 241 | 236 |
| Canteen expenditure | 42,846 | 32,778 | 27,095 |
| Annual fee ^(a) | 37,240 | 40,656 | 963 |
| Student training and scholarship expenses | 23,259 | 30,246 | 24,107 |
| School consumables | 18,712 | 22,818 | 26,900 |
| Utilities expenses | 17,066 | 18,315 | 18,177 |
| Marketing expenses | 3,684 | 3,984 | 3,654 |
| Operating lease payments | 1,454 | 4,179 | 3,409 |
| Expenses in relation to the Listing | — | — | 10,380 |
| Office expenses | 11,719 | 10,815 | 11,588 |
| Travel and entertainment expenses | 6,071 | 5,711 | 6,709 |
| Auditors' remuneration | | | |
| — Audit services | 75 | 85 | 85 |
| — Non-audit services | — | — | — |
| Other expenses | 21,747 | 19,156 | 22,160 |
| | 382,761 | 438,082 | 449,750 |

- (a) YuHua Investment Management entered into the Henan Polytechnic University Cooperation Agreement (“HPU Cooperation Agreement”) with Henan Polytechnic University in 2008, pursuant to which YuHua Investment Management took over control of

the Wanfang College of Science & Technology Henan Polytechnic University the predecessor of the university. Pursuant to the HPU Cooperation Agreement, YuHua Investment Management paid an annual fee in each school years from 1 September 2013. During the year ended 31 August 2014, 2015 and 2016, the annual fee amounted to approximately RMB36,000,000, RMB39,500,000 and nil respectively, which has been recognised as 'Cost of revenue' in the combined statements of comprehensive income.

11 Employee benefit expenses

| | Year ended 31 August | | |
|----------------------------------------------|----------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Wages, salaries and bonuses | 125,743 | 158,903 | 186,433 |
| Contributions to pension plan ^(a) | 8,779 | 12,697 | 19,565 |
| Welfare and other expenses | 7,479 | 11,451 | 14,513 |
| | <u>142,001</u> | <u>183,051</u> | <u>220,511</u> |

Employee benefit expenses were charged in the following categories in the combined statements of comprehensive income:

| | Year ended 31 August | | |
|-------------------------|----------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cost of revenue | 115,886 | 148,487 | 181,201 |
| Administrative expenses | 25,789 | 34,153 | 38,768 |
| Selling expenses | 326 | 411 | 542 |
| | <u>142,001</u> | <u>183,051</u> | <u>220,511</u> |

(a) Contributions to pension plan

The employees of the Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

(b) Five highest paid individuals

The five individuals whose remunerations were the highest in the Group for the years ended 31 August 2014, 2015 and 2016 include one, one and one Director, whose remuneration are included in the analysis presented in Note 32. Details of the remunerations of the remaining highest paid non-director individuals during the Relevant Periods are set out as below:

| | Year ended 31 August | | |
|-------------------------------|----------------------|------------|--------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Wages, salaries and bonuses | 903 | 960 | 1,056 |
| Contributions to pension plan | 16 | 19 | 24 |
| Welfare and other expenses | 12 | 11 | 14 |
| | <u>931</u> | <u>990</u> | <u>1,094</u> |

The number of highest paid non-director individuals whose remunerations for each of the years fell within the following band is as follows:

| | No. of individuals | | |
|-----------------------------|----------------------|------|------|
| | Year ended 31 August | | |
| | 2014 | 2015 | 2016 |
| Emolument band | | | |
| Nil to HK\$ 1,000,000 | 4 | 4 | 4 |

During the Relevant Periods, none of the five highest paid individuals waived or has agreed to waive any emoluments, and none of the five highest paid individuals received emoluments from the Group as inducement to join or upon joining the Group, or as compensation for loss of office.

12 Finance expenses — net

| | Year ended 31 August | | |
|--------------------------------------------------------|----------------------|-----------------|-----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Finance income | | | |
| Interest income from deposits | 2,820 | 3,612 | 1,328 |
| Finance expenses: | | | |
| Interest expenses | (22,753) | (26,070) | (29,888) |
| Other charges | — | (5,780) | — |
| Net foreign exchange gains | — | — | 48 |
| | (22,753) | (31,850) | (29,840) |
| Less: interests capitalised on qualifying assets | 2,447 | 3,925 | 2,502 |
| | (20,306) | (27,925) | (27,338) |
| Finance expenses — net | (17,486) | (24,313) | (26,010) |

13 Income tax expense

| | Year ended 31 August | | |
|-------------------------------------------|----------------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Current tax on profits for the year | — | — | — |

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of PRC, the principal place of the Group's operations, as follows:

| | Year ended 31 August | | |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------|----------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before income tax | 207,828 | 91,200 | 311,676 |
| Tax calculated at a taxation rate of 25% or relevant domestic tax rate applicable to profits in the respective countries | 51,957 | 22,800 | 77,919 |
| Tuition profit not subject to tax (iv) | (51,957) | (22,800) | (77,919) |
| | <u>—</u> | <u>—</u> | <u>—</u> |

(i) Cayman Islands profits tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(ii) British Virgin Islands profit tax

The Company's direct subsidiary in the British Virgin Islands was incorporated under the BVI Companies Act, 2004 and accordingly, is exempted from British Virgin Islands income tax.

(iii) Hong Kong profit tax

No provision for Hong Kong profit tax was provided as the Company and the Group did not have assessable profits in Hong Kong during the Relevant Periods.

(iv) PRC corporate income tax ("CIT")

CIT is provided on assessable profits of entities incorporation in the PRC. Pursuant to the Corporate Income Tax Law of the PRC (the "CIT Law"), which was effective from 1 January 2008, the CIT was 25% during the Relevant Periods.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. 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. All schools of the Group have been granted corporate income tax exemption for the tuition income from relevant local tax authorities.

14 Earnings per share

No earnings per share is presented as the Financial Information is prepared on a combined basis as detailed in Note 2 above.

15 Prepaid land lease payments

| | As at 31 August | | |
|--------------------------------------|-----------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| At beginning of the year | | | |
| Cost | 188,488 | 244,288 | 255,046 |
| Accumulated amortisation | (15,584) | (19,416) | (24,399) |
| Net book amount | <u>172,904</u> | <u>224,872</u> | <u>230,647</u> |
| Opening net book amount | 172,904 | 224,872 | 230,647 |
| Additions | 58,435 | 10,758 | — |
| Disposal | (2,372) | — | (835) |
| Amortisation (Note 10) | (4,095) | (4,983) | (5,119) |
| Closing net book amount | <u>224,872</u> | <u>230,647</u> | <u>224,693</u> |
| At end of the year | | | |
| Cost | 244,288 | 255,046 | 254,001 |
| Accumulated amortisation | (19,416) | (24,399) | (29,308) |
| Net book amount | <u>224,872</u> | <u>230,647</u> | <u>224,693</u> |

- (a) The Company's land use rights are either purchased from or allocated by the government.
- (b) For those purchased land use rights, the amounts are amortised on a straight-line basis over lease terms as stated in the relevant land use right certificates. Amortisation was charged to cost of revenue in the combined statements of comprehensive income.
- (c) As at 31 August 2014, 2015 and 2016, the carrying amount of prepaid land lease payments without land use right certificates were RMB 133,468,000, RMB 59,856,000 and RMB58,514,000, respectively. The Group is in the process to obtain the certificates.
- (d) The carrying value of the land use right allocated by the government of RMB203,969,000, RMB210,177,000 and RMB204,654,000 as at 31 August 2014, 2015 and 2016, respectively, has no definite life of use stated in the relevant land use right certificates. The estimated useful lives is 50 years which is the best estimate based on the normal terms in the PRC. However, without the relevant administrative authorities' permission, the Group cannot transfer, lease or mortgage such land use right allocated by the government.

16 Property, plant and equipment

| | Buildings | Leasehold improvements | Motor vehicles | Electronic equipment | Furniture and fixtures | Construction in progress | Total |
|--------------------------------------|------------------|------------------------|----------------|----------------------|------------------------|--------------------------|------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 September 2013 | | | | | | | |
| Cost | 1,179,749 | — | 14,869 | 62,243 | 61,470 | 15,598 | 1,333,929 |
| Accumulated depreciation | (82,747) | — | (8,352) | (24,807) | (21,804) | — | (137,710) |
| Net book amount | 1,097,002 | — | 6,517 | 37,436 | 39,666 | 15,598 | 1,196,219 |
| Year ended 31 August 2014 | | | | | | | |
| Opening net book amount | 1,097,002 | — | 6,517 | 37,436 | 39,666 | 15,598 | 1,196,219 |
| Additions | 7,363 | 8,924 | 4,184 | 15,672 | 10,214 | 111,859 | 158,216 |
| Transfer upon completion | 108,976 | 3,795 | — | — | — | (112,771) | — |
| Disposals | (2,066) | — | (214) | (289) | (211) | — | (2,780) |
| Depreciation charge (Note 10) | (27,237) | (1,274) | (2,693) | (10,130) | (11,265) | — | (52,599) |
| Closing net book amount | 1,184,038 | 11,445 | 7,794 | 42,689 | 38,404 | 14,686 | 1,299,056 |
| At 31 August 2014 | | | | | | | |
| Cost | 1,293,792 | 12,719 | 16,733 | 76,973 | 71,134 | 14,686 | 1,486,037 |
| Accumulated depreciation | (109,754) | (1,274) | (8,939) | (34,284) | (32,730) | — | (186,981) |
| Net book amount | 1,184,038 | 11,445 | 7,794 | 42,689 | 38,404 | 14,686 | 1,299,056 |
| Year ended 31 August 2015 | | | | | | | |
| Opening net book amount | 1,184,038 | 11,445 | 7,794 | 42,689 | 38,404 | 14,686 | 1,299,056 |
| Additions | — | 5,500 | 1,546 | 15,025 | 13,699 | 135,235 | 171,005 |
| Transfer upon completion | 134,965 | 3,577 | — | — | — | (138,542) | — |
| Disposals | — | — | — | (113) | (56) | — | (169) |
| Depreciation charge (Note 10) | (31,664) | (3,426) | (2,609) | (10,481) | (12,884) | — | (61,064) |
| Closing net book amount | 1,287,339 | 17,096 | 6,731 | 47,120 | 39,163 | 11,379 | 1,408,828 |
| At 31 August 2015 | | | | | | | |
| Cost | 1,428,757 | 21,796 | 18,279 | 91,759 | 84,659 | 11,379 | 1,656,629 |
| Accumulated depreciation | (141,418) | (4,700) | (11,548) | (44,639) | (45,496) | — | (247,801) |
| Net book amount | 1,287,339 | 17,096 | 6,731 | 47,120 | 39,163 | 11,379 | 1,408,828 |
| Year ended 31 August 2016 | | | | | | | |
| Opening net book amount | 1,287,339 | 17,096 | 6,731 | 47,120 | 39,163 | 11,379 | 1,408,828 |
| Additions | 3,490 | — | 1,903 | 13,304 | 16,078 | 91,730 | 126,505 |
| Transfer upon completion | 98,992 | — | — | — | — | (98,992) | — |
| Disposals | (59) | (47) | (106) | (1,012) | (413) | — | (1,637) |
| Disposal of a subsidiary | — | — | — | — | (13) | — | (13) |
| Depreciation charge (Note 10) | (36,412) | (4,372) | (2,560) | (11,074) | (14,239) | — | (68,657) |
| Closing net book amount | 1,353,350 | 12,677 | 5,968 | 48,338 | 40,576 | 4,117 | 1,465,026 |
| At 31 August 2016 | | | | | | | |
| Cost | 1,531,175 | 21,751 | 18,531 | 101,088 | 97,959 | 4,117 | 1,774,621 |
| Accumulated depreciation | (177,825) | (9,074) | (12,563) | (52,750) | (57,383) | — | (309,595) |
| Net book amount | 1,353,350 | 12,677 | 5,968 | 48,338 | 40,576 | 4,117 | 1,465,026 |

(a) Depreciation charges were charged to the combined statements of comprehensive income as follows:

| | Year ended 31 August | | |
|-------------------------------|----------------------|---------------|---------------|
| | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Cost of revenue | 49,188 | 56,481 | 63,744 |
| Administrative expenses | 3,411 | 4,583 | 4,913 |
| | 52,599 | 61,064 | 68,657 |

- (b) Construction-in-progress as at 31 August 2014, 2015 and 2016 mainly comprises buildings being constructed in the PRC.
- (c) The Group has capitalised borrowing costs amounting to RMB2,447,000, RMB3,925,000 and RMB2,502,000 on qualifying assets (Note 12), and the borrowing costs were capitalised at the weighted average rate of its specific and general borrowings of 9.2%, 6.9% and 6.1% for the years ended 31 August 2014, 2015 and 2016 respectively.
- (d) There was no property, plant and equipment of the Group pledged as security for bank borrowing as at 31 August 2014, 2015 and 2016.
- (e) As at 31 August 2014, 2015 and 2016, the carrying amount of buildings without building ownership certificates were RMB892,502,000, RMB969,685,000 and RMB1,035,294,000, respectively. The Group is in the process to obtain the certificates.

17 Intangible assets

| | Software RMB'000 |
|--------------------------------------|---------------------|
| At 1 September 2013 | |
| Cost | 1,307 |
| Accumulated amortisation | (252) |
| Net book amount | <u>1,055</u> |
| Year ended 31 August 2014 | |
| Opening net book amount | 1,055 |
| Additions | 309 |
| Amortisation (Note 10) | (193) |
| Closing net book amount | <u>1,171</u> |
| At 31 August 2014 | |
| Cost | 1,616 |
| Accumulated amortisation | (445) |
| Net book amount | <u>1,171</u> |
| Year ended 31 August 2015 | |
| Opening net book amount | 1,171 |
| Additions | 544 |
| Amortisation (Note 10) | (241) |
| Closing net book amount | <u>1,474</u> |
| At 31 August 2015 | |
| Cost | 2,160 |
| Accumulated amortisation | (686) |
| Net book amount | <u>1,474</u> |

| | Software RMB'000 |
|--------------------------------------|---------------------|
| Year ended 31 August 2016 | |
| Opening net book amount | 1,474 |
| Additions | 554 |
| Amortisation (Note 10) | (236) |
| Closing net book amount | 1,792 |
| At 31 August 2016 | |
| Cost | 2,714 |
| Accumulated amortisation | (922) |
| Net book amount | 1,792 |

Amortisation of the Group's intangible assets were charged in the following categories in the combined statements of comprehensive income as follows:

| | Year ended 31 August | | |
|-------------------------------|----------------------|------------|------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cost of revenue | 123 | 156 | 151 |
| Administrative expenses | 70 | 85 | 85 |
| | 193 | 241 | 236 |

18 Other non-current assets

| | As at 31 August | | |
|-----------------------------------------------------------------|-----------------|---------------|---------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Prepayments of rental expenses | 12,217 | 15,767 | 13,766 |
| Prepayments for prepaid land lease payment | 5,789 | 6,571 | 6,571 |
| Prepayments for purchase of property, plant and equipment | 4,571 | 1,509 | — |
| Rental deposits | 250 | 250 | 250 |
| | 22,827 | 24,097 | 20,587 |

19 Trade and other receivables

| | As at 31 August | | |
|-------------------------------------------------|-----------------|---------------|---------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables (a) | | | |
| Due from students | 396 | 742 | 35 |
| Other receivables | | | |
| Due from related parties (Note 31) | — | 6,954 | — |
| Deposits | 1,207 | 1,297 | 1,359 |
| Staff advance | 1,666 | 174 | 1,668 |
| Interest receivables | — | 685 | — |
| Others | 606 | 1,253 | 930 |
| | 3,479 | 10,363 | 3,957 |
| Prepayments | | | |
| Prepaid expenses | 4,337 | 3,977 | 3,903 |
| Prepayments to suppliers | 1,494 | 3,295 | 109 |
| | 5,831 | 7,272 | 4,012 |
| Accrued expenses in relation to the Listing (b) | — | — | 3,320 |
| | 9,706 | 18,377 | 11,324 |

- (a) The Group's trade receivables were denominated in RMB and the carrying amounts approximated their fair values.
- (b) The listing expenses that are attributable to the issuance of new shares are accrued during the listing process and will be deducted from equity when issuing new shares.

As at 31 August 2014, 2015 and 2016, the aging analysis of the trade receivables based on the recognition date is set as followings:

| | As at 31 August | | |
|------------------|-----------------|------------|-----------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Less than 1 year | 396 | 742 | 35 |
| | 396 | 742 | 35 |

As at 31 August 2014, 2015 and 2016, there were no past due balances of trade receivables.

- (c) As at 31 August 2014, 2015 and 2016, all trade and other receivables were denominated in RMB.
- (d) As at 31 August 2014, 2015 and 2016, the fair values of trade and other receivables, except the prepayments which are not financial assets of the Group, approximated their carrying amounts.

20 Financial instruments at fair value through profit or loss

| | As at 31 August | | |
|--------------------------------------------------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Financial products as designed by a financial institution (a) | — | 60,003 | — |
| Derivative financial instruments for interest rate swap contract (b) | — | 242 | — |
| | — | 60,245 | — |

- (a) During the years ended 31 August 2014, 2015 and 2016, the gain on settlements of financial assets at fair value through profit or loss amounted to approximately RMB196,000, RMB142,000 and RMB1,533,000 respectively, which has been recognised as 'Other gains/(losses) — net' (Note 9) in the combined statement of comprehensive income.

The fair value of the financial instruments at fair value through profit or loss is determined by using the valuation technique of discounting the future cash flows at the expected yield rate with reference to the benchmark yield rate of the financial investment products of banks.

- (b) The table below set forth the key terms of the RMB interest rate swap contract:

| Key terms: | RMB interest rate swap contract |
|------------------------------------------------------|---------------------------------|
| Trade date | 14 January 2015 |
| Interest starting date | 6 January 2015 |
| Expiration date | 6 January 2016 |
| Notional principal amount | RMB100.0 million |
| Fixed interest rate of the Company | 6.44% annum |
| Floating interest rate of the Counterparty | Loan Prime Rate +121 BPS |

During the years ended 31 August 2014, 2015 and 2016, the fair value gains/(losses) on interest rate swap contract amounted to approximately nil, RMB242,000 and (RMB46,000) respectively, which has been recognised as 'Other gains/(losses) — net' (Note 9) in the combined statements of comprehensive income.

As at 31 August 2015, the fair value of the interest rate swap contract is determined by the differences between the fixed interest rate of the Company and floating interest rate of the Counterparty. The interest rate swap contract expired in January 2016.

21 Cash and cash equivalents and restricted cash**(a) Cash and cash equivalents**

| | As at 31 August | | |
|-------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash at bank and on hand | 257,926 | 154,339 | 304,986 |
| Short-term bank deposits | 1,514 | — | — |
| Cash and cash equivalents | 259,440 | 154,339 | 304,986 |

(b) Restricted cash

| | As at 31 August | | |
|---------------------------------------------------------|-----------------|---------------|----------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| For securing borrowings | — | 55,000 | — |
| For securing derivative financial instruments | — | 3,000 | — |
| | <u>—</u> | <u>58,000</u> | <u>—</u> |

22 Financial instruments

| | At amortisation cost | Assets at fair value through the profit & loss | Total |
|-------------------------------------------------------------|----------------------------|---------------------------------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 |
| At 31 August 2014 | | | |
| Assets as per combined balance sheets | | | |
| Trade and other receivables excluding prepayments | 3,875 | — | 3,875 |
| Cash and cash equivalents | 259,440 | — | 259,440 |
| | <u>263,315</u> | <u>—</u> | <u>263,315</u> |

| | At amortisation cost | Total |
|---------------------------------------------------------------------------|----------------------------|----------------|
| | RMB'000 | RMB'000 |
| At 31 August 2014 | | |
| Liabilities as per combined balance sheets | | |
| Borrowings | 20,000 | 20,000 |
| Accruals and other payables excluding non-financial liabilities | 644,136 | 644,136 |
| Other non-current liabilities | 62,751 | 62,751 |
| | <u>726,887</u> | <u>726,887</u> |

| | At amortisation cost | Assets at fair value through the profit & loss | Total |
|----------------------------------------------------------------------|----------------------------|---------------------------------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 |
| At 31 August 2015 | | | |
| Assets as per combined balance sheets | | | |
| Trade and other receivables excluding prepayments | 11,105 | — | 11,105 |
| Financial instruments at fair value through profit or loss | — | 60,245 | 60,245 |
| Cash and cash equivalents | 154,339 | — | 154,339 |
| Restricted cash | 58,000 | — | 58,000 |
| | <u>223,444</u> | <u>60,245</u> | <u>283,689</u> |

| | At amortisation cost | Total |
|-----------------------------------------------------------------------|----------------------------|----------------|
| | RMB'000 | RMB'000 |
| At 31 August 2015 | | |
| Liabilities as per combined balance sheets | | |
| Borrowings | 502,000 | 502,000 |
| Accruals and other payables excluding non-financial liabilities | 173,703 | 173,703 |
| Other non-current liabilities | 54,574 | 54,574 |
| | <u>730,277</u> | <u>730,277</u> |

| | At amortisation cost | Assets at fair value through the profit & loss | Total |
|---------------------------------------------------------|----------------------------|---------------------------------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 |
| At 31 August 2016 | | | |
| Assets as per combined balance sheets | | | |
| Trade and other receivables excluding prepayments | 3,992 | — | 3,992 |
| Cash and cash equivalents | 304,986 | — | 304,986 |
| | <u>308,978</u> | <u>—</u> | <u>308,978</u> |

| | At amortisation cost | Total |
|-----------------------------------------------------------------------|----------------------------|----------------|
| | RMB'000 | RMB'000 |
| At 31 August 2016 | | |
| Liabilities as per combined balance sheets | | |
| Borrowings | 315,000 | 315,000 |
| Accruals and other payables excluding non-financial liabilities | 117,838 | 117,838 |
| Other non-current liabilities | 37,898 | 37,898 |
| | <u>470,736</u> | <u>470,736</u> |

23 Share capital

| Company | Number of ordinary shares | Nominal value of ordinary shares |
|----------------------------|---------------------------------|-------------------------------------------|
| Authorised: | | US\$ |
| As at 31 August 2016 | <u>50,000</u> | <u>50,000</u> |

| | Number of ordinary shares | Nominal value of ordinary shares | Equivalent nominal value of ordinary shares |
|----------------------------|---------------------------------|-------------------------------------------|---------------------------------------------------------|
| Issued and paid: | | US\$ | RMB |
| As at 31 August 2016 | <u>10,000</u> | <u>10,000</u> | <u>65,000</u> |

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 25 April 2016 with an authorised share capital of US\$50,000 divided into 50,000 shares of a nominal or par value of US\$1.00 each, of which 10,000 shares were issued and paid.

On 7 September 2016, the authorised share capital of the Company was increased by HK\$500,000 divided into 50,000,000,000 Shares. On the same day, the Company allotted and issued 2,250,000,000 Shares to GuangYu Investment for a subscription price of HK\$22,500. Immediately following the allotment and issue of the 2,250,000,000 Shares, the Company repurchased 10,000 shares of par value US\$1.00 each from GuangYu Investment at an aggregate consideration of HK\$22,500 which was paid out of the proceeds of the aforesaid subscription. Immediately following the repurchase, the authorised share capital of the Company was reduced by the cancellation of 50,000 shares of par value of US\$1.00 each and became HK\$500,000 divided into 50,000,000,000 Shares.

24 Reserves

| | Capital reserve | Statutory surplus reserves | Total |
|----------------------------------------------------------|--------------------|----------------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 September 2013 | 130,000 | 57,854 | 187,854 |
| Capital contribution from Owner | 20,000 | — | 20,000 |
| Profit appropriation to statutory surplus reserves | — | 52,948 | 52,948 |
| At 31 August 2014 | <u>150,000</u> | <u>110,802</u> | <u>260,802</u> |
| At 1 September 2014 | 150,000 | 110,802 | 260,802 |
| Profit appropriation to statutory surplus reserves | — | 37,805 | 37,805 |
| At 31 August 2015 | <u>150,000</u> | <u>148,607</u> | <u>298,607</u> |
| At 1 September 2015 | 150,000 | 148,607 | 298,607 |
| Profit appropriation to statutory surplus reserves | — | 87,950 | 87,950 |
| At 31 August 2016 | <u>150,000</u> | <u>236,557</u> | <u>386,557</u> |

(a) Capital reserve

Capital reserve of the Group represented the combined issued capital of the Consolidated Affiliated Entities.

(b) Statutory surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries. These reserves include (i) statutory reserve fund of the limited liability companies, (ii) general reserve fund of foreign invested enterprise and (iii) the development fund of schools.

- (i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserves fund before distributing the net profit. When the balance of the statutory reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory reserves fund after such issue is not less than 25% of registered capital.

Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiary that is a foreign investment enterprise in China has to make appropriations from its after-tax profit (as determined under PRC GAAP) to reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the respective company. Appropriations to the other two reserve funds are at the respective companies' discretion.

- (ii) According to the relevant PRC laws and regulations, for a private school that does not require reasonable return, it is required to appropriate to development fund of not less than 25% of the annual increase of net assets of the relevant school as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the school or procurement or upgrading of educational equipment.

25 Accruals and other payables

| | As at 31 August | | |
|------------------------------------------------------------------------------------------|-----------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Amount due to related parties (Note 31) | 466,591 | 10,000 | — |
| Amount due to third party | 25,000 | 36,800 | — |
| Payables for purchases of property, plant and equipment | 78,023 | 77,854 | 58,157 |
| Salary and welfare payables | 25,966 | 36,276 | 38,831 |
| Payables for annual fees | 34,841 | 1,637 | 1,300 |
| Deposits received from teachers and students | 11,288 | 15,798 | 19,274 |
| Miscellaneous expenses received from students ^(a) | 8,941 | 12,977 | 7,192 |
| Payables for teaching materials and other operating expenditure ^(d) | 10,290 | 12,802 | 13,130 |
| Payables for contracting canteens ^{(b)(d)} | 5,749 | 906 | 2,343 |
| Government subsidies payable to students | 676 | 1,218 | 1,887 |
| Payables in relation to the Listing | — | — | 10,629 |
| Interest payables | — | 602 | 198 |
| Others | 2,737 | 3,109 | 3,728 |
| | 670,102 | 209,979 | 156,669 |

(a) The amounts represent the miscellaneous expenses received from students which will be paid out on behalf of students.

(b) A few of third party canteens were contracted by the Group to provide catering service to schools.

(c) The carrying amount of the Group's accruals and other payables were denominated in RMB.

(d) As of 31 August 2014, 2015 and 2016, the ageing of payables for teaching materials and other operating expenditure and payables for contracting canteens were less than 1 year.

26 Deferred revenue

| | As at 31 August | | |
|-------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Tuition and boarding fees | 557,512 | 591,547 | 609,193 |

27 Borrowings

| | As at 31 August | | |
|-------------------------|-----------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Non-current | | | |
| Bank borrowings | | | |
| — secured | — | — | 105,000 |
| — unsecured | — | 140,000 | 90,000 |
| | — | 140,000 | 195,000 |
| Current | | | |
| Bank borrowings | | | |
| — secured | 20,000 | 285,000 | 80,000 |
| — unsecured | — | 77,000 | 40,000 |
| | 20,000 | 362,000 | 120,000 |
| Total borrowings | 20,000 | 502,000 | 315,000 |

Total borrowings are comprised of the following loans:

- (a) Bank borrowings of the Group which are pledged by right over the tuition fee and guaranteed by related parties are shown below:

| | As at 31 August | | |
|-------------------------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Guaranteed by the Owner | — | 100,000 | — |
| Guaranteed by a subsidiary of the Group and the Owner | — | 130,000 | 185,000 |
| | — | 230,000 | 185,000 |

- (b) As at 31 August 2014, these bank borrowings of the Group are secured by buildings owned by the Owner and his relatives and guaranteed by the Owner.

- (c) Bank borrowings of the Group which are guaranteed by related parties are shown below:

| | As at 31 August | | |
|-----------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| A subsidiary of the Group | — | 150,000 | 100,000 |
| A subsidiary of the Group and the Owner | — | 67,000 | 30,000 |
| | — | 217,000 | 130,000 |

- (d) The Group's borrowings were pledged as follows:

| | As at 31 August | | |
|-----------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Restricted cash | — | 55,000 | — |

(e) The weighted average effective interest rates (per annum) at the balance sheet dates are set out as follows:

| | As at 31 August | | |
|-----------------------|-----------------|------|------|
| | 2014 | 2015 | 2016 |
| Bank borrowings | 7.2% | 7.0% | 5.4% |

(f) The maturity date of the borrowing was analysed as follows:

| | As at 31 August | | |
|-----------------------------|-----------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 1 year | 20,000 | 362,000 | 120,000 |
| Between 1 and 2 years | — | 50,000 | 80,000 |
| Between 2 and 5 years | — | 90,000 | 115,000 |
| | <u>20,000</u> | <u>502,000</u> | <u>315,000</u> |

The carrying amount for the current borrowings approximated their fair values because of their short term maturities. The carrying amount for non-current borrowings approximated their fair values because of the floating interest rates they carried.

(g) The Group has the following unutilised borrowing facilities and undrawn bank borrowings:

| | As at 31 August | | |
|--------------------------------------------|-----------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Floating rate and expiring beyond one year | | | |
| — Undrawn bank borrowings | — | 100,000 | 100,000 |
| | <u>—</u> | <u>100,000</u> | <u>100,000</u> |

(h) As at 31 August 2014, 2015 and 2016, the Group's borrowings were denominated in RMB.

28 Other non-current liabilities

| | As at 31 August | | |
|---------------------------------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Payables for purchases of property, plant and equipment | 62,751 | 54,574 | 37,898 |

29 Notes to combined statements of cash flows

(a) Cash generated from operations

| | Year ended 31 August | | |
|---------------------------------------------------------------------------------------------------------|----------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before income tax | 207,828 | 91,200 | 311,676 |
| Adjustments for: | | | |
| — Amortisation of prepaid land lease payments (Note 15) | 4,095 | 4,983 | 5,119 |
| — Depreciation of property, plant and equipment (Note 16) | 52,599 | 61,064 | 68,657 |
| — Amortisation of intangible assets (Note 17) | 193 | 241 | 236 |
| — Provision for impairment of trade receivables (Note 19) | 971 | 116 | — |
| — (Gains)/losses on disposal of property, plant and equipment (see below) (Note 9) | (1,614) | 162 | 1,221 |
| — Gains on disposal of prepaid land lease payments (Note 9) | (264) | — | (209) |
| — Fair value gains on financial instruments at fair value through profit or loss (Note 9) | — | (3) | — |
| — Gains on disposal of financial instruments at fair value through profit or loss (Note 9) | (196) | (142) | (1,533) |
| — Fair value (gains)/losses on derivative instruments (Note 9) | — | (242) | 46 |
| — Finance expenses — net (Note 12) | 17,486 | 24,313 | 26,010 |
| — Loss on disposal of a subsidiary (Note 9) | — | — | 812 |
| Changes in working capital: | | | |
| — Trade and other receivables | 15,960 | (1,148) | 1,963 |
| — Other non-current assets | (12,217) | (3,550) | 2,001 |
| — Deferred revenue | 146,514 | 34,035 | 19,830 |
| — Accruals and other payables | 33,732 | (15,765) | 10,964 |
| Cash generated from operations | 465,087 | 195,264 | 446,793 |

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

| | Year ended 31 August | | |
|--------------------------------------------------------------------------------|----------------------|----------|------------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Net book amount (Note 16) | 2,780 | 169 | 1,637 |
| Gains/(losses) on disposal of property, plant and equipment (Note 9) | 1,614 | (162) | (1,221) |
| Proceeds from disposal of property, plant and equipment | 4,394 | 7 | 416 |

(b) Proceed from disposal of a subsidiary

During the year ended 31 August 2016, the Group disposed equity interests in the following subsidiary:

| Company name | Disposal date | Percentage of equity interests disposed | Sales Proceeds |
|-------------------------------------------------------------------------------------------------------|------------------|--------------------------------------------|-------------------|
| | | | RMB'000 |
| The Affiliated High School of Peking University, Henan Branch, Gongyi Campus (北京大學附屬中學河南分校鞏義校區) | 1 September 2015 | 100% | — |

Details of net assets disposed of and loss on disposal are as follows:

| | RMB'000 |
|---------------------------------|---------|
| Sales proceeds | — |
| Less: Net assets disposed | (812) |
| Loss on disposal | (812) |

The effect of the disposal is as follows:

| | RMB'000 |
|--------------------------------------------------------------|---------|
| Cash and cash equivalents | 2,210 |
| Property, plant and equipment | 13 |
| Trade and other receivables | 773 |
| Deferred revenue | (2,184) |
| Net assets disposal | 812 |
| Sales proceeds | — |
| Less: Cash and cash equivalents of subsidiary disposed | (2,210) |
| Net cash outflow on disposal of subsidiary | (2,210) |

30 Commitments

(a) Capital commitments

The following is the details of capital expenditure contracted but not provided for in the Financial Information.

| | As at 31 August | | |
|-------------------------------------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Commitment for acquisition of property, plant and equipment | 11,827 | 5,371 | 5,860 |

(b) Operating lease commitments

The Group leases certain buildings under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

| | As at 31 August | | |
|---------------------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| No later than 1 year | 907 | 1,702 | 797 |
| Later than 1 year and no later than 5 years | 4,575 | 3,988 | 4,034 |
| Later than 5 years | 33,030 | 32,023 | 30,990 |
| | 38,512 | 37,713 | 35,821 |

31 Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, common significant influence or joint control.

The Owner, members of key management and their close family members of the Group are also considered as related parties. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

Name and relationship with related parties:

| Names of the related parties | Nature of relationship |
|----------------------------------------------------|-----------------------------------------------|
| Zhengzhou Jiadehao Real Estate Co. Ltd | A company controlled by the Owner's relatives |
| Zhengzhou Polytechnic Network Technology Co., Ltd. | A company controlled by the Owner's relatives |

(a) Transactions with related parties

| | Year ended 31 August | | |
|-----------------------------------------------------------|----------------------|-----------|----------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Borrowings from the Owner | 75,524 | 96,709 | 65,533 |
| Repayments of borrowings to the Owner | (92,749) | (560,254) | (58,579) |
| Borrowings from related parties | 10,000 | 347,000 | 80,014 |
| — Zhengzhou Jiadehao Real Estate Co. Ltd | 10,000 | 200,000 | — |
| — Zhengzhou Polytechnic Network Technology Co., Ltd. | — | 147,000 | 80,014 |
| Repayments of borrowings to related parties | — | (347,000) | (90,014) |
| — Zhengzhou Jiadehao Real Estate Co. Ltd | — | (200,000) | (10,000) |
| — Zhengzhou Polytechnic Network Technology Co., Ltd. | — | (147,000) | (80,014) |

(b) Balance with related parties

| | As at 31 August | | |
|------------------------------------------------|------------------|-----------------|----------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Amounts due from related parties | | | |
| — The Owner | — | 6,954 | — |
| Amounts due to related parties | | | |
| — The Owner | (456,591) | — | — |
| — Zhengzhou Jiadehao Real Estate Co. Ltd | (10,000) | (10,000) | — |
| | (466,591) | (10,000) | — |

As at 31 August 2014, 2015 and 2016, all balances with the Owner and related companies are non-interest bearing. All balances due from and due to the Owner and related parties are unsecured and repayable on demand.

(c) Guarantees for borrowings

| | As at 31 August | | |
|------------------------------------------|-----------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Borrowings guaranteed by the Owner | 20,000 | 297,000 | 215,000 |

(d) Key management compensation

Key management includes executive directors and certain executives who have important role in making operational and financial decisions.

| | Year ended 31 August | | |
|--------------------------------------|----------------------|---------|---------|
| | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 |
| Wages, salaries and bonuses | 1,463 | 1,721 | 1,765 |
| Contributions to pension plans | 50 | 54 | 106 |
| Welfare and other expenses | 47 | 36 | 64 |
| | 1,560 | 1,811 | 1,935 |

32 Benefits and interests of Directors**(a) Directors' emoluments**

The remuneration of each Director for the years ended 31 August 2014, 2015 and 2016 are set out below:

| For the year ended 31 August 2014 | Salary | Discretionary bonuses | Contribution to pension plan, welfare and other expenses | Total |
|-----------------------------------|---------|-----------------------|----------------------------------------------------------|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Name of executive director | | | | |
| Mr. Li Guangyu | — | 70 | 6 | 76 |
| Ms. Li Hua | 198 | 70 | 13 | 281 |
| Ms. Qiu Hongjun | 81 | 30 | 6 | 117 |
| | 279 | 170 | 25 | 474 |

| For the year ended 31 August 2015 | Salary | Discretionary bonuses | Contribution to pension plan, welfare and other expenses | Total |
|-----------------------------------|---------|-----------------------|----------------------------------------------------------|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Name of executive director | | | | |
| Mr. Li Guangyu | 71 | 70 | 6 | 147 |
| Ms. Li Hua | 265 | 70 | 12 | 347 |
| Ms. Qiu Hongjun | 97 | 30 | 6 | 133 |
| | 433 | 170 | 24 | 627 |

| For the year ended 31 August 2016 | Salary | Discretionary bonuses | Contribution to pension plan, welfare and other expenses | Total |
|-----------------------------------|------------|-----------------------|----------------------------------------------------------|------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Name of executive director | | | | |
| Mr. Li Guangyu | 120 | 70 | 6 | 196 |
| Ms. Li Hua | 285 | 70 | 33 | 388 |
| Ms. Qiu Hongjun | 67 | 30 | 6 | 103 |
| | <u>472</u> | <u>170</u> | <u>45</u> | <u>687</u> |

Note:

Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue were appointed as the Company's independent non-executive Directors on 7 September 2016. During the Relevant Periods, the independent non-executive Directors have not yet been appointed and did not receive directors' remuneration in the capacity of independent non-executive directors. No emoluments have been paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. No Director waived or has agreed to waive any emoluments.

33 Subsequent events

The Company adopted a pre-IPO share option scheme approved by the Board of Directors on 10 September 2016 (the "Pre-IPO Share Option Scheme") which took effect from 1 September 2016. Under the Pre-IPO Share Option Scheme, options are exercisable subject to the grantee's continuous service and completion of the Company's IPO and other terms. Pursuant to the Pre-IPO Share Option Scheme, the Company had granted pre-IPO options to 329 grantees, including employees, executives or officers of our Group, to subscribe for an aggregate of 180,000,000 shares. The fair value of the options granted as determined using the Binominal model was HK\$464,583,000. The options have been divided into various batches according to different option periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2016 and up to the date of this report.

No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2016.

Yours faithfully,

PricewaterhouseCoopers
 Certified Public Accountants
 Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set forth in Appendix I to this prospectus, and is included in this appendix for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 August 2016 and based on the audited combined net tangible assets attributable to owners of our Company as at 31 August 2016 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

This audited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 August 2016 or at any future date.

| | Audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 August 2016 | Estimated net proceeds from the Global Offering | Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company as at 31 August 2016 | Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company per Share | |
|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|--------------------------------|
| | RMB '000 (Note 1) | RMB '000 (Note 2) | RMB '000 | RMB (Note 3) | Equivalent to HK\$ (Note 5) |
| Based on an Offer Price of HK\$1.98 per Share | 907,856 | 1,241,727 | 2,149,583 | 0.72 | 0.81 |
| Based on an Offer Price of HK\$2.54 per Share | 907,856 | 1,600,535 | 2,508,391 | 0.84 | 0.95 |

Notes:

- (1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 August 2016 are extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the unaudited combined net assets of the Group attributable to the owners of the Company as at 31 August 2016 of approximately RMB909.6 million less the intangible assets of the Group as at 31 August 2016 of approximately RMB1.8 million.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.98 (equivalent to RMB1.75) and HK\$2.54 (equivalent to RMB2.24) per Offer Share, being the lower end to higher end of the stated offer price range respectively, after the deduction of total estimated underwriting commissions and fees and other listing related expenses (excluding approximately RMB10.4 million in listing expenses which have been incurred prior to 31 August 2016) payable by the Company, and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which may be granted under the Pre-IPO Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the Issuing Mandate or the Repurchase Mandate granted to our Directors.
- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 August 2016 per Share is determined after the adjustments referred to the preceding paragraphs and on the basis of 3,000,000,000 Shares were in issue assuming that the Global Offering have been completed on 31 August 2016, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Options or upon the exercise of options which may be granted under the Pre-IPO Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the Issuing Mandate or the Repurchase Mandate granted to our Directors.
- (4) No adjustment has been made to reflect any trading or other transactions of the Group entered into subsequent to 31 August 2016.
- (5) For the purpose of preparing this unaudited pro forma statement of adjusted net tangible assets, the amount denominated in Hong Kong Dollars has been converted to Renminbi at the rate of HK\$1.00 to RMB0.88354, as set out in "Information About This Prospectus and The Global Offering — Exchange Rate Conversion" to this prospectus. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or at all.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China YuHua Education Corporation Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China YuHua Education Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 August 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on page II-1 of the Company's prospectus dated 16 February 2017, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on page II-1.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 August 2016 as if the proposed initial public offering had taken place at 31 August 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 31 August 2016, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus”, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 August 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant’s judgment, having regard to the reporting accountant’s understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16 February 2017

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this prospectus received from Asia-Pacific Consulting and Appraisal Limited, an independent valuer, in connection with its valuation as at 31 December 2016 of the selected property interest of the Group.



Asia-Pacific Consulting and Appraisal Limited
Room 1501(112), 15F, SPA Centre
53-55 Lockhart Road
Wanchai, Hong Kong

16 February 2017

The Board of Directors
China YuHua Education Corporation Limited
PO Box 309, Ugland House
Grand Cayman, KY 1-1104
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the selected property interest held by China YuHua Education Corporation Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) in the People’s Republic of China (the “**PRC**”). We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the selected property interest as at 31 December 2016 (the “**valuation date**”).

For the purpose of this report, “property activities” mean holding (directly or indirectly) and/or development of properties for letting or retention as investments, or the purchase or development of properties for subsequent sale, or for subsequent letting or retention as investments. Any other property interest is classified as “non-property activities”. The selected property in this report refers to a property interest that forms part of the Group’s non-property activities has a carrying amount of 15% or more of the Group’s total assets. Except for the property interest in the report, no single property interest that forms part of its non-property activities has a carrying amount of 15% or more of the Group’s total assets; and no single property interest that forms part of the Group’s property activities has a carrying amount of 1% or more of total assets.

Our valuation was carried out on a market value basis. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

Due to the nature of the buildings and structures of the property and the particular location in which they are situated, there are unlikely to be relevant market comparable sales comparables readily available, the buildings and structures of the property have been valued by the cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.” It is

based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards issued by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, and other official permits relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC Legal Adviser — Tian Yuan Law Firm, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out on 26 May 2016 by Ms. Alice Dong, who has 12 years' experience in the property valuation in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached below.

Yours faithfully,
for and on behalf of
Asia-Pacific Consulting and Appraisal Limited

Jack Wenjie. Li
B.Sc. MRICS CFA
Executive Director

Note: Jack Wenjie. Li is a Chartered Surveyor who has 11 years' experience in the valuation of assets in the PRC, Hong Kong and the Asia-Pacific region.

VALUATION CERTIFICATE

Property interest owned for owner occupation by the Group in the PRC

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 December 2016 RMB |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------|
| 3 parcels of land, 29 buildings and various structures located at No. 8 Qiancheng North Road, Zhijiao Zone, Zhengdong New Area Zhengzhou City Henan Province The PRC | The property comprises 3 parcels of land with a total site area of approximately 391,288.67 square metres, 29 buildings and various structures erected thereon which were completed in various stages between 2009 and 2016. | The property is currently occupied by the Group for education and ancillary purposes. | No commercial value |
| | The 29 completed buildings have a total gross floor area of approximately 415,588.93 square metres, mainly include teaching buildings, a library, a gymnasium, dormitory buildings and ancillary buildings. | | |
| | The structures mainly include ancillary facilities, sports ground, gates, walls and roads. | | |
| | The land use rights of 3 parcels of land of the property have been allocated to the Group for educational use, the expiry date of the land use rights is unspecified. | | |

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates — Mou Guo Yong (2014) Di Nos. 021 and 022, the land use rights of 2 parcels of land with a total site area of approximately 224,476.09 square metres have been allocated to Wanfang College of Science & Technology Henan Polytechnic University for educational use. As advised by the Group, Wanfang College of Science & Technology Henan Polytechnic University is the former name of Zhengzhou Technology and Business University.
2. Pursuant to 2 Construction Land Planning Permits — Zheng Gui Di Zi Nos. 410100201539057 and 410100201539058 in favour of Wanfang College of Science & Technology Henan Polytechnic University, permission towards the planning of the land with a total site area of approximately 166,812.58 square metres has been granted to Wanfang College of Science & Technology Henan Polytechnic University. We have not been provided with any title certificate for the parcel of land. As advised by the Group, Zhengzhou Technology and Business University is in process of applying for the relevant land use rights certificate.
3. For the 29 completed buildings of the property, we have not been provided with any title certificate. As advised by the Group, Zhengzhou Technology and Business University is in process of applying for the relevant building ownership certificates.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Adviser, which contains, *inter alia*, the following:
 - a. For the land use rights of the allocated land mentioned in note 1, Wanfang College of Science & Technology Henan Polytechnic University has obtained land use right certificates and is entitled to occupy and use the relevant lands in terms of the prescribed use stated in the land use rights certificates. After obtaining the approval from the competent authority, Wanfang College of Science & Technology Henan Polytechnic University could transfer, lease and mortgage the land use

rights. According to the Letter (Jiao Fa Han No. [2016] 95) from Ministry of Education of the People's Republic of China dated on 21 April 2016, Wanfang College of Science & Technology Henan Polytechnic University has been converted into Zhengzhou Technology and Business University. Zhengzhou Technology and Business University is in process of updating the registered name of the land use rights;

- b. For the land use rights mentioned in note 2, Zhengzhou Technology and Business University has not obtained the land use rights certificate. According to Certification from Land Resource Bureau of Zhongmou County dated on 10 August 2016, the likelihood of the Land Resource Bureau of Zhongmou County taking back the land use rights or confiscating the buildings erected on this parcel of land is extremely low and there is no material legal impediment for Zhengzhou Technology and Business University to obtain the land use rights certificate for this parcel of land;
- c. For the buildings mentioned in note 3, Zhengzhou Technology and Business University has not obtained the Construction Work Planning Permits. According to Certification from Zhengzhou Urban and Rural Planning Bureau Zhengdong New District Branch dated on 12 August 2016, the likelihood of being penalised by the Zhengzhou Urban and Rural Planning Bureau Zhengdong New District Branch is extremely low;

For the buildings mentioned in note 3, Zhengzhou Technology and Business University has not obtained the Construction Work Commencement Permits and Construction Work Completion and Inspection Certificates. According to Certification from Construction Environmental Protection Bureau of Zhengzhou City Zhengdong District dated on 11 August 2016, the likelihood of being penalised by the Construction Environmental Protection Bureau of Zhengzhou City Zhengdong District is extremely low and there is no material legal impediment for Zhengzhou Technology and Business University to obtain the Building Ownership Certificates for the buildings through legal procedures.

- 5. In the valuation of this property, we have attributed no commercial value to the property due to the allocated land nature of the property and lack of title certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures (excluding the land element) would be in the sum of RMB793,083,000 as at the valuation date assuming all relevant title certificates have been obtained and they could be freely transferred.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 8 February 2017 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents Available for Inspection” in Appendix VI to this prospectus.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 8 February 2017 and include provisions to the following effect:

2.1 Classes of Shares

The authorised share capital of the Company consists of ordinary shares. The authorised share capital of the Company at the date of adoption of the Articles is HK\$500,000 divided into 50,000,000,000 shares of par value HK\$0.00001 each.

2.2 Directors**(a) *Power to allot and issue Shares***

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the Board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from Board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such

remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

- (i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

- (j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Articles of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Cayman Companies Law.

2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a

member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Cayman Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend

entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid, serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in

respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record, the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like

sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2016 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a

company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's length basis.

4 Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Cayman Companies Law requires that a company shall cause to be kept, proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by a Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their

shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents Available for Inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY, SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands on 25 April 2016 as an exempted company with limited liability. Our registered office address is at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in the section headed "Summary of the Constitution of our Company and Cayman Companies Law" in Appendix IV to this prospectus.

Our registered place of business in Hong Kong is at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 14 July 2016 with the Registrar of Companies in Hong Kong. Ms. Lai Siu Kuen has been appointed as the authorised representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

As at the date of this prospectus, our Company's head office is located at No. 21, 4/F, Block 10, 3 Mazhuang Street, Zhengdong New District, Zhengzhou, PRC.

2. Changes in the share capital of our Company

The following changes in the share capital of our Company took place during the two years immediately preceding the date of this prospectus:

- (a) On 25 April 2016, our Company allotted and issued 8,000 shares of par value of US\$1.00 each in the following manner:
 - (i) one share to Offshore Incorporations (Cayman) Limited, which was subsequently transferred to GuangYu Investment on the same day;
 - (ii) 7,999 shares to GuangYu Investment;
 - (iii) 420 shares to DaQin Investment Holdings Limited, which were subsequently transferred to GuangYu Investment on 17 July 2016;
 - (iv) 420 shares to QianLiMa Investment Holdings Limited, which were subsequently transferred to GuangYu Investment on 17 July 2016;
 - (v) 390 shares to Galaxie Investment Holdings Limited, which were subsequently transferred to GuangYu Investment on 17 July 2016;
 - (vi) 390 shares to YuGong Investment Holdings Limited, which were subsequently transferred to GuangYu Investment on 17 July 2016; and
 - (vii) 380 shares to JiuTian Investment Holdings Limited, which were subsequently transferred to GuangYu Investment on 17 July 2016.
- (b) On 7 September 2016, the authorised share capital of our Company was increased by HK\$500,000 divided into 50,000,000,000 Shares.
- (c) On 7 September 2016, our Company allotted and issued 2,250,000,000 Shares to GuangYu Investment for a total subscription price of HK\$22,500. On the same day, our Company repurchased and cancelled 10,000 shares of par value of US\$1.00 each from GuangYu Investment at an aggregate consideration of HK\$22,500 which was paid out of the proceeds of the subscription of the aforesaid 2,250,000,000 Shares.

- (d) On 7 September 2016, the authorised share capital of our Company was reduced by US\$50,000 divided into 50,000 shares of par value of US\$1.00 each.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this prospectus.

3. Changes in the share capital of our subsidiaries and consolidated affiliated entities

A summary of the corporate information and the particulars of our subsidiaries are set out in note 2 to the Accountants' Report as set out in Appendix I to this prospectus.

There has been no alteration in the share capital of any of our subsidiaries and consolidated affiliated entities of our Company within the two years immediately preceding the date of this prospectus.

Save for the subsidiaries mentioned in the Accountants' Report set out in Appendix I to this prospectus, our Company has no other subsidiaries.

4. Resolutions of the sole shareholder of our Company dated 8 February 2017

Written resolutions of the sole shareholder of our Company were passed on 8 February 2017, pursuant to which, among others:

- (a) conditional on (1) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as stated in this prospectus and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (2) the Offer Price having been determined; (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements; and (4) the Underwriting Agreements having been duly executed by the Underwriters and the Company:
- (i) the Global Offering was approved, and the proposed allotment and issue of the Offer Shares under the Global Offering were approved, and the Board was authorised to determine the Offer Price for, and to allot and issue the Offer Shares;
 - (ii) conditional on the Global Offering becoming unconditional, a general mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, otherwise than by way of the Global Offering, rights issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by the Company from time to time or allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association on a specific authority granted by our Shareholders in a general meeting, shall not exceed the sum of (i) 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme); and (ii) the aggregate nominal amount of the share capital of the Company purchased by the Company pursuant to the authority granted to the Directors as referred to in (a)(iv) below;

- (iii) the rules of the Share Award Scheme were approved and adopted and the Directors were authorised to make changes to the Share Award Scheme as may be required by the Stock Exchange and/or which they deem necessary and/or desirable and to allot, issue and deal with Shares pursuant thereto and to take all such actions as they consider necessary and/or desirable to implement or give effect to the Share Award Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;
 - (iv) conditional on the Global Offering becoming unconditional, a general mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase its own Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirement of the Listing Rules such number of Shares as will represent up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, excluding any Shares which may fall to be issued pursuant to the Share Award Scheme or the exercise of the options granted under the Pre-IPO Share Option Scheme; and
 - (v) the general mandate as mentioned in paragraph (iii) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (iv) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, excluding any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme); and
- (b) our Company conditionally approved and adopted the Memorandum and Articles of Association with effect from the Listing.

Each of the general mandates referred to in paragraphs (a)(iii), (a)(iv) and (a)(v) above will remain in effect until whichever is the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles; or
- the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

5. Repurchase of our own securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

(a) *Provision of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholder's approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our sole shareholder on 8 February 2017, the Repurchase Mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

(ii) *Source of funds*

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorised by the Articles and subject to the Cayman Companies Law. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorised by the Articles of Association and subject to the Cayman Companies Law.

(iii) *Trading restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A listed company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) *Status of repurchased Shares*

The listing of all purchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorised share capital under Cayman law.

(v) *Suspension of repurchase*

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) *Core connected persons*

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) *Funding of repurchases*

Repurchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. Our Directors may not repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Directors may make repurchases with profits of the Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles of Association and subject to Cayman Companies Law, out of capital.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for the Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 3,000,000,000 Shares in issue immediately following the completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), could accordingly result in up to approximately 300,000,000 Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be granted other than in exceptional circumstances.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an exclusive management consultancy and business cooperation agreement dated 7 September 2016 and entered into by and between (i) WFOE, (ii) YuHua Investment Management, (iii) the subsidiary(ies) of YuHua Investment Management described therein, namely Zhengzhou Technology and Business University, the list of which is to be updated to include the entities that YuHua Investment Management invests in and controls from time to time (including via contractual arrangements), including but not limited to companies, schools and related entities which YuHua Investment Management directly or indirectly holds more than 50% investment interests therein (together, the “**YuHua Investment Subsidiary Entities**”) and (iv) the Registered Shareholders, pursuant to which YuHua Investment Management and the Registered Shareholders agreed to engage WFOE as the exclusive service provider

- to provide YuHua Investment Management and YuHua Investment Subsidiary Entities with corporate management consultancy services, education management consultancy services, intellectual property licensing services as well as technical and business support services in return for service fees;
- (b) an exclusive call option agreement dated 7 September 2016 entered into by and between WFOE, YuHua Investment Management and the Registered Shareholders, pursuant to which the Registered Shareholders granted WFOE an exclusive, unconditional and irrevocable option to purchase from the Registered Shareholders all or part of the equity interests in YuHua Investment Management;
 - (c) an equity pledge agreement dated 7 September 2016 entered into by and between WFOE, YuHua Investment Management and Mr. Li, pursuant to which Mr. Li unconditionally and irrevocably pledged all of his equity interests in YuHua Investment Management to WFOE;
 - (d) an equity pledge agreement dated 7 September 2016 entered into by and between WFOE, YuHua Investment Management and Ms. Li, pursuant to which Ms. Li unconditionally and irrevocably pledged all of her equity interests in YuHua Investment Management to WFOE;
 - (e) an exclusive management consultancy and business cooperation agreement dated 7 September 2016 and entered into by and between (i) WFOE, (ii) Zhengzhou YuHua Education Investments, (iii) the subsidiaries of Zhengzhou YuHua Education Investments described therein, namely Zhengzhou YuHua Elite School, Xuchang YuHua Elite School, Jiyuan YuHua Elite School, Zhengzhou YuHua Elite Primary School, Jiaozuo YuHua Elite School, Luohe YuHua Elite School, Kaifeng YuHua Elite School and Xingyang YuHua Shengshi Elite School, the list of which is to be updated to include the entities that Zhengzhou YuHua Education Investments invests in and controls from time to time (including via contractual arrangements), including but not limited to companies, schools and related entities which Zhengzhou YuHua Education Investments directly or indirectly holds more than 50% investment interests therein (together, the “**Zhengzhou YuHua Subsidiary Entities**”) and (iv) the Registered Shareholders, pursuant to which Zhengzhou YuHua Education Investments and the Registered Shareholders agreed to engage WFOE as the exclusive service provider to provide Zhengzhou YuHua Education Investments and the Zhengzhou YuHua Subsidiary Entities with corporate management consultancy services, education management consultancy services, intellectual property licensing services as well as technical and business support services in return for service fees;
 - (f) an exclusive call option agreement dated 7 September 2016 entered into by and between WFOE, Zhengzhou YuHua Education Investments and the Registered Shareholders, pursuant to which the Registered Shareholders granted WFOE an exclusive, unconditional and irrevocable option to purchase from the Registered Shareholders all or part of the equity interests in Zhengzhou YuHua Education Investments;
 - (g) an equity pledge agreement dated 7 September 2016 entered into by and between WFOE, Zhengzhou YuHua Education Investments and Mr. Li, pursuant to which Mr. Li unconditionally and irrevocably pledged all of his equity interests in Zhengzhou YuHua Education Investments to WFOE;
 - (h) an equity pledge agreement dated 7 September 2016 entered into by and between WFOE, Zhengzhou YuHua Education Investments and Ms. Li, pursuant to which Ms. Li unconditionally and irrevocably pledged all of her equity interests in Zhengzhou YuHua Education Investments to WFOE;
 - (i) an exclusive management consultancy and business cooperation agreement dated 7 September 2016 and entered into by and between (i) WFOE, (ii) Zhengzhou Zhongmei Education Investments, (iii) the subsidiaries of Zhengzhou Zhongmei Education Investments described therein, namely Zhengzhou YuHua Elite Bilingual Kindergarten, Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten, Xuchang Weidu District YuHua Elite Bilingual Kindergarten, Xingyang YuHua Elite Kindergarten, Xinxiang Weibin District YuHua Elite Kindergarten, Hebi Qibin District YuHua Elite Bilingual Kindergarten, Luohe YuHua Elite Bilingual Kindergarten and Jiyuan YuHua Elite Bilingual Kindergarten, the list of which is to be updated to include the entities that Zhengzhou Zhongmei

Education Investments invests in and controls from time to time (including via contractual arrangements), including but not limited to companies, schools and related entities which Zhengzhou Zhongmei Education Investments directly or indirectly holds more than 50% investment interests therein (together, the “Zhengzhou Zhongmei Subsidiary Entities”) and (iv) the Registered Shareholders, pursuant to which Zhengzhou Zhongmei Education Investments and the Registered Shareholders agreed to engage WFOE as the exclusive service provider to provide Zhengzhou Zhongmei Education Investments and the Zhengzhou Zhongmei Subsidiary Entities with corporate management consultancy services, education management consultancy services, intellectual property licensing services as well as technical and business support services in return for service fees;

- (j) an exclusive call option agreement dated 7 September 2016 entered into by and between WFOE, Zhengzhou Zhongmei Education Investments and the Registered Shareholders, pursuant to which the Registered Shareholders granted WFOE an exclusive, unconditional and irrevocable option to purchase from the Registered Shareholders all or part of the equity interests in Zhengzhou Zhongmei Education Investments;
- (k) an equity pledge agreement dated 7 September 2016 entered into by and between WFOE, Zhengzhou Zhongmei Education Investments and Mr. Li, pursuant to which Mr. Li unconditionally and irrevocably pledged all of his equity interests in Zhengzhou Zhongmei Education Investments to WFOE;
- (l) an equity pledge agreement dated 7 September 2016 entered into by and between WFOE, Zhengzhou Zhongmei Education Investments and Ms. Li, pursuant to which Ms. Li unconditionally and irrevocably pledged all of her equity interests in Zhengzhou Zhongmei Education Investments to WFOE;
- (m) a cornerstone investment agreement dated 14 February 2017 entered into between our Company, BOCOM International Prosperity Investment Limited, the Sole Sponsor and First Capital Securities Limited, as further described in the section headed “Cornerstone Investor” in this prospectus; and
- (n) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

(a) Trademarks

(i) Trademarks registered in China

As at the Latest Practicable Date, we had no trademarks in the PRC which we consider to be or may be material to our business.

(ii) Trademarks registered in Hong Kong

As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong which we consider to be or may be material to our business:

| No. | Trademark | Registered owner | Class | Registration number | Expiry date |
|-----|-----------------------------------------------------------------|------------------|-------|---------------------|--------------|
| 1. | ^A YUHUA EDUCATION ^B YUHUA EDUCATION | Our Company | 41 | 303807847 | 14 June 2026 |
| 2. | ^A 宇華教育 ^B 宇华教育 ^C 宇华教育 | Our Company | 41 | 303809403 | 15 June 2026 |

(iv) Trademark applications pending in Hong Kong

As at the Latest Practicable Date, we had applied for the registration of the following trademarks in Hong Kong which we consider to be or may be material to our business:

| No. | Trademark | Applicant | Class | Application no. | Application Date |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------|-----------------|------------------|
| 1. | <div>A. </div> <div>B. </div> | Our Company | 41 | 303807838 | 15 June 2016 |
| 2. | <div>A. </div> <div>B. </div> | Our Company | 41 | 303939003 | 24 October 2016 |

(b) Copyrights

As at the Latest Practicable Date, we had no copyrights which we consider to be or may be material to our business.

(c) Patents

As at the Latest Practicable Date, we had no patents which we consider to be or may be material to our business.

3. Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be material to be or may be material to our business.

| No. | Domain name | Registered Owner | Expiry Date |
|-----|--------------------------|------------------|-----------------|
| 1. | chinayhedu.com | WFOE | 21 January 2018 |
| 2. | yhedugroup.com | WFOE | 21 January 2018 |
| 3. | yhshiyen.com | WFOE | 3 March 2017 |
| 4. | yuhua-china.com | WFOE | 21 January 2018 |
| 5. | yuhua-edu-investment.com | WFOE | 21 January 2018 |
| 6. | yuhuachina.com | WFOE | 21 January 2018 |
| 7. | yuhuaeducation.com | WFOE | 21 January 2018 |
| 8. | yuhua-inc.com | WFOE | 21 January 2018 |
| 9. | yuhuaschool.com | WFOE | 3 March 2017 |

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Particulars of Directors' service contracts and appointment letters****(a) Executive Directors**

Mr. Li entered into a service contract with our Company on 8 February 2017. The initial term of his service contract shall commence from the date of his appointment as an executive Director and continue for a period of three years after or until the third annual general meeting of the Company since the Listing Date, whichever is earlier, and shall be automatically renewed for successive periods of three years (subject always to re-election as and when required under the Articles), until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three months' prior notice in writing.

Each of our other executive Directors (i.e. Ms. Li and Ms. Qiu Hongjun) entered into a service contract with our Company on 8 February 2017. The initial term of their service contracts shall commence from the date of their appointment and continue for a period of three years after or until the third annual general meeting of the Company since the date of this prospectus, whichever is earlier (subject always to re-election as and when required under the Articles), until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three months' prior notice in writing.

The annual director's fees of the executive Directors payable by our Company are as follow:

| Executive Directors | RMB |
|----------------------------|------------|
| Mr. Li | 480,000 |
| Ms. Li | 480,000 |
| Ms. Qiu Hongjun | 120,000 |

(b) Independent non-executive Directors

Each of our independent non-executive Directors has entered into an appointment letter with our Company on 8 February 2017. The initial term for their appointment letters shall be three years from the date of this prospectus or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under these appointment letters, each of our independent non-executive Directors will receive an annual director's fee of HK\$200,000.

2. Remuneration of Directors

- (a) Remuneration and benefits in kind of approximately RMB0.474 million, RMB0.627 million and RMB0.687 million in aggregate were paid and granted by our Group to our Directors in respect of the years ended 31 August 2014, 2015 and 2016.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending 31 August 2017, is expected to be approximately RMB0.805 million in aggregate (excluding discretionary bonus).
- (c) None of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

3. Disclosure of interests

(a) *Interests and short positions of our Directors and the chief executive of our Company in the share capital of our Company and its associated corporations following completion of the Global Offering*

Immediately following completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme), the interests or short positions of our Directors and chief executives in the Shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) *Interest in Shares*

| Name of Director or chief executive | Nature of Interest | Relevant company | Number and class of securities ⁽¹⁾ | Approximate percentage of interest in our Company immediately after the Global Offering ⁽¹⁾ |
|-------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Mr. Li | Founder and beneficiary of a discretionary trust; interest in a controlled corporation; beneficial owner | GuangYu Investment ⁽²⁾ | 2,250,592,470 ⁽³⁾ | 75.02% |
| Ms. Li | Beneficiary of a discretionary trust; beneficial owner | GuangYu Investment ⁽²⁾ | 2,250,729,780 ⁽⁴⁾ | 75.02% |

Notes:

- (1) The calculation is based on the total number of 3,000,000,000 Shares in issue immediately after completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme).
- (2) The entire share capital of GuangYu Investment is wholly owned by Baikal Lake Investment, as the nominee of TMF (Cayman) Ltd., the trustee of Nan Hai Trust, which was established by Mr. Li (as the settlor) on 6 September 2016 as a discretionary trust for the benefit of among others, Mr. Li and Ms. Li. Each of Mr. Li (as the founder of Nan Hai Trust) and Ms. Li (as a beneficiary of Nan Hai Trust) is taken to be interested in 2,250,000,000 Shares held by GuangYu Investment upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
- (3) Includes Mr. Li's entitlement to receive up to 592,470 Shares pursuant to the exercise of options granted to him under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of those options.
- (4) Includes Ms. Li's entitlement to receive up to 729,780 Shares pursuant to the exercise of options granted to her under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of those options.

(ii) *Interest in associated corporations*

| Name of Director or chief executive | Nature of interest | Associated corporations | Amount of registered capital | Percentage of shareholding in the associated corporation |
|-------------------------------------|--------------------|------------------------------------------|------------------------------|----------------------------------------------------------|
| Mr. Li | Beneficial owner | YuHua Investment Management | RMB40,000,000 | 80% |
| | Beneficial owner | Zhengzhou YuHua Education Investments | RMB18,000,000 | 36% |
| | Beneficial owner | Zhengzhou Zhongmei Education Investments | RMB30,000,000 | 60% |
| Ms. Li | Beneficial owner | YuHua Investment Management | RMB10,000,000 | 20% |
| | Beneficial owner | Zhengzhou YuHua Education Investments | RMB32,000,000 | 64% |
| | Beneficial owner | Zhengzhou Zhongmei Education Investments | RMB20,000,000 | 40% |

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

For information on the persons who will, immediately following the completion of the Global Offering and taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, see the section headed “Substantial Shareholders” in this prospectus.

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Global Offering and taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such Capital.

4. Disclaimers

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;
- (b) none of the Directors or the experts named in the paragraph headed “— E. Other Information — 4. Consents of experts” in this section has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this prospectus;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (e) taking no account of any Shares which may be taken up under the Global Offering and allotted and issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (f) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

D. PRE-IPO SHARE OPTION SCHEME AND SHARE AWARD SCHEME

1. Pre-IPO Share Option Scheme

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme effective from 1 September 2016. The terms of the Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme will not involve the grant of options by us to subscribe for Shares after the Listing.

We have applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. See the section headed “Waivers from Compliance with the Listing Rules and Exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and Exemption in relation to the Pre-IPO Share Option Scheme” in this prospectus for more information.

(a) Purpose

The purpose of the Pre-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole. The Pre-IPO Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

(b) Who may join

Our Board (which expression shall, for the purpose of this paragraph, include a duly authorised committee thereof) may determine the persons belonging to any of the following classes of participants, who our Board considers, in its sole discretion, have contributed or will contribute to our Group, to take up options to subscribe for Shares:

- (i) any directors and employees of any member of our Group (including nominees and/or trustees of any employee benefit trusts established for them); and
- (ii) any advisers, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of our Group.

For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of these classes of participants shall not, by itself, unless our Directors otherwise so determine, be construed as a grant of option under the Pre-IPO Share Option Scheme.

The eligibility of any of these classes of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to the participant's contribution to the development and growth of our Group.

(c) Maximum number of Shares

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time shall not exceed 180,000,000 Shares (the "**Scheme Limit**").

(d) Performance targets

Unless our Directors otherwise determine and state in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Pre-IPO Share Option Scheme can be exercised.

(e) Subscription price for Shares

The subscription price in relation to each option granted under the Pre-IPO Share Option Scheme shall be HK\$0.00001 per Share.

A nominal consideration of RMB1.00 is payable upon acceptance of the grant of an option.

(f) Time of acceptance and exercise of option

An option may be accepted by a participant within ten business days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 20 years from the date of grant of the option subject to the provisions for early termination under the Pre-IPO Share Option Scheme.

(g) Cancellation of options granted

Any options granted but not exercised may be cancelled if the relevant grantee so agrees in writing. Issuance of new options to the same grantee may only be made if there are unissued options available under the Pre-IPO Share Option Scheme (excluding the cancelled options) and in compliance with the terms of the Pre-IPO Share Option Scheme.

(h) Lapse of an option

An option shall lapse automatically (to the extent not already exercised) on the earliest of the expiry of the period referred to in sub-paragraph (g) or:

- (i) the expiry of the periods or dates referred to in sub-paragraphs (j), (k), (l), (m) and (n);
- (ii) the date on which the grantee (being an employee or a director of the Group) ceases to be a participant by reason of the termination of his employment or engagement on the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment summarily;
- (iii) the date on which the grantee joins a company which the Board believes in its sole and reasonable opinion to be a competitor of our Company;
- (iv) the date on which the grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally;
- (v) unless our Board otherwise determines, and other than in the circumstances referred to in subparagraphs (m) or (n), the date the grantee ceases to be a participant (as determined by a Board resolution) for any other reason;
- (vi) the date on which the Board determines at its sole discretion that allowing the relevant grantee to exercise the option is not in the best interests of the Company; or
- (vii) the date on which the Board determines at its sole discretion that there is no reasonable prospect of obtaining the listing approval for the Shares to be issued pursuant to the exercise of the options from the Stock Exchange.

(i) Period of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme will remain in force for the period ending on the latest practicable date for ascertaining certain information contained in this prospectus prior to the printing of the prospectus (inclusive of the date).

(j) Rights on ceasing employment

If the grantee of an option is an eligible employee and ceases to be an eligible employee for any reason other than death, or for serious misconduct or other grounds referred to in sub-paragraph (l) below before exercising his or her option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was physically at work with our Group whether salary is paid in lieu of notice or not.

(k) Rights on death

If the grantee of an option ceases to be a participant by reason of his death, before exercising the option in full, the personal representative(s) of the grantee shall be entitled to exercise the option in whole or in part within a period of 12 months following the date of death of the grantee.

(l) Rights on dismissal

If the grantee of an option ceases to be a participant by reason of the termination of his employment or engagement on the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment summarily, his option will lapse automatically.

(m) Rights on a general offer, a compromise or arrangement

If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) is made to our Shareholders (other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the Company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise the option to its full extent or, if our Company shall forthwith give the relevant notification, to the extent notified by our Company, at any time within such period as shall be notified by our Company.

If a general offer for Shares by way of scheme of arrangement is made to all our Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company.

(n) Rights on winding up

In the event a notice is given by our Company to our Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to the grantee and the grantee (or in the case of the death of the grantee, his personal representatives(s)) may at any time within such period as shall be notified by our Company, subject to the provisions of all applicable laws, exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed general meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such option.

(o) Adjustments

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable by way of capitalisation of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding alterations (if any) shall be made to:-

- (i) the number or nominal amount of Shares comprised in each option so far as unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the option,

or any combination thereof, as the auditors or a financial adviser engaged by the Company for such purpose shall, at the request of the Company, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of the Company as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a Share to be issued at less than its nominal value. The capacity of the auditors or financial adviser (as the case may be) in this sub-paragraph is that

of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the grantees. The costs of the auditors or financial adviser (as the case may be) shall be borne by the Company.

(p) Others

The Pre-IPO Share Option Scheme is conditional on the Listing Committee granting or agreeing to grant approval of (subject to such condition as the Stock Exchange may impose) the listing of and permission to deal in such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Scheme and the commencement of dealings in the Shares on the Stock Exchange. Application has been made to the Listing Committee for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Pre-IPO Share Option Scheme.

Any alterations to the terms and conditions of the Pre-IPO Share Option Scheme which are of a material nature or any change to the terms of options granted (except changes made to the terms and conditions of options granted at the request of the Stock Exchange and/or other regulatory authorities) must be approved by our Shareholders in a general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Pre-IPO Share Option Scheme.

Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Pre-IPO Share Option Scheme shall be approved by our Shareholders in a general meeting.

(q) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Pre-IPO Share Option Scheme as if they had been granted as of the Latest Practicable Date. Any such valuation will have to be made on the basis of a certain option pricing model or other method that depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options granted as of the Latest Practicable Date would be based on a number of speculative assumptions that are not meaningful and would be misleading to investors.

(r) Outstanding options granted

The grant of options under the Pre-IPO Share Option Scheme to the grantees as set out below was approved by the Board to be made on 1 September 2016. The overall limit on the number of underlying Shares pursuant to the Pre-IPO Share Option Scheme is 180,000,000 Shares. The number of underlying Shares pursuant to the outstanding options granted under the Pre-IPO Share Option Scheme amounts to 180,000,000 Shares, representing 6% of the issued Shares immediately following the completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme). As at the Latest Practicable Date, we had granted options to 329 participants under the Pre-IPO Share Option Scheme. No further options have or will be granted under the Pre-IPO Share Option Scheme subsequent to the Latest Practicable Date. The exercise price of all the options granted under the Pre-IPO Share Option Scheme is HK\$0.00001 per Share.

(i) Directors and senior management

As of the Latest Practicable Date, our Directors and senior management had been granted options under the Pre-IPO Share Option Scheme to subscribe for a total of 56,336,000 Shares, representing approximately 1.88% of the issued share capital of our Company upon completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme).

The table below sets out the details of options granted to our Directors and senior management under the Pre-IPO Share Option Scheme:

| Name of grantee | Address | Exercise price | Number of Shares under the options granted | Date of grant | Option period | Approximate percentage of issued Shares immediately after completion of the Global Offering ^(Note) |
|-------------------------|-------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------------|---------------------|------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Mr. Li | 3/F (East), Unit 1, Block 7, Beida Huayuan 3 Mazhuang Street Zhengdong New District, Zhengzhou PRC | HK\$0.00001 per Share | 19,749,000 | 1 September 2016 | 5 years from the date of grant | 0.66% |
| Ms. Li | 6/F (West), Unit 1, Block 3, Beida Huayuan 3 Mazhuang Street Zhengdong New District, Zhengzhou PRC | HK\$0.00001 per Share | 24,326,000 | 1 September 2016 | 5 years from the date of grant | 0.81% |
| Xu Bin | 71 Xidan Shoupa Hutong Xicheng District, Beijing PRC | HK\$0.00001 per Share | 9,000,000 | 1 September 2016 | 4 years from the date of grant | 0.30% |
| Qiu Hongjun | 6/F (East), Unit 1, Block 3, Beida Huayuan 3 Mazhuang Street Zhengdong New District, Zhengzhou PRC | HK\$0.00001 per Share | 3,261,000 | 1 September 2016 | 15 years from the date of grant | 0.11% |
| Subtotal: four grantees | | | 56,336,000 | | | 1.88% |

Note:

The above table assumes that the options which granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

(ii) *Connected persons who are not Directors*

As of the Latest Practicable Date, nine connected persons of the Company (who are not Directors) were granted options under the Pre-IPO Share Option Scheme to subscribe for a total of 8,969,000 Shares, representing approximately 0.30% of the issued share capital of our Company upon completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme).

The table below shows the details of options granted to connected persons of our Company (who are not our Directors) under the Pre-IPO Share Option Scheme:

| Name of grantee | Position held | Address | Exercise price | Number of Shares under the options granted | Date of grant | Option period | Approximate percentage of issued Shares immediately after completion of the Global Offering ^(Note) |
|---------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------------------|--------------------------------------------|---------------------|---------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Ren Yandan (任豔丹) | Director of Zhengzhou YuHua Education Investments | No. 42, Block 1, No. 40 Yard, Dongli Road, Jinshui District, Zhengzhou, PRC | HK\$0.00001 per Share | 3,261,000 | 1 September 2016 | 20 years from the date of grant | 0.11% |

| Name of grantee | Position held | Address | Exercise price | Number of Shares under the options granted | Date of grant | Option period | Approximate percentage of issued Shares immediately after completion of the Global Offering ^(Note) |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------|--------------------------------------------|------------------|---------------------------------|---------------------------------------------------------------------------------------------------------------|
| Xu Zhongkun (徐仲昆) | Director of the University | No. 12, Block 96, No. 9 Yard, Weisi Road East, Jinshui District, Zhengzhou, PRC | HK\$0.00001 per Share | 1,630,000 | 1 September 2016 | 20 years from the date of grant | 0.05% |
| Miao Xinlan (苗新蘭) | School principal of Xingyang YuHua Shengshi Elite School and Kaifeng YuHua Elite School | 1 Mazhuang Street, Jinshui District, Zhengzhou, PRC | HK\$0.00001 per Share | 978,000 | 1 September 2016 | 10 years from the date of grant | 0.03% |
| Chen Bin (陳斌) | Director of the University | Zhangzhao Village, Zhangwan Township, Shaan County, Henan Province | HK\$0.00001 per Share | 978,000 | 1 September 2016 | 20 years from the date of grant | 0.03% |
| Sun Cui (孫翠) | School principal of Zhengzhou YuHua Elite Bilingual Kindergarten, Xingyang YuHua Elite Kindergarten, Xinxiang Weibin District YuHua Elite Kindergarten, Jiyuan YuHua Elite Bilingual Kindergarten and Xuchang Weidu District YuHua Elite Bilingual Kindergarten | No. 53, Block 5, No. 19 Yard, Renmin Road, Jinshui District, Zhengzhou, PRC | HK\$0.00001 per Share | 818,000 | 1 September 2016 | 20 years from the date of grant | 0.03% |
| Ge Cong (葛聰) | Director of the University and spouse of Ms. Li | 201 Huanchengxi Road, Qinghua Town, Boai County, Henan Province | HK\$0.00001 per Share | 326,000 | 1 September 2016 | 20 years from the date of grant | 0.01% |
| Liu Shengbing (劉升兵) | Director of Zhengzhou YuHua Elite School | No. 20, Block 6, 3 Mazhuang Street, Jinshui District, Zhengzhou, PRC | HK\$0.00001 per Share | 326,000 | 1 September 2016 | 20 years from the date of grant | 0.01% |
| Gu Chaowei (谷朝偉) | Director of Xingyang YuHua Shengshi Elite School | 1 Mazhuang Street, Jinshui District, Zhengzhou, PRC | HK\$0.00001 per Share | 326,000 | 1 September 2016 | 20 years from the date of grant | 0.01% |
| Liu Tiemin (劉鐵民) | Director of Zhengzhou YuHua Education Investments | Group 28, Street Committee, Jingyue Street, Nangan District, Changchun, PRC | HK\$0.00001 per Share | 326,000 | 1 September 2016 | 20 years from the date of grant | 0.01% |
| Subtotal: nine grantees | | | | 8,969,000 | | | 0.30% |

Note:

The above table assumes that the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

(iii) Other grantees

As of the Latest Practicable Date, other than the four members of our Directors and senior management and the nine connected persons of our Company (who are not Directors), no options had been granted to any Directors, senior management or connected person of the Company under the Pre-IPO Share Option Scheme. Among these grantees, other than the four members of our Directors and senior management, 316 grantees have been granted options under the Pre-IPO Share Option Scheme to subscribe for a total of 114,695,000 Shares, representing approximately 3.82% of the issued share capital of our Company upon completion of the Global Offering (assuming the options granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme). Among these grantees: (i) 12 grantees were granted options ranging from 978,000 Shares to 1,630,000 Shares; (ii) 15 grantees were granted options ranging from 652,000 Shares to 818,000 Shares; (iii) 46 grantees were granted options ranging from 424,000 Shares to 489,000 Shares; (iv) 194 grantees were granted options ranging from 261,000 Shares to 326,000 Shares; and (v) 49 grantees were granted options ranging from 163,000 Shares to 196,000 Shares.

The table below shows the details of options granted to the other grantees under the Pre-IPO Share Option Scheme:

| Exercise Price | Number of Shares under the options granted | Date of grant | Option period | Approximate percentage of issued Shares immediately after completion of the Global Offering ^(Note) |
|------------------------|--------------------------------------------|------------------|---------------------------------------|---------------------------------------------------------------------------------------------------------------|
| HK\$0.00001 per Share | 114,695,000 | 1 September 2016 | up to 20 years from the date of grant | 3.82% |
| Subtotal: 316 grantees | 114,695,000 | | | 3.82% |

Note:

The above table assumes that the options which granted under the Pre-IPO Share Option Scheme are not exercised and no Shares are granted under the Share Award Scheme.

(s) Ranking of Shares

Shares allotted and issued upon the exercise of an option shall be identical to the then existing issued shares of our Company and subject to all the provisions of the Memorandum and Articles and will rank pari passu with the fully paid Shares in issue on the date the name of the grantee is registered on the register of members of our Company or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of the Company) declared or recommended or resolved to be paid to the Shareholders on the register on a date prior to such registration.

Unless the context otherwise requires, references to “Shares” in this sub-paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(t) Termination

Our Company may by ordinary resolution in a general meeting or the Board may at any time resolve to terminate the operation of the Pre-IPO Share Option Scheme prior to the expiry of the Pre-IPO Share Option Scheme and in such event no further options shall be offered or granted but the provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

2. Share Award Scheme

The following is a summary of the principle terms of the Share Award Scheme conditionally adopted by the resolutions in writing of our sole shareholder on 8 February 2017. The Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the Share Award Scheme is to align the interests of Eligible Persons (as defined below) with those of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group.

(b) Eligible Persons

Any individual, being an employee, director, officer, consultant, adviser, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group is eligible to receive an Award (as defined in paragraph (c) below). However, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Share Award Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board, compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Share Award Scheme.

(c) Awards

An Award gives a selected participant a conditional right, when the Shares vest, to obtain the Shares or, if in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, the cash equivalent from the sale of the Shares. An Award includes all cash income from dividends in respect of those Shares from the date the Award is granted (“**Grant Date**”) to the date the Award vests (“**Vesting Date**”). For the avoidance of doubt, the Board at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Shares be paid to the selected participant even though the Shares have not yet vested.

(d) Grant of Award

The Board or the committee of the Board or person(s) to which the Board has delegated its authority may, from time to time, at their absolute discretion, grant an Award to a selected participant (in the case of the Board’s delegate(s), to any selected participant other than a director or an officer of the Company) by way of an award letter (“**Award Letter**”). The Award Letter will specify the Grant Date, the number of Shares underlying the Award, the vesting criteria and conditions, the Vesting Date and such other details as the Board or its delegate(s) may consider necessary.

Each grant of an Award to any Director or the chief executive officer shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed recipient of the grant of an Award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of shares to connected persons of the Company.

The Board and its delegate(s) may not grant any Shares to any selected participant in any of the following circumstances:

- (i) where any applicable approval from any applicable regulatory authorities has not been granted;

- (ii) where any member of the Group will be required under applicable securities laws, rules or regulations to issue a prospectus or other offer documents in respect of such Award or the Share Award Scheme, unless the Board determines otherwise;
- (iii) where such Award would result in a breach by any member of the Group or its directors of any applicable securities laws, rules or regulations in any jurisdiction;
- (iv) where such grant of Award would result in a breach of the Share Award Scheme Limit (as defined below) or would otherwise cause the Company to issue Shares in excess of the permitted amount in the mandate approved by the Shareholders;
- (v) where any Director is in possession of unpublished inside information in relation to the Company or where dealings by Directors are prohibited under any code or requirement of the Listing Rules and all applicable laws, rules or regulations, from time to time;
- (vi) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (vii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

(e) *Maximum number of Shares to be granted*

The aggregate number of Shares underlying all grants made pursuant to the Share Award Scheme (excluding Shares which have been forfeited in accordance with the Share Award Scheme) will not exceed 9% of the aggregate nominal amount of the issued capital of the Company (excluding any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme) as of the Listing Date (i.e. 9% of 3,000,000,000 Shares) without further Shareholders' approval (the "**Share Award Scheme Limit**").

Under the current Share Award Scheme Limit, new Shares (up to 270,000,000 Shares) may be issued by the Company within 30 years of the Listing Date.

Save as otherwise restricted by the Share Award Scheme Limit or the Listing Rules, there shall be no limit on the total number of non-vested Shares that may be granted to a selected participant under the Scheme.

(f) *Scheme Mandate*

To the extent that the Share Award Scheme Limit is subsequently increased by way of alteration of the Share Award Scheme and the Company is required to issue and allot new shares to satisfy any Awards in excess of any amount previously approved by our Sole Shareholder or the Shareholders (as the case may be), the Company shall at a general meeting propose, and the Shareholders shall consider and, if thought fit, pass an ordinary resolution approving a mandate specifying:

- (i) the maximum number of new Shares that may be issued for this purpose;
- (ii) that the Board has the power to issue, allot, procure the transfer of and otherwise deal with the Shares in connection with the Share Award Scheme; and
- (iii) the mandate will remain in effect during the period from the passing of the ordinary resolution granting the mandate until the variation or revocation of such mandate by an ordinary resolution of the Shareholders in a general meeting.

(g) *Rights attached to the Award*

Save that the Board at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Shares be paid to the selected participants even though the Shares have not yet vested, the selected participant only has a contingent interest in the Shares underlying an Award unless and until such Shares are actually transferred to the selected participant, nor does he/she have any rights to any cash or non-cash income until the Shares and related income vest.

(h) *Rights attached to the Shares*

Any Shares transferred to a selected participant in respect of any Awards will be subject to all the provisions of the Memorandum and Articles of Association and will form a single class with the fully paid Shares in issue on the relevant date.

(i) *Assignment of Awards*

Any Shares granted under the Share Award Scheme but not yet vested are personal to the selected participants to whom they are granted and cannot be assigned or transferred. A selected participant shall not in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Award, or enter into any agreement to do so.

(j) *Vesting of Awards*

The Board or its delegate(s) may from time to time while the Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award to be vested.

If there is an event of change in control of the Company by way of a merger, a privatisation of the Company by way of a scheme or by way of an offer, the Board or the committee of the Board or person(s) to which the Board has delegated its authority shall at their sole discretion determine whether the Vesting Dates of any Awards will be accelerated to an earlier date.

(k) *Consolidation, subdivision, bonus issue and other distribution*

In the event the Company undertakes a subdivision or consolidation of the Shares, corresponding changes will be made to the number of outstanding Shares that have been granted provided that the adjustments shall be made in such manner as the Board or its delegate(s) determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Share Award Scheme for the selected participants. All fractional shares (if any) arising out of such consolidation or sub-division in respect of the Shares of a selected participant shall be deemed as returned shares ("**Returned Shares**") and shall not be transferred to the relevant selected participant on the relevant Vesting Date.

In the event of any non-cash distribution or other events not referred to above by reason of which the Board or its delegate(s) considers an adjustment to an outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding Shares of each selected participant as the Board or its delegate(s) shall consider as fair and reasonable, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Share Award Scheme for the selected participants.

(l) *Retirement, death or permanent physical or mental disability of an Eligible Person*

If a selected participant ceases to be an Eligible Person by reason of retirement of the selected participant, any outstanding Shares and related income not yet vested shall continue to vest in accordance with the Vesting Dates set out in the Award Letter, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant ceases to be an Eligible Person by reason of (i) death of the selected participant; (ii) termination of the selected participant's employment or contractual engagement with the Group or an affiliate

by reason of his/her permanent physical or mental disablement; or (iii) termination of the selected participant's employment or contractual engagement with the Group by reason of redundancy, any outstanding Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant, being an employee whose employment is terminated by the Group or an affiliate by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or the selected participant having been convicted of any criminal offence involving his or her integrity or honesty, any outstanding Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

(m) Grant of Shares under the Share Award Scheme

As at the date of this prospectus, no Shares have been granted or agreed to be granted under the Share Award Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the Share Award Scheme.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

So far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including any Shares which may fall to be issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Scheme and Shares that may be granted under the Share Award Scheme).

4. Consents of experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

| Name | Qualification |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| CITIC CLSA Capital Markets Limited | A licensed corporation to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| Tian Yuan Law Firm | Qualified PRC Lawyers |
| Maples and Calder (Hong Kong) LLP | Cayman Islands attorneys-at-law |
| PricewaterhouseCoopers | Certified public accountants |
| Asia-Pacific Consulting and Appraisal Limited | Property valuer |
| Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. | Independent industry consultant |

As at the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

5. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

6. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Preliminary expenses

As of 31 August 2016, the preliminary listing expenses incurred in relation to the Global Offering was approximately RMB10.4 million.

The Sole Sponsor will be paid by our Company a fee of US\$0.5 million to act as a sponsor to the Company in connection with the Listing.

8. Disclaimers

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.
- (b) Save as disclosed in this prospectus:
 - (i) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
 - (ii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.
- (c) Save as disclosed in the paragraph headed “— B. Further Information about our Business — 1. Summary of material contracts” in this section, none of our Directors or proposed Directors or experts (as named in

this prospectus), have any interest, direct or indirect, in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

- (d) We do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

9. Particulars of the Over-allotment Option Grantor

The particulars of the Over-allotment Option Grantor are as follows:

| | |
|--------------------------------|-----------------------------------------------------------------------------------|
| Name | : GuangYu Investment Holdings Limited |
| Description | : Controlling Shareholder |
| Registered Address | : Trinity Chambers, P.O. Box 4301 Road Town, Tortola British Virgin Islands |
| Number of Shares to be granted | : 112,500,000 Shares |

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of **white, yellow** and **green** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 4. Consents of experts” in Appendix V to this prospectus;
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about our Business — 1. Summary of material contracts” in Appendix V to this prospectus; and
- (d) the statement of particulars of the Over-allotment Option Grantor.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report and the report on the unaudited pro forma financial information of our Group prepared by PricewaterhouseCoopers, the texts of which are set out in Appendices I and II to this prospectus;
- (c) the audited combined financial statements of our Company for the three financial years ended 31 August 2014, 2015 and 2016;
- (d) the PRC legal opinions issued by Tian Yuan Law Firm, our legal adviser on PRC law, in respect of certain general corporate matters and property interests of our Group;
- (e) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser on Cayman Islands law, summarising certain aspects of the Cayman Companies Law referred to in Appendix IV to this prospectus;
- (f) the Cayman Companies Law;
- (g) the Valuation Report;
- (h) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 4. Consents of experts” in Appendix V to this prospectus;
- (i) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about our Business — 1. Summary of Material Contracts” in Appendix V to this prospectus;
- (j) the service contracts and the letters of appointment with our Directors referred to in the section headed “Statutory and General Information — C. Further Information about our Directors — 1. Particulars of Directors’ service contracts and appointment letters” in Appendix V to this prospectus;
- (k) the terms of the Pre-IPO Share Option Scheme and a list of grantees under the Pre-IPO Share Option Scheme;
- (l) the terms of the Share Award Scheme; and
- (m) the statement of particulars of the Over-allotment Option Grantor.



YUHUA
EDUCATION

宇华教育

诚信

Sincerity

勤奋

Diligence