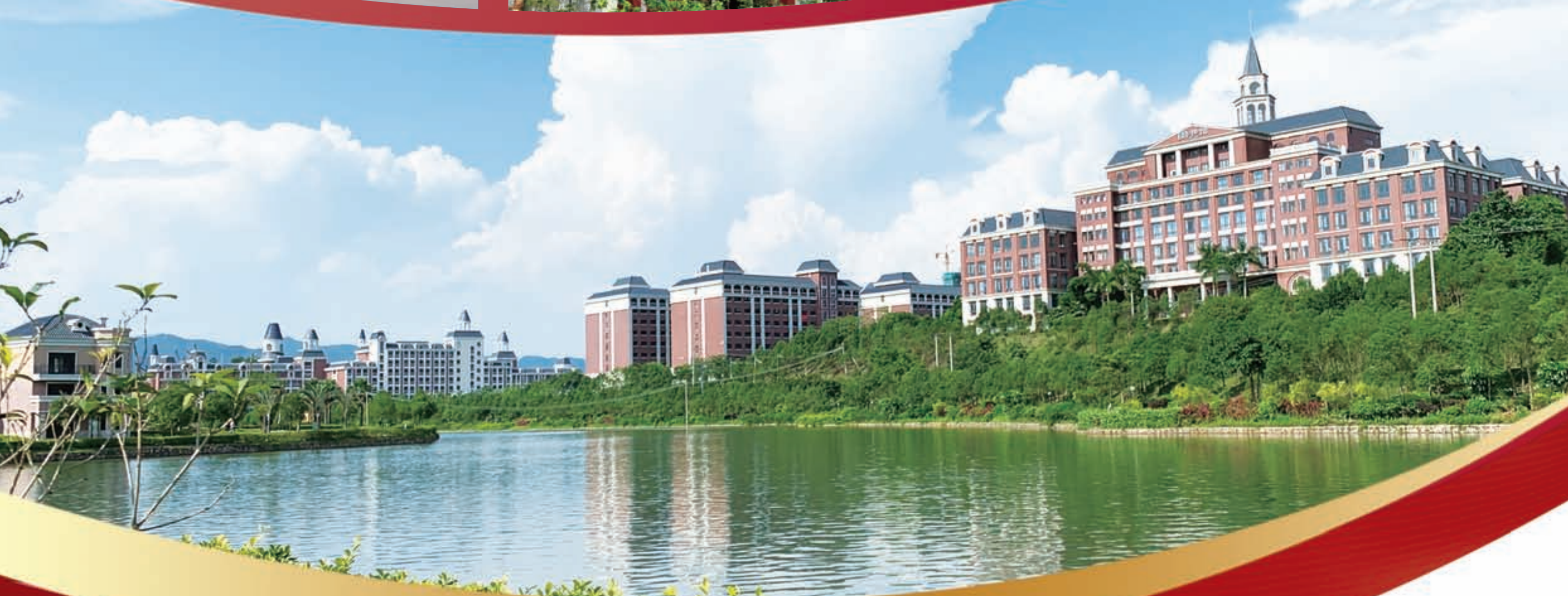
华立大学集团有限公司
Huali University Group Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1756

GLOBAL OFFERING



Sole Sponsor and Sole Global Coordinator

中信建投國際 CHINA SECURITIES INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

中信建投國際 CHINA SECURITIES INTERNATIONAL

交銀國際 BOCOM International

中國銀河國際 CHINA GALAXY INTERNATIONAL

第一上海 FIRST SHANGHAI GROUP

Joint Lead Managers

安信國際 ESSENCE INTERNATIONAL

首控集團 CHINA FIRST CAPITAL GROUP

HEUNGKONG FINANCIAL 香江金融

FOSUN HANI 復星恒利

zrpt 中融平和證券有限公司 ZHONGRONG PT SECURITIES LIMITED

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

Huali University Group Limited
华立大学集团有限公司

(Incorporated in the Cayman Islands with limited liability)

Global Offering

Total number of Offer Shares under the Global Offering	:	300,000,000 Shares
Number of Hong Kong Public Offer Shares	:	30,000,000 Shares (subject to adjustment)
Number of International Offer Shares	:	270,000,000 Shares (subject to adjustment)
Maximum Offer Price	:	HK$3.26 per Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	US$0.0001 per Share
Stock code	:	1756

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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 "Appendix VI – Documents Delivered to the Registrar of Companies and Available for Inspection" in 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 as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company on or around Tuesday, November 19, 2019 and, in any event, not later than Wednesday, November 20, 2019. The Offer Price will be not more than HK$3.26 per Offer Share and is currently expected to be not less than HK$2.93 per Offer Share, unless otherwise announced. Applicants for Hong Kong Public Offer Shares are required to pay, upon application, the maximum Offer Price of HK$3.26 per Offer Share for each Hong Kong Public Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK$3.26 per Offer Share. If, for any reason, the Offer Price is not agreed by Wednesday, November 20, 2019 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate and with our consent, reduce the number of Hong Kong Public Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK$2.93 to HK$3.26) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Public Offer Shares and/or the indicative Offer Price range will be published, 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 on the website of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.hualiuniversity.com. Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" 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.

Prospective investors of the Hong Kong Public Offer Shares should note that the obligations of the Hong Kong Public Offer Underwriters under the Hong Kong Public Offer Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Public Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – The Hong Kong Public Offering – Grounds for termination" 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 US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

November 14, 2019

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, November 19, 2019
Application lists open[3]	11:45 a.m. on Tuesday, November 19, 2019
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Tuesday, November 19, 2019
Latest time to give **electronic application instructions** to HKSCC[4]	12:00 noon on Tuesday, November 19, 2019
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, November 19, 2019
Application lists close[3]	12:00 noon on Tuesday, November 19, 2019
Expected Price Determination Date[5]	Tuesday, November 19, 2019

(1) Announcement of:

the 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

to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.hualiuniversity.com on or before	Friday, November 22, 2019
(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for Hong Kong Public Offer Shares – Publication of Results" from	Friday, November 22, 2019
(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**[6] and our Company's website at **www.hualiuniversity.com**[7] from	Friday, November 22, 2019
Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from	Friday, November 22, 2019
Dispatch Shares certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[8][9]	Friday, November 22, 2019

Dispatch of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[9][10]	Friday, November 22, 2019
Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on	Monday, November 25, 2019

Notes:

(1) All dates and times refer to Hong Kong dates and times, unless otherwise stated.

(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 "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, November 19, 2019, the application lists will not open and close on that day. Please refer to the section headed "How to Apply for Hong Kong Public Offer Shares – Effect of Bad Weather on the Opening of the Application Lists" in this prospectus. If the application lists do not open and close on Tuesday, November 19, 2019, the dates mentioned above may be affected. We will make an announcement in such event.

(4) Applicants who apply for the 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 – Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Tuesday, November 19, 2019, and, in any event, not later than Wednesday, November 20, 2019. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Wednesday, November 20, 2019, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) The announcement will be available for viewing on the "Main Board – Results of Allotment" page on the Stock Exchange's website at **www.hkexnews.hk**.

(7) Neither our Company's website nor any of the information contained in our Company's website forms part of this prospectus.

(8) Our Company will not issue any temporary documents of title in respect of the Shares. Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Friday, November 22, 2019, but will only become valid if the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date, which is expected to be Monday, November 25, 2019. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the share certificates do so entirely at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as possible.

(9) Applicants who apply on **WHITE** Application Forms for 1,000,000 or more Hong Kong Public Offer Shares under the Hong Kong Public Offering and have provided all information required on their Application Forms may collect any refund cheques and Share certificates (where applicable) in person 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, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, November 22, 2019. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to the Hong Kong Share Registrar.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Public Offer Shares under the Hong Kong Public Offering and have provided all information required on their Application forms may collect their refund cheques (if any) in person but may not elect to collect their certificates of Shares, which will be deposited into CCASS for the credit of their designated CCASS Participant stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for Hong Kong Public Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS".

Applicants who apply for 1,000,000 Hong Kong Public Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** and whose applications are wholly or partially successful, may collect their Share certificates in person from our Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, November 22, 2019. For applicants who apply for less than 1,000,000 Hong Kong Public Offer Shares, Share certificates will be sent to the address specified in their application instructions to the designated **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** on or before Friday, November 22, 2019, by ordinary post and at their own risk.

Applicants who paid the application monies from a single bank account may have e-Refund payment instructions (if any) dispatched to the application payment bank account on Friday, November 22, 2019. Applicants who used multi-bank accounts to pay the application monies may have refund cheques (if any) dispatched to them on or before Friday, November 22, 2019. Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be dispatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms promptly thereafter. Further information is set out in the section headed "How to Apply for Hong Kong Public Offer Shares – Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus.

(10) 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 in the event the final Offer Price is less than the price payable per Offer Share on application.

For details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Public Offer Shares, you should read the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Sole Global Coordinator, the Underwriters, any of their respective directors or affiliates, or any other person or party involved in the Global Offering.

CONTENTS

This summary is intended to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide whether to invest in the Offer Shares.

OVERVIEW

We are a leading large-scale private higher education and vocational education group in South China, offering applied science-focused and practice-oriented programs. As of October 31, 2019, we had an aggregate of 40,627 students enrolled at our three schools, namely Huali College, Huali Vocational College and Huali Technician College. According to the Frost & Sullivan Report, by the end of 2018, as measured by student enrollment, we ranked second among all private vocational education service providers in South China and ranked fourth among all private higher education service providers in South China.

Our schools offer private higher education and private vocational education in a wide range of fields in applied sciences with an aim to prepare our students with the necessary knowledge base, skill sets and accreditations to secure jobs and pursue careers in particular professions, trades and industries. We have designed our curricula with a distinct emphasis on practical, job-oriented content for a variety of majors that are in demand by potential employers in the Pearl River Delta. We conduct employer surveys and on-going research on industry trends and market demand and seek to continuously improve our major offerings and curricula to respond to the changing needs of the job markets. We have also structured our curricula to combine theoretical study with practical training as we believe practical training serves to enhance our students' ability to apply knowledge and skills to real-life situations and increase their likelihood of employment. We believe our market-focused major offerings, practical job-oriented curricula and practical training help our students to become more marketable to potential employers.

We have a track record of nurturing candidates with practical and readily applicable technical skills for many corporate employers including national and local, well-known companies and institutions. We have established a broad network of over 800 corporate employers, primarily located in the Pearl River Delta, through which we are able to assist our students in obtaining internships and job opportunities. We have also built strong relationships with certain corporate employers and offer customized courses designed to recruit and train students that suit the needs of these specific employers upon graduation. The quality of our education, our extensive employer network and dedicated job placement services allow us to achieve high Initial Employment Rates. For the 2017/2018 school year, our Initial Employment Rate of Huali College, Huali Vocational College and Huali Technician College was 95.9%, 93.5% and 98.4%, respectively, ranking them in the top tier among similar schools in South China. We believe that our graduate employment record attests to the effectiveness of our educational approaches as well as helping to enhance our reputation, raise our profile and attract more students.

We believe the quality of our education programs, evidenced by our high Initial Employment Rates, has helped us enhance our reputation and achieve steady growth in our revenue and gross profit over the Track Record Period. Our revenue increased from RMB578.2 million for the year ended August 31, 2017 to RMB608.0 million for the year ended August 31, 2018 and further increased to RMB674.8 million for the year ended August 31, 2019. Our gross profit increased from RMB319.4 million for the year ended August 31, 2017 to RMB334.4 million for the year ended August 31, 2018 and further increased to RMB367.8 million for the year ended August 31, 2019. For the years ended August 31, 2017, 2018 and 2019, our gross profit margin was 55.2%, 55.0% and 54.5%, respectively.

Our Educational Philosophy

Our fundamental educational philosophy is, based on offering applied science-focused higher education, guided by social responsibility and human development, to cultivate talent with high moral characters, knowledge and practical skills, and pragmatic and innovative characteristics. We are also committed to continuously enhancing our school management and social service capabilities, aiming to create value for the education services provided by our "Huali" schools.

Our Schools

Overview

We operate three schools in Guangdong Province, all of which grant government-accredited degrees or certifications, including:

- Huali College: a private independent college, offering four- to five-year undergraduate programs granting bachelor degrees accredited by the MOE, which we operate in cooperation with Guangdong University of Technology. For more details on our arrangements with Guangdong University of Technology, please refer to "Business – Our Schools – Huali College – Cooperation Agreements with Guangdong University of Technology" in this prospectus;

- Huali Vocational College (including Zengcheng campus and Yunfu campus): a formal higher education institution, offering three-year vocational programs granting junior college diplomas accredited by the MOE; and

- Huali Technician College (including Zengcheng campus and Yunfu campus): a private technician school primarily offering three-year, full-time vocational programs granting technician diplomas of Huali Technician College accredited by the Department of Human Resources and Social Security of Guangdong Province and short-term intensive vocational programs.

We set forth below some general information of our schools as of the Latest Practicable Date:

School / Location	Year of Establishment	Service	Academic Structure and Major Offerings
Huali College – Zengcheng District, Guangzhou City, Guangdong Province	Founded in 2001 as a private secondary college affiliated with Guangdong University of Technology and was approved by the MOE in 2004 to become one of the first private independent colleges in Guangdong to offer undergraduate programs	Higher education(1)	33 majors in eight departments, including the department of computer and information engineering, the department of urban construction, the department of media and art design, the department of management, the department of accounting, the department of economics and foreign languages, the department of electromechanical engineering and a department of international studies organized for students enrolled in the international programs
Huali Vocational College – Zengcheng District, Guangzhou City, Guangdong Province – Yunfu City, Guangdong Province	Founded in 2005 as a formal higher education institution and offers three-year vocational programs granting junior college diplomas accredited by the MOE	Higher education and vocational education(1)	31 majors in eight departments, including the department of media and art, the department of urban construction, the department of electronic and intelligent manufacturing, the department of management, the department of computer and information engineering, the department of health, the department of international economics and foreign languages and the department of accounting

School / Location	Year of Establishment	Service	Academic Structure and Major Offerings
Huali Technician College – Zengcheng District, Guangzhou City, Guangdong Province – Yunfu City, Guangdong Province	Commenced operation in 2000 as a private tertiary vocational school, and it was certified as a state key vocational school in 2005	Vocational education(1)	26 majors in 11 departments, including the department of art design, the department of computer, the department of accounting, the department of construction management, the department of international trade, the department of management, the department of commerce, the department of cuisine, the department of automobile, the department of electromechanics and the department of intelligent manufacturing

Note:

(1) Higher education is provided by either junior colleges or universities granting different diplomas/degrees. Vocational education includes both secondary vocational education and higher vocational education. Secondary vocational education is provided by technician schools (技工學校), vocational high schools (職業高中) and specialized secondary schools (中等專業學校). Higher vocational education is provided by junior colleges which generally offer three-year vocational programs. Please refer to the diagram set out under the section headed "Industry Overview – Overview of the PRC Education System" in this prospectus for more details.

Our Students

As of October 31, 2019, we had an aggregate of 40,627 students enrolled in our three schools, including 17,794 students at Huali College, 14,175 students at Huali Vocational College and 8,658 students at Huali Technician College.

The following table sets forth the information relating to student enrollment and revenue from tuition fees for each of our schools for the school years indicated:

School	Student Enrollment				Tuition fees		
	School Year(1)				Year ended August 31,		
	2016/2017	2017/2018	2018/2019	2019/2020	2017	2018	2019
					RMB'000	RMB'000	RMB'000
Huali College	14,092	13,003	15,126	17,794	244,895	248,982	323,333
Huali Vocational College	12,822	13,341	13,044	14,175	179,139	202,718	203,166
– Zengcheng campus	12,822	13,341	12,404	13,119			
– Yunfu campus(2)	-	-	640	1,056			
Huali Technician College	11,874	10,342	9,050	8,658	114,471	114,038	103,222
– Zengcheng campus	10,149	9,503	8,304	7,475			
– Yunfu campus	1,725	839	746	1,172			
Total	38,788	36,686	37,220	40,627	538,505	565,738	629,721

Notes:

(1) Except as specified otherwise in this prospectus, we present our business operating data as of August 31 for each of the school years. Operating data for the 2019/2020 school year was as of October 31, 2019.

(2) The Huali Vocational College Yunfu Campus commenced operations in September 2018.

Our Teachers

We believe the quality of education we provide is strongly tied to the quality of our teachers. We consider that teachers who possess the required industry expertise and practical experience, and are capable and dedicated to teaching will be instrumental in shaping the learning habits of our students. We recruit teachers based on the size of our current student enrollment and the number of newly admitted students at the beginning of each school year. As of August 31, 2017, 2018 and 2019, we had an aggregate of 1,473, 1,452 and 1,650 teachers (full-time and part-time), respectively.

Our 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 August 31, 2017, 2018 and 2019. Our suppliers primarily comprise Guangdong University of Technology, construction and renovation companies, landscaping companies, book suppliers, furniture suppliers and teaching and office equipment vendors. For the years ended August 31, 2017, 2018 and 2019, purchases from our largest suppliers amounted to RMB68.0 million, RMB236.0 million and RMB306.7 million, respectively, accounting for 31.7%, 42.2% and 33.7%, respectively, of our total purchases for the relevant periods. For the years ended August 31, 2017, 2018 and 2019, purchases from our five largest suppliers amounted to RMB123.9 million, RMB418.6 million and RMB705.1 million, respectively, accounting for 57.8%, 74.8% and 77.4% of our total purchases for the relevant periods. Except for Guangzhou Gaobiao Construction Engineering Co., Ltd., none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date. Please refer to the section headed "Business – Customers and Suppliers" in this prospectus for more information.

THE AMENDMENT OF THE LAW FOR PROMOTING PRIVATE EDUCATION OF THE PRC AND THE MOJ DRAFT FOR COMMENTS

According to the Amendment, the school sponsors of private schools providing non-compulsory education may, at their own discretion, elect to register the schools as for-profit private schools or non-profit private schools, with the exception of private schools providing compulsory education, which can only be established as non-profit private schools.

The following table sets forth key differences between a for-profit private school and a non-profit private school under the Amendment:

Item	For-profit private school	Non-profit private school
Receipt of operating profits	School sponsors are allowed to receive operating profits, and the surplus from operations shall be handled in accordance with the provisions of the PRC Company Law and other applicable laws and regulations.	School sponsors are not allowed to receive operating profits, and all surpluses from operations shall be used for the operation of the school.
License and registration	Private school operating licenses and business licenses	Private school operating licenses and legal person certificate of private non-enterprise/ the legal person certificate of public institution
Fees to be charged	Determined based on school operating costs and market demands, and no prior regulatory approval is required	Determined pursuant to the fee charge regulations to be promulgated by the local governments
Tax treatment	Preferential tax treatment as stipulated by the state government	Same preferential tax treatment as public schools
Land	Acquired according to applicable PRC laws and regulations	Acquired through land allocation or other ways with governmental support and subsidy granted under the same principles as the public school
Public funding	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused state-owned assets	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused state-owned assets, and government grants, incentive funds and donations

Item	For-profit private school	Non-profit private school
Liquidation	The remaining assets of the school after liquidation shall be distributed to the school sponsors in accordance with the PRC Company Law.	The remaining assets of the school after liquidation shall be applied to the operation of other non-profit private schools. For schools established before the promulgation of the Amendment, prior to the remaining assets being used as such, school sponsors may apply for compensation or award from the school's remaining assets after liquidation.

Under the existing regulatory environment and based on the current interpretation of the Amendment and the relevant implementing regulations, we intend to register our three schools as for-profit private schools subject to the further detailed local rules and regulations regarding the conversion of existing schools as and when promulgated and brought into effect by relevant local government authorities. As advised by our PRC Legal Adviser, there remains uncertainties in the interpretation and application of the Amendment with respect to various aspects of the operations of a private school, such as the respective preferential tax treatment which may be enjoyed by for-profit private schools and non-profit private schools. We may not be able to fully evaluate or quantify the potential impact that the implementation of the Amendment may have on our business operations at this stage. We will closely monitor the progress of the promulgation of the implementation regulations under the Amendment and seek legal advice from our legal advisers from time to time and will update our Shareholders and investors in this regard by way of disclosure in announcements and/or annual/interim reports, as and when appropriate.

On August 10, 2018, the MOJ issued the MOJ Draft for Comments to seek public comments. The principal implications of the current form of the MOJ Draft for Comments on the operations of our Group based on our current understanding and interpretation as well as interviews with competent authorities are summarized below:

- *Our PRC Operating Entities*. As disclosed above, we intend to register our three schools as for-profit private schools. Accordingly, we may be required to increase the registered capital of both of Huali College and Huali Vocational College to not less than RMB200 million each, and increase the registered capital of Huali Technician College to not less than RMB10 million. We plan to use our internal resources to fund such capital increases if required, which could be a combination of the available reserves of our schools and/or capital injections by the school sponsor backed by cash and banking facilities available to us. We consider that the amount required to increase the registered capital would not materially adversely affect the financial position of our Group. Please refer to the section headed "Business – The Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments – The MOJ Draft for Comments – Implications for our PRC Operating Entities" in this prospectus for more information.
- *Huali College*. The MOJ Draft for Comments may have certain implications for Huali College's election to register as a for-profit private school. If the relevant laws and regulations require or education authorities request Huali College to convert into a stand-alone private university (not affiliated with the public school), we may terminate the Cooperation Agreements and comply with the local implementation rules. In this situation, the conversion of Huali College and termination of the Cooperation Agreements may impact us both operationally and financially, including (i) our cease of use of the brand name of Guangdong University of Technology, (ii) our cease of joint tuition support fees payment to Guangdong University of Technology, and (iii) our potential termination fees payable to Guangdong University of Technology. Please refer to the section headed "Business – The Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments – The MOJ Draft for Comments – Implications for Huali College" in this prospectus for further discussion and analysis.
- *Our expansion strategy.* The scope of our acquisition may be limited to for-profit private schools only. Please refer to the section headed "Business – Our Business Strategies – Continue to increase student enrollment through expanding our business operations in our

existing schools and further expand our school network in China and abroad" in this prospectus for details.

The MOJ has not provided the timeframe for the promulgation of the implementation rules for the Law for Promoting Private Education of the PRC. As of the Latest Practicable Date, no implementation rules for the Law for Promoting Private Education of the PRC had been promulgated.

OUR COMPETITIVE STRENGTHS

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

- We are a pioneer in the private education industry in China, operating top-ranked private higher education institutions and private vocational education institutions in South China;
- Our schools' strategic geographic location in Guangdong Province and our strong reputation for offering applied science-focused and practice-oriented formal higher education programs and vocational programs provide a strong basis for our business growth;
- We have achieved high Initial Employment Rates supported by our market-focused major offerings, practical job-oriented curricula and our access to a broad network of corporate employers;
- Our unified educational philosophy, centralized management structure and unique corporate culture enable us to achieve operating efficiency and replicate our success; and
- We have an experienced and proven senior management team.

OUR BUSINESS STRATEGIES

We intend to maintain and strengthen our leading positions in the private higher education industry and private vocational education industry in South China. To achieve this goal, we plan to pursue the following business strategies:

- Continue to enhance our reputation as a provider of private higher education and private vocational education;
- Continue to increase student enrollment through expanding our business operations in our existing schools and further expand our school network in China and abroad;
- Continue to improve our profitability by optimizing our pricing and sources of revenue;
- Continue to strengthen collaboration with corporate employers; and
- Continue to attract, incentivize and retain talented teachers and support their professional development.

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. Please refer to the section headed "Risk Factors" in 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 depends on our ability to maintain or raise the tuition fee rates and boarding fee rates we charge at our schools;
- Our business and results of operations depend on the number of students we may admit, which in turn is subject to the admission quotas approved by relevant education authorities and limited by the capacity of our school facilities;

- We are subject to uncertainties brought by the Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments;
- We may not be able to register Huali College as a for-profit private school or complete relevant procedures or obtain the government registrations under the current form of the MOJ Draft for Comments;
- We are exposed to concentration risks as all of our schools are located in Guangdong Province.

STRUCTURED CONTRACTS

For the details of the flow of economic benefits from our PRC Operating Entities and Huali Investment to our Group stipulated under the Structured Contracts, please refer to the section headed "Structured Contracts – Operation of the Structured Contracts" in this prospectus.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and the Global Offering, Huali Education will be interested in 75% of our Company's issued share capital. Huali Education is wholly-owned by the Trust Co under HL-Diamond Trust, which is a discretionary trust established by Mr. Zhang as the settlor and with Mr. Zhang being the sole discretionary beneficiary. Each of Mr. Zhang and Trust Co is deemed to be interested in the 75% of our Company's issued share capital directly held by Huali Education, and each of Mr. Zhang, Trust Co and Huali Education is regarded as a Controlling Shareholder under the Listing Rules. The Directors are satisfied that our Group is capable of carrying out its business independently from the Controlling Shareholders and their associates. Please refer to the section headed "Relationship with Controlling Shareholders" in this prospectus.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountant's Report set out in Appendix I to this prospectus. The summary financial data set forth below should be read together with our consolidated financial statements and the related notes, as well as the section headed "Financial Information".

Selected Consolidated Statements of Comprehensive Income

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	578,168	608,008	674,800
Cost of sales	(258,798)	(273,633)	(307,014)
Gross profit	319,370	334,375	367,786
Operating profit	251,803	270,225	272,960
Profit before income tax	194,688	200,112	227,013
Profit for the year	193,092	193,327	223,063

Our profit for the year remained stable at RMB193.3 million for the year ended August 31, 2018 compared with RMB193.1 million for the year ended August 31, 2017. Our profit for the year increased from RMB193.3 million for the year ended August 31, 2018 to RMB223.1 million for the year ended August 31, 2019, which was in line with our business growth.

Non-HKFRS Measure

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Adjusted Net Profit	201,102	213,244	253,379

The Adjusted Net Profit, which is unaudited in nature, represents profit for the year from continuing operations excluding the effects of (i) the listing expenses, (ii) interest expenses on discount of amounts due to a related party and (iii) fair value gains on investment properties. We add back interest expenses on discount of amounts due to a related party in the reconciliation mainly because they are non-recurring in nature and nominal interest expenses, which do not actually generate cash outflow. There will be no such expenses upon completion of payment of amounts due to a related party by April 30, 2020, pursuant to the relevant agreement. The Adjusted Net Profit is not a measure of performance under HKFRSs. We believe Adjusted Net Profit is a more accurate indication of our profitability and operating performance for the year ended August 31, 2017 and beyond. However, Adjusted Net Profit should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with HKFRSs, or as an alternative to cash flow as a measurement of liquidity. 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 period. Please refer to the section headed "Financial Information – Key Components of Our Results of Operations – Non-HKFRS Measure" in this prospectus for details. Potential investors should be aware that the Adjusted Net Profit measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

The following table reconciles our Adjusted Net Profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRSs, which is profit for the year:

	Year ended August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit for the year	193,092	193,327	223,063
Add:			
Listing expenses	5,133	6,910	10,661
Interest expenses on discount of amounts due to a related party	6,977	21,807	22,855
Less:			
Fair value gains on investment properties	4,100	8,800	3,200
Adjusted Net Profit	201,102	213,244	253,379

The following table sets forth the revenue from tuition and boarding fees for the periods indicated:

	Year ended August 31,					
	2017		2018		2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Tuition fees						
Huali College	244,895	42.4	248,982	41.0	323,333	47.9
Huali Vocational College	179,139	31.0	202,718	33.3	203,166	30.1
Huali Technician College	114,471	19.7	114,038	18.7	103,222	15.3
Total tuition fees	538,505	93.1	565,738	93.0	629,721	93.3
Boarding fees						
Huali College	13,407	2.3	16,302	2.7	21,234	3.2
Huali Vocational College	14,247	2.5	15,655	2.6	15,597	2.3
Huali Technician College	12,009	2.1	10,313	1.7	8,248	1.2
Total boarding fees	39,663	6.9	42,270	7.0	45,079	6.7
Total revenue	578,168	100.0	608,008	100.0	674,800	100.0

The following table sets forth the gross profit and gross profit margin of each of our schools for the years indicated:

	Year ended August 31,					
	2017		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Huali College	118,350	48.3	127,845	51.3	179,689	52.1
Huali Vocational College	109,764	61.3	117,231	57.8	106,351	48.6
Huali Technician College	86,384	75.5	83,627	73.3	77,312	69.4
Others	4,872	8.3	5,672	9.3	4,434	86.4
Total	319,370	55.2	334,375	55.0	367,786	54.5

Gross profit margin of Huali Vocational College decreased from 61.3% for the year ended August 31, 2017 to 57.8% for the year ended August 31, 2018, mainly due to an increase in the number of teaching staff. Gross profit margin of Huali Vocational College further decreased to 48.6% for the year ended August 31, 2019, mainly due to an increase in the number and compensation level of our teaching staff and an increase in depreciation and amortization primarily due to the additions of property, plant and equipment. For Huali Technician College, gross profit margin decreased from 75.5% for the year ended August 31, 2017 to 73.3% for the year ended August 31, 2018, mainly attributable to (i) an increase in the number of teaching staff and (ii) an increase in depreciation and amortization from the additions of property, plant and equipment as a result of the completion of construction and deployment of new school buildings. Gross profit margin of Huali Technician College further decreased to 69.4% for the year ended August 31, 2019, mainly attributable to (i) an increase in amortization from acquisition of land use rights for establishing a new junior college in Jiangmen City, Guangdong Province and (ii) an increase in utilities cost primarily because Huali Investment transferred the student dormitory buildings to our schools in September 2018, from when Huali Technician College started bearing utilities cost for the relevant dormitory buildings.

The following table sets forth the licensed capacity of our schools, indicating the maximum number of new student intake in the respective school year, for the school years indicated:

	Licensed Capacity		
	School Year		
	2016/2017	2017/2018	2018/2019
Huali College	3,940	4,655	5,214
Huali Vocational College	5,700	5,943	6,866

The following table sets forth the information relating to student enrollment and average tuition fees for each of our schools for the school years indicated:

School	School Year			Average Tuition Fees per student		
				Year ended August 31,		
	2016 /2017	2017 /2018	2018 /2019	2017 RMB	2018 RMB	2019 RMB
Student Enrollment						
Huali College	14,092	13,003	15,126	17,378	19,148	21,376
Huali Vocational College	12,822	13,341	13,044	13,971	15,195	15,576
– Zengcheng campus	12,822	13,341	12,404	-	-	-
– Yunfu campus	-	-	640	-	-	-
Huali Technician College	11,874	10,342	9,050	9,640	11,027	11,406
– Zengcheng campus	10,149	9,503	8,304	-	-	-
– Yunfu campus	1,725	839	746	-	-	-
Total	38,788	36,686	37,220	13,883	15,421	16,919

We provide school dormitories for our students in Zengcheng campuses. We generally require our students to reside in our school dormitories in Zengcheng during their study (except for the last school year when they engage in off-campus internships). Therefore, the capacity of the Zengcheng campuses of our schools is limited by the number of beds available in our school dormitories in Zengcheng. The following table sets forth the information relating to the overall capacity and utilization rate of Zengcheng campuses of our schools for the school years indicated:

	School Year		
	2016/2017	2017/2018	2018/2019
Capacity	25,970	27,896	28,082
Utilization Rate	95.0%	91.1%	91.7%

The following table sets forth the information relating to planned capacity (representing the planned capacity stated in the application documents for applying to establish each of the Yunfu campus) and utilization rate based on planned capacity of our Yunfu campuses for the school years indicated:

	School Year		
	2016/2017	2017/2018	2018/2019
Planned capacity			
Huali Vocational College Yunfu Campus	-	-	3,000
Huali Technician College Yunfu Campus	5,000	5,000	5,000
Utilization rate based on planned capacity			
Huali Vocational College Yunfu Campus	-	-	21.3%
Huali Technician College Yunfu Campus	34.5%	16.8%	11.2%

We do not own any school dormitories in our Yunfu campuses. We generally require our students to reside in the dormitories provided by Hualiyuan Technology, a connected person of the Company, located in close proximity to our Yunfu campuses during their study (except for the last school year when they engage in off-campus internships). We entered into a framework properties lease agreement with Hualiyuan Technology on August 28, 2019, pursuant to which Hualiyuan Technology will lease certain residential apartments to us to serve as school dormitories. For more details, please refer to the section headed "Connected Transactions – Continuing Connected Transactions – The Framework Properties Lease Agreement with Hualiyuan Technology" in this prospectus. We believe the planned capacity and utilization rate based on planned capacity provide more useful information in understanding the utilization status of our Yunfu campuses.

Selected Consolidated Balance Sheets

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Current assets	737,526	641,680	479,555
Current liabilities	1,165,206	893,201	1,435,690
Net current liabilities	427,680	251,521	956,135

As of August 31, 2017, 2018 and 2019, we had net current liabilities of RMB427.7 million, RMB251.5 million and RMB956.1 million, respectively. We had net current liabilities as of each of these dates primarily because (i) we recorded large amounts of contract liabilities, which primarily consisted of advanced payments of tuition fees and boarding fees received from students that we recognize as revenue proportionately over the relevant period of the applicable programs; (ii) we recorded substantial amounts due to related parties, which primarily consisted of payables to related parties in relation to the construction of our schools; (iii) we recorded substantial amounts of accruals and other payables, which primarily consisted of payables for the purchase of property, plant and equipment, payables for joint tuition support fees to Guangdong University of Technology, miscellaneous fees received from students, payables for property management service and government subsidies payable to students; and (iv) we had substantial amounts of outstanding bank loans which were primarily incurred to support our business expansion and fund our working capital. In addition, the net current liabilities position as of August 31, 2019 is also attributable to: (i) an increase in current liabilities portion of amounts due to Hualiyuan Technology, which was transferred from non-current liabilities; and (ii) the drop in cash and cash equivalents mainly due to payment for the purchase of property, plant and equipment and intangible assets for the expansion of Huali College and Huali Vocational College and for the acquisition of land use rights and property, plant and equipment for establishing a new junior college in Jiangmen City, Guangdong Province. Our current liabilities as of August 31, 2017, 2018 and 2019 included contract liabilities of RMB484.0 million, RMB555.9 million and RMB666.0 million, respectively, which will not result in any cash outflow but will be credited as our revenue in the next 12 months. We utilized a portion of the cash received in relation to contract liabilities to support our daily operations and finance the construction of our school buildings and facilities during the Track Record Period. Without taking into account such contract liabilities, we would have recorded a net current liability position (equal to the total current assets minus total current liabilities net of contract liabilities) of RMB290.1 million as of August 31, 2019, and a net current asset position (equal to the total current assets minus total current liabilities net of contract liabilities) of RMB56.3 million and RMB304.4 million as of August 31, 2017 and 2018, respectively.

We may record net current liabilities after the Listing. We expect to further improve our net current liabilities position by (i) receiving funds generated from our business operations; and (ii) receiving the net proceeds from the Global Offering.

In addition, the table below sets forth our net assets as of the dates indicated:

	As of August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Net assets	864,510	1,357,837	1,580,900

The fluctuations of our net assets during the Track Record Period were mainly attributable to: (i) the effect of profit for the respective year; (ii) a deemed distribution to the owner of the Company of RMB665.2 million recorded in April 2017. During the Track Record Period, the Planned Huali Vocational College Yunfu Campus, which was formerly owned by Hualiyuan Technology, was used and operated by us as an integral part of our business. Therefore, the Planned Huali Vocational College Yunfu Campus was included in our consolidated financial statements as if it had been consolidated from the earliest period presented. On April 30, 2017, we entered into an agreement with Hualiyuan Technology, pursuant to which we acquired the entire interest of the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology. Both the acquisition and the repayment for such acquisition constitute related party transactions. The consideration for such acquisition was determined at RMB732.7 million. However, the Planned Huali Vocational College Yunfu Campus has been used and accounted for since the earliest period presented. Therefore, the asset acquisition afterwards was in substance a deemed distribution to the owner of RMB665.2 million after discounting impact; and (iii) a capital injection from the owner of the Company of RMB300.0 million recorded in August 2018. Please refer to Notes 22(d) and 22(e) to the Accountant's Report in Appendix I to this prospectus.

Selected Consolidated Statements of Cash Flow

	Year ended August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Operating cash flows before changes in working capital	340,190	356,767	370,976
Net cash generated from operating activities	216,548	334,939	444,874
Net cash used in investing activities	(48,928)	(333,770)	(803,247)
Net cash generated from/(used in) financing activities	83,267	(25,850)	188,288
Net increase/(decrease) in cash and cash equivalents	250,887	(24,681)	(170,085)
Cash and cash equivalents at beginning of the year	397,455	648,342	623,661
Cash and cash equivalents at end of the year	648,342	623,661	453,576

We recorded relatively low net cash generated from operating activities during the year ended August 31, 2017 as compared to that for the years ended August 31, 2018 and 2019 primarily due to the decrease in cash inflow from the tuition fees we received during the year ended August 31, 2017 as Huali Vocational College had a relatively late commencement of its 2017/2018 school year and part of the tuition fees was collected in September 2017. The relatively low net cash generated from operating activities during the year ended August 31, 2017 was also attributable to our payment of part of the overdue joint tuition support fees before and after the entry into the supplemental agreement with Guangdong University of Technology.

We expect to improve our cash flow position through receiving funds generated from our business operations, bank borrowings, net proceeds from the Global Offering and other funds raised from the capital markets from time to time upon the Listing. In addition, in December 2017, Hualiyuan Technology has agreed and committed that it will not demand repayment of the outstanding amounts before April 30, 2020. We have sufficient financial resources to repay Hualiyuan Technology accordingly. For the major terms of the relevant banking facilities, please see "Financial Information – Current Assets and Current Liabilities" in this prospectus.

Key Financial Ratios

	As of/for the year ended August 31,		
	2017	2018	2019
Gross profit margin	55.2%	55.0%	54.5%
Net profit margin	33.4%	31.8%	33.1%
Adjusted net profit margin	34.8%	35.1%	37.5%
Return on assets	5.8%	5.5%	5.6%
Return on equity	17.6%	17.4%	15.2%
Current ratio	0.6	0.7	0.3
Liabilities to assets ratio	74.4%	62.5%	63.5%
Debt to equity ratio	129.7%	61.3%	80.4%
Gearing ratio	204.7%	107.2%	109.1%

We had relatively higher debt to equity ratio and gearing ratio as of August 31, 2017 as compared to those as of August 31, 2018 and 2019, primarily because: (i) we had a significant amount of amounts due to related parties resulting from consideration payable to Hualiyuan Technology in relation to our acquisition of a 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology as of August 31, 2017; and (ii) our total equity was lower as of August 31, 2017 because the consideration payable in relation to our acquisition of a 95% interest in the Planned Huali Vocational College Yunfu Campus was treated as a deemed distribution by our Group to the Controlling Shareholders.

DIVIDENDS

Our Group currently does not have a pre-determined dividend policy. No (nil) dividend has been paid by our Company during the Track Record Period, nor has any dividend been proposed during the Track Record Period. 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 Memorandum and Articles and the 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. Please see "Financial Information — Dividends" in this prospectus.

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 30,000,000 Offer Shares; and (ii) the International Offering of 270,000,000 Offer Shares. The Offer Shares will represent 25% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering.

RECENT DEVELOPMENTS

Subsequent to August 31, 2019, being the date of our consolidated financial statements as set out in the Accountant's Report included in Appendix I to this prospectus and up to the Latest Practicable Date, our business experienced the following material developments:

We started on the implementation of our plan to (i) expand Huali College by constructing additional buildings in Zengcheng and (ii) expand Huali Vocational College by constructing additional buildings in Zengcheng and Yunfu. We also plan to establish a new junior college in Jiangmen City, Guangdong Province to provide higher education and vocational education and grant junior college diplomas accredited by the MOE. Please refer to the section headed "Business — Planned Expansion" in this prospectus for further details.

On August 10, 2018, the MOJ issued the MOJ Draft for Comments to seek public comments. Please refer to the section headed "Business — The Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments" in this prospectus for a summary of the principal implications of the MOJ Draft for Comments on the operations of our Group based on our current understanding and interpretation.

In addition, the Foreign Investment Law was approved by the National People's Congress on March 15, 2019 and will come into effect on January 1, 2020. See "Structured Contracts – Development in the PRC Legislation on Foreign Investment" in this prospectus for details, in particular its impact and consequences on our Group.

Our Directors expect that our financial performance for the year ending August 31, 2020 will be adversely affected by the listing expenses. Our Directors confirm that, save as disclosed above, there has been no material adverse change in our financial, operational or trading positions or prospects since August 31, 2019, being the date of our consolidated financial statements as set out in the Accountant's report included in Appendix I to this prospectus, and up to the date of this prospectus.

OFFERING STATISTICS

	Based on an Offer Price of HK$2.93 per share	Based on an Offer Price of HK$3.26 per Share
Market capitalization of our Shares(1)	HK$3,516 million	HK$3,912 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share(2)	HK$2.15	HK$2.23

Notes:

(1) The calculation of market capitalization is based on 1,200,000,000 Shares expected to be issued and outstanding following the completion of the Capitalization Issue and the Global Offering.

(2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II and based on 1,200,000,000 Shares expected to be issued and outstanding following the completion of the Capitalization Issue and the Global Offering.

LISTING EXPENSES

Listing expenses consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB74.9 million. Listing expenses of RMB32.8 million were incurred on or before August 31, 2019, of which RMB26.3 million was charged to our consolidated statements of comprehensive income, while the remaining amount of RMB6.5 million was recorded as prepayment and will be deducted from equity upon the completion of Global Offering. We estimate we will further incur underwriting commission and other listing expenses of approximately RMB42.1 million after August 31, 2019, of which RMB15.9 million will be charged to our consolidated statements of comprehensive income, and RMB26.2 million will be deducted from equity upon the completion of Global Offering.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$845.1 million after deducting underwriting commission and other estimated expenses payable by us in the Global Offering (of which RMB32.8 million has been incurred on or before August 31, 2019) and without taking into account any additional discretionary incentive fee, assuming an Offer Price of HK$3.095 per Share, being the mid-point of the indicative Offer Price range. We intend to use such net proceeds for the following purposes:

Use of Proceeds	% of the net proceeds	HK$ million
Expansion for our existing schools by constructing additional buildings for Huali College and Huali Vocational College	53	451.4
Establishment of a new junior college in Jiangmen City, Guangdong Province	37	309.2
Working capital and general corporate purposes	10	84.5

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$48.2 million, respectively. If the Offer Price is set at the low point of the indicative Offer Price range, we will decrease the allocation of the net proceeds to the above purposes on a pro-rata basis. If the Offer Price is set at the high point of the indicative Offer Price range, we will use such additional net proceeds for: (i) approximately HK$43.4 million for establishment of the new junior college in Jiangmen City, Guangdong Province as stated above; and (ii) approximately HK$4.8 million to fund our working capital and general corporate purpose.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other terms are defined in the section headed "Glossary and Technical Terms" in this prospectus.

"Adjusted Net Profit"	a non-HKFRS measure that eliminates the effect of certain non-cash and/or one-off items from our profit for the year, the details of which are set out in the section headed "Financial Information" in this prospectus
"affiliate"	any person, directly or indirectly, controlling or controlled by or under direct or indirect or common control with a specified person
"Application Form(s)"	WHITE, GREEN and YELLOW application form(s) or, where the context requires, any of them relating to the Hong Kong Public Offering
"Articles" or "Articles of Association"	the articles of association of our Company adopted on August 16, 2019 and which will become effective on 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 Companies Law" in Appendix IV to this prospectus
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Board of Directors" or "Board" or "our Board"	our board of Directors
"BPPE"	California Bureau for Private Post-Secondary Education, a unit of the California Department of Consumer Affairs charged with regulation of private Post-Secondary educational institutions operating in the State of California, the United States
"Business Cooperation Agreement"	the business cooperation agreement entered into by and among XZ Huali, Huali Investment, our PRC Operating Entities and the Registered Shareholder dated March 23, 2017 (supplemented on November 27, 2017 and August 30, 2018)
"Business Day"	any day (other than a Saturday or Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"California School"	a private higher education institute to be established by our Group in the State of California, United States
"Capitalization Issue"	the allotment and issue of Shares to be made upon capitalization of certain sums standing to the credit of the

	share premium account of our Company described in the section headed "Statutory and General Information" set out in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"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
"CCCPC"	Central Committee of the Communist Party of China
"China" or "PRC"	the People's Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"Chinese Government" or "PRC Government"	the government of the PRC, including the central government and all governmental and political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, as the context requires, any one or more of them
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
"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" or "our Company"	Huali University Group Limited (华立大学集团有限公司), an exempted company incorporated in the Cayman Islands under the Companies Law with limited liability on May 24, 2016. The expression "we", "us" and "our Company" may be used to refer to our Company or our Group as the context may require

"consolidated affiliated entities" or "consolidated affiliated entity"	the entities we control through the Structured Contracts, namely Huali Investment, Huali College, Huali Vocational College and Huali Technician College
"Controlling Shareholder(s)"	has the meaning as defined in the Listing Rules and, unless the context otherwise requires, refers to Mr. Zhang, Trust Co and Huali Education
"Cooperation Agreement(s)"	a series of cooperation agreements entered into between Huali Investment, in its capacity as the school sponsor of Huali College, and Guangdong University of Technology in April 2001, December 2004, June 2017 and September 2018, respectively, and a confirmation letter entered into among Huali Investment, Guangdong University of Technology and XZ Huali dated April 3, 2018. Please refer to the section headed "Business – Our Schools – Huali College – Cooperation Agreements with Guangdong University of Technology" in this prospectus for further details
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"Deed of Non-Competition"	the deed of non-competition entered into by Mr. Zhang and Huali Education, each being our Controlling Shareholder, in favor of our Company dated August 16, 2019
"Director(s)" or "our Director(s)"	the director(s) of our Company
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) adopted by the National People's Congress of the PRC on March 16, 2007, became effective on January 1, 2008 and amended on February 24, 2017 and further amended on December 31, 2018
"Equity Pledge Agreement"	the equity pledge agreement entered into by and among the Registered Shareholder, XZ Huali and Huali Investment dated August 30, 2018
"Exclusive Call Option Agreement"	the exclusive call option agreements entered into by and among the Registered Shareholder, Huali Investment, our PRC Operating Entities and XZ Huali dated March 23, 2017 and August 30, 2018
"Exclusive Technical Service and Management Consultancy Agreement"	the exclusive technical service and management consultancy agreement entered into by and among XZ Huali, Huali Investment and our PRC Operating Entities dated March 23, 2017 (supplemented on August 30, 2018)
"FIE"	a foreign-invested enterprise
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant commissioned by us to prepare the Frost & Sullivan Report

"Frost & Sullivan Report"	an independent market research report, commissioned by our Company on the PRC private education market and prepared by Frost & Sullivan
"GDP"	gross domestic product
"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
"Group" or "our Group", "the Group", "we", "us", or "our"	our Company, its subsidiaries, its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period before our Company became the holding company of its current subsidiaries, our Company's current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)
"HK$" or "HK dollars" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRS(s)"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"HL-Diamond Trust"	a discretionary family trust established by Mr. Zhang as settlor and with Mr. Zhang, who is of Chinese nationality and citizenship, being the sole discretionary beneficiary
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Public Offer Shares"	the 30,000,000 new Shares initially being offered for subscription by our Company at the Offer Price under the Hong Kong Public Offering (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus)
"Hong Kong Public Offer Underwriters"	the underwriters of the Hong Kong Public Offering led by the Sole Global Coordinator and expected to enter into the Hong Kong Public Offer Underwriting Agreement to underwrite the Hong Kong Public Offering, named in the section headed "Underwriting – Hong Kong Public Offer Underwriters" in this prospectus
"Hong Kong Public Offer Underwriting Agreement"	the conditional public offer underwriting agreement dated November 12, 2019 relating to the Hong Kong Public Offering entered into by, among others, our Company and the Hong Kong Public Offer Underwriters
"Hong Kong Public Offering"	the offer by our Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong as

	described in "Structure of the Global Offering" at the Offer Price (plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Huali College"	Huali College Guangdong University of Technology (廣東工業大學華立學院), a private independent college established under the laws of the PRC on January 11, 2006, and a consolidated affiliated entity of our Company
"Huali Education"	Huali Education Holdings Limited, a limited liability company incorporated in the BVI on May 12, 2016 and wholly owned by Trust Co and one of our Controlling Shareholders
"Huali (HK) Education"	Huali (HK) Education Investment Limited (香港華立教育投資有限公司), a limited liability company incorporated in Hong Kong on May 18, 2016 and an indirect wholly owned subsidiary of the Company
"Huali Investment"	Guangzhou Huali Investment Company Limited (廣州華立投資有限公司), being the school sponsor of each of the PRC Operating Entities, a company with limited liability established in the PRC on June 15, 1999 and a consolidated entity of our Company
"Huali Investment (Cayman)"	Huali Investment Holding Limited, an exempted company incorporated in the Cayman Islands under the Companies Law with limited liability on June 24, 2016, which is wholly owned by our Company
"Huali Property"	Guangdong Huali Property Company Limited (廣東華立地產集團有限公司), a company with limited liability established under the laws of the PRC on July 1, 2008 held as to 99% by Mr. Zhang and as to 1% by an Independent Third Party, and which is not a member of the Group
"Huali Shengrong"	Guangzhou Huali Shengrong Education Technology Company Limited (廣州華立盛榮教育科技有限公司), a wholly foreign-owned enterprise with limited liability established under the laws of the PRC on December 27, 2016, which is wholly owned by Huali (HK) Education
"Huali Technician College"	Guangdong Province Huali Technician College (廣東省華立技師學院), a private tertiary vocational school established under the laws of the PRC on August 20, 2003, of which the school sponsor's interest is wholly owned by Huali Investment, and a consolidated affiliated entity of our Company
"Huali Vocational College"	Guangzhou Huali Science and Technology Vocational College (廣州華立科技職業學院), a formal higher education institution established under the laws of the PRC on July 19, 2005, of which the school sponsor's interest is wholly owned by Huali Investment, and a consolidated affiliated entity of our Company

"Hualiyuan Technology"	Guangdong Hualiyuan Technology Company Limited (廣東華立園科技有限公司), a company with limited liability established under the laws of the PRC on January 6, 2004 held as to 99% by Mr. Zhang and as to 1% by Huali Property, and which is not a member of the Group
"Independent Third Party"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
"International Offer Shares"	the 270,000,000 new Shares initially being offered for subscription by our Company at the Offer Price under the International Offering subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus
"International Offering"	the conditional offering by the International Underwriters of the International Offer Shares for cash at the Offer Price plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in "Structure of the Global Offering" on and subject to the terms and conditions stated herein and in the International Underwriting Agreement
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the conditional placing and underwriting agreement relating to the International Offering and to be entered into by, among others, our Company and the International Underwriters on or about the date of the Price Determination Agreement
"Joint Bookrunners"	CSCI, BOCOM International Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited and First Shanghai Securities Ltd.
"Joint Lead Managers"	CSCI, BOCOM International Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited, First Shanghai Securities Ltd., Essence International Securities (Hong Kong) Limited, First Capital Securities Limited, HeungKong Securities Limited, Fosun Hani Securities Limited and Zhongrong PT Securities Limited
"Latest Practicable Date"	November 4, 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Lingmei Life Service"	Guangzhou Lingmei Life Service Company Limited (廣州領美生活服務有限公司), a company with limited liability established under the laws of the PRC on June 7, 2018 held as to approximately 99.9% by Mr. Zhang and approximately 0.1% by Mr. Zhang Zhifan, the brother of Mr. Zhang, and not a member of the Group
"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 Monday, November 25, 2019, on which the Shares are listed and from which dealings therein are permitted to take place on the Main Board of 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)
"Main Board"	the main board of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company adopted on August 16, 2019 and will become effective on the Listing Date, as amended from time to time
"MOE"	Ministry of Education of the PRC (中華人民共和國教育部)
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOJ"	Ministry of Justice of the PRC (中華人民共和國司法部)
"MOJ Draft for Comments"	the Draft Revision of the Implementation Rules for the Law for Promoting Private Education of the PRC (the Draft for Examination and Approval) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) issued by the MOJ on August 10, 2018 to seek public comments
"Mr. Zhang"	Mr. Zhang Zhifeng, our chairman, executive Director and one of our Controlling Shareholders
"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)
"Negative List"	the Foreign Investment Access Special Management Measures (Negative List) (2019 Version) (《外商投資准入特別管理措施(負面清單)(2019年版)》) issued by the NDRC and MOFCOM on June 30, 2019 and effective on July 30, 2019
"Offer Price"	the final Hong Kong dollar price per Offer Share (before brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which Shares are to be subscribed or purchased pursuant to the Global Offering, which will be not more than HK$3.26 and is expected to be not less than HK$2.93, to be determined as described in the section headed "Structure of the Global Offering – Pricing and Allocation – Determining the Offer Price" in this prospectus
"Offer Shares"	the Hong Kong Public Offer Shares and the International Offer Shares

"Pearl River Delta"	a PRC geographic region comprising Guangzhou, Shenzhen, Zhuhai, Dongguan, Foshan, Zhongshan, Huizhou, Jiangmen, Zhaoqing, Qingyuan, Yunfu, Yangjiang, Meizhou and Heyuan, all of which are located in Guangdong Province, the PRC
"Planned Huali Vocational College Yunfu Campus"	the school premises and campus facilities collaboratively developed by Huali Vocational College and Hualiyuan Technology in Yunfu. Please refer to the section headed "History, Reorganization and Corporate Structure – Acquisition of the Interest in the Planned Huali Vocational College Yunfu Campus" in this prospectus for more details
"PRC Company Law"	the Company Law of the PRC (《中華人民共和國公司法》), which was promulgated on December 29, 1993 and amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 and further amended on October 29, 2018
"PRC GAAP"	generally accepted accounting principles in the PRC
"PRC Legal Adviser"	Jingtian & Gongcheng, our legal adviser as to PRC laws
"PRC Operating Entities"	our consolidated affiliated entities, namely, Huali College, Huali Vocational College and Huali Technician College
"Price Determination Agreement"	the agreement to be entered into among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) at or about the Price Determination Date to fix the Offer Price
"Price Determination Date"	the date, expected to be on or about Tuesday, November 19, 2019 (Hong Kong time), when the Offer Price is determined and in any event no later than Wednesday, November 20, 2019
"Registered Shareholder"	Mr. Zhang, the sole shareholder of Huali Investment
"Registered Shareholder's Right Entrustment Agreement and Registered Shareholder's Power of Attorney"	the registered shareholder's right entrustment agreement and the registered shareholder's power of attorney entered into by and among Huali Investment, the Registered Shareholder and XZ Huali in favor of XZ Huali dated September 19, 2017 (supplemented on August 30, 2018)
"Regulation S"	Regulation S under the US Securities Act
"Reorganization"	the corporate reorganization of the companies within our Group conducted in preparation for the Listing, details of which are set out in the section headed "History, Reorganization and Corporate Structure" in this prospectus
"RMB"	Renminbi, the lawful currency of China
"SAFE"	State Administration of Foreign Exchange of China (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration

"SAMR"	The State Administration for Market Regulation (中國國家市場監督管理總局), consolidated from various governments, including the SAIC
"SAIC" or "State Administration for Industry and Commerce"	The State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently consolidated into the SAMR
"SARS"	severe acute respiratory syndrome, a viral respiratory disease
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"School Directors"	the directors nominated by Huali Investment to each of our PRC Operating Entities
"School Directors' Power of Attorney"	the school directors' power of attorney executed by each of the School Directors in favor of XZ Huali dated March 23, 2017 (supplemented on August 30, 2018, September 28, 2018, April 23, 2019, July 22, 2019 and October 10, 2019)
"School Sponsor's and Directors' Rights Entrustment Agreement"	the school sponsor's and directors' rights entrustment agreement entered into by and among Huali Investment, the School Directors and XZ Huali dated March 23, 2017 (supplemented on August 30, 2018, September 28, 2018, April 23, 2019, July 22, 2019 and October 10, 2019)
"School Sponsor's Power of Attorney"	the school sponsor's power of attorney executed by Huali Investment in favor of XZ Huali dated March 23, 2017
"SEC"	the US Securities and Exchange Commission
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of US$0.0001 each in the issued share capital of our Company
"Shareholder(s)"	holder(s) of Shares
"Sole Global Coordinator"	China Securities (International) Corporate Finance Company Limited
"Sole Sponsor" or "CSCI"	China Securities (International) Corporate Finance Company Limited
"South China"	Guangdong Province, Guangxi Province and Hainan Province of the PRC

"Spouse Undertaking"	the spouse undertaking executed by the spouse of the Registered Shareholder dated March 23, 2017 (supplemented on August 30, 2018)
"State Council"	The State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the School Sponsor's and Directors' Rights Entrustment Agreement, the School Sponsor's Power of Attorney, the School Directors' Power of Attorney, the Spouse Undertaking, and the Registered Shareholder's Right Entrustment Agreement and the Registered Shareholder's Power of Attorney further details of which are set out in the section headed "Structured Contracts" of this prospectus
"subsidiaries"	has the meaning ascribed to it in the Listing Rules. For the avoidance of doubt, include our PRC Operating Entities
"substantial shareholder(s)"	has the meaning as defined in the Listing Rules
"Takeovers Code"	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs
"Track Record Period"	the period comprising the three years ended August 31, 2019
"Trust Co"	HL-Diamond Limited, a holding vehicle incorporated in the BVI indirectly controlled by UBS Trustees (B.V.I.) Limited, the trustee of HL-Diamond Trust, to hold the entire issued share capital of Huali Education, and one of our Controlling Shareholders
"Underwriters"	the International Underwriters and the Hong Kong Public Offer Underwriters
"Underwriting Agreements"	the International Underwriting Agreement and the Hong Kong Public Offer Underwriting Agreement
"United States", "U.S." or "US"	the United States, as defined in Regulation S
"US Person"	has the meaning given to it in Regulation S
"US Securities Act"	the United States Securities Act of 1933 (as amended)
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"WHITE Application Form(s)"	the form of application for the Hong Kong Public Offer Shares for use by the public who require such Hong Kong Public Offer Shares to be issued in the applicants' own name
"White Form eIPO"	applying for Hong Kong Public Offer Shares to be issued in your own name by submitting applications online through the designated website at **www.eipo.com.hk**

"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"XZ Huali"	Xizang Huali Shengda Information Technology Limited (西藏華立盛大信息科技有限公司), an enterprise established under the laws of PRC on January 18, 2017, which is a wholly owned subsidiary of Huali Shengrong
"YELLOW Application Form(s)"	the form of application for the Hong Kong Public Offer Shares for use by the public who require such Hong Kong Public Offer Shares to be deposited directly into CCASS
"Yunfu Bilingual School"	Huali Bilingual School of Yunfu (Yun'an District) (雲浮市雲安區華立中英文學校), a private school established under the laws of the PRC on August 18, 2016, of which the school sponsor's interest is wholly owned by Hualiyuan Technology
"Yunfu Kindergarten"	Huali Shibaobao Kindergarten of Yunfu (Yun'an District) (雲浮市雲安區華立獅寶寶幼兒園), a private kindergarten established under the laws of the PRC on August 25, 2017, of which the school sponsor's interest is wholly owned by Hualiyuan Technology
"%"	percent

In this prospectus, the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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.

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

GLOSSARY AND TECHNICAL TERMS

This glossary of technical terms contains terms used in this prospectus in connection with us and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.

"degree"	an academic degree that recognizes completion of required length of study at an institution that is eligible to award such degree
"formal education"	a format of education in the PRC for which the curriculum is designed and delivered based on the predetermined teaching program of the administrative authorities for education. After graduation, students will be granted with official certificates or diplomas
"GFA"	gross floor area
"high schools"	schools that provide education for students from grade 10 through grade 12
"higher education"	a sub-sector of formal education that is also known as post-secondary education. It refers to an optional final stage of formal learning that occurs after secondary education, which is often delivered at universities or other college-level institutions that are able to award official academic degrees or certifications
"independent college"	a PRC higher educational institution that is run by non-government institution(s) or individual(s) based on cooperation with a public university or college, which is permitted to offer undergraduate and junior college courses
"non-formal education"	an education system through which students can only obtain completion certificates that are not officially recognized
"Initial Employment Rate"	the percentage of graduates who entered into full-time employment contracts, were self-employed, accepted an offer for higher degree or equivalent programs, or accepted an offer to pursue overseas study or employment, before graduation. There may be variation to the meaning of this term depending on the relevant school and type of graduates considered
"National Higher Education Entrance Exam"	a national academic examination held annually in the PRC, which is a prerequisite for entrance into almost all higher education institutions at the undergraduate level in the PRC
"National Higher Education Entrance Exam for Adults"	a national academic examination for adults held annually in the PRC. Upon achieving required grades in this examination and completion of required courses within a specified period after the examination, an adult may apply for an undergraduate degree
"private education"	education provided by private educational institutions which are established and operated by non-governmental institutions or individuals and their major source of funding comes from school operations

"private schools"	schools which are not administered by local, provincial or national governments
"public schools"	schools administered by local, provincial or national governments
"Qualification Requirement"	collectively refers to the Higher Education Qualification Requirement and Vocational Education Qualification Requirement, being the requirement that the foreign investor in a Sino-foreign joint venture school offering higher education and vocational education must being a foreign education entity with relevant qualification and experience, further details of which are set out in the section headed "Structured Contracts" of this prospectus
"school sponsor"	the individual(s) or entity(ies) that funds or holds interests in an educational institution
"school year"	the school year for all our school, which generally starts on September 1 of each calendar years and ends on August 31 of the next calendar year
"secondary education"	normally takes place after primary education and may be followed by higher education or vocational training
"secondary vocational education"	a sub-sector of formal education, which mainly provides three years of vocational education. Schools offering secondary vocational education primarily recruit students with a graduation certificate from middle schools or equivalent educational records
"Self-taught Higher Education Examinations"	a national academic examination for adults held biannually in the PRC. A person may select one or more majors and upon achieving required grades in course examinations required under the selected majors and completion of required thesis and tasks, the person may apply for a junior college diploma or undergraduate diploma in the selected majors
"sq. m."	square meters

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements other than statements of historical fact contained in this prospectus, including, without limitation, the discussion of our business strategies and expectation concerning future operations, margins, profitability, liquidity and capital resources, future developments of our industry and the future development of the general economy of our key markets and any statements preceded by, followed by or that include words and expressions such as “expect”, “seek”, “believe”, “plan”, “intend”, “estimate”, “project”, “anticipate”, “may”, “will”, “would” and “could” or similar words or statements, as they relate to our Group or our management, are intended to identify forward-looking statements.

These statements are based on many assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflect our current views on future events and are not a guarantee of our future performance. These forward-looking statements include, without limitation, statements relating to:

- our business operations and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals and our ability to implement such strategies, plans, objectives and goals;
- our ability to maintain or increase student enrollment;
- our ability to maintain or raise tuition fees;
- general economic conditions;
- our capital expenditure programs and future capital requirements;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section headed “Risk Factors” in this prospectus.

Forward-looking statements are subject to certain known and unknown risks, uncertainties and assumptions, including the risk factors described in this prospectus, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or developments or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all.

Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or that of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with the investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a materially adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and could cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our business depends on our ability to maintain or raise the tuition fee rates and boarding fee rates we charge at our schools.

One of the most significant factors affecting our profitability is the tuition fee rates we charge at our schools. During the Track Record Period, we derived all our revenue from tuition fees and boarding fees. Our tuition fee rates and boarding fee rates are primarily based on the demand for our educational programs, the cost of our operations, the geographic markets catered for by our schools, the tuition fee rates and boarding fee rates charged by our competitors, our pricing strategy to gain market share and general economic conditions in China and the region in which our schools are located.

We were historically required to make a filing with the relevant governmental authorities regarding our proposed tuition fee rate and boarding fee rate adjustments. Starting from October 11, 2016, such filing requirements have been revoked and we are only required to publish our proposed tuition fee rate and boarding fee rate adjustments to the public. Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC – Interim Measures for the Management of the Collection of Private Education Fees" in this prospectus for more details. Although regulatory approval for the tuition fee rates and boarding fee rates is no longer required, we cannot assure you that other types of regulatory pricing controls will not be promulgated in the future. If any other types of regulatory control on the tuition fee rates and boarding fee rates private schools may charge are promulgated in the future, it will directly impact our growth potential.

During the Track Record Period, all our schools have raised their tuition fee rates for certain majors. These increases were applicable to newly admitted students only, while other students were not affected by the fee increases and have continued to pay the tuition fees at pre-existing levels. In the future, we will consider raising tuition fee rates in line with our development strategy subject to our compliance with applicable laws and regulations regarding publicity of such increases in tuition fee rates. However, there can be no assurance that we will be able to maintain our competitiveness and our ability in attracting students to apply for our schools at such increased fee rates. If we fail to maintain or raise the tuition fee rates and boarding fee rates or attract sufficient prospective students at such increased fee rates, our business, financial condition and results of operations could be materially adversely affected.

Our business and results of operations depend on the number of students we may admit, which in turn is subject to the admission quotas approved by relevant education authorities and limited by the capacity of our school facilities.

Each year, each of our Huali College and Huali Vocational College has to submit the proposed number of new students it plans to admit for the coming year to the local educational authorities for approval. The number of students we may admit at each of our Huali College and Huali Vocational College is therefore subject to approval by the MOE and Department of Education of Guangdong Province on a year-by-year basis. The maximum number of new students each of our Huali College and Huali Vocational College may admit each year is therefore beyond our control. To the best of the Directors' knowledge, to determine whether to approve the admission quota proposed by each of our schools, the educational authorities take into account factors including the capacity of the educational facilities, equipment and teachers, the number of students already enrolled, quality of education, Initial Employment Rate, social recognition and reputation of the schools, result of annual inspection and educational conditions and policies.

In addition, the educational facilities of our schools are limited in space and size. We may not be able to admit all qualified students who would like to enroll in our schools due to the capacity constraints of our current school facilities. Moreover, as we generally require our students to reside in our school dormitories in Zengcheng campuses during their study (except for the last school year when they engage in off-campus internships), the student capacity of each of our schools in Zengcheng is limited by the number of beds available in our school dormitories. Since our school dormitories in Zengcheng campuses are shared by all our three schools, an increase in student capacity of one school will affect student capacity of the other schools in Zengcheng. For example, due to such school capacity limitations, we had to strategically reduce student enrollment at Huali College in the 2014/2015 school year so that we could increase student enrollment at Huali Technician College in order to promote our market recognition and gain more market share in private vocational education industry. In the absence of 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. 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 and campuses, we could lose potential students to our competitors, and our results of operations and business prospects could be materially adversely affected.

As we charge tuition fees for each enrolled student, the total number of enrolled students determines our total revenue. In the event there is any decrease in our originally expected number of student enrollment, our total revenue is unlikely to grow as expected or may decline, which in turn will have a materially adverse impact on our business, financial condition and results of operations. Please refer to the section headed "Business – Legal Proceedings and Compliance" in this prospectus for more details.

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

The Amendment

Our business is regulated by, among others, the Law for Promoting Private Education of the PRC. On November 7, 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (Order of the President of the PRC No. 55) (關於修改《中華人民共和國民辦教育促進法》的決定) (中華人民共和國主席令第55號) (the "**Amendment**") was promulgated. The Amendment came into force on September 1, 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. Please refer to the sections headed "Regulatory Overview – Regulations on Private Education in the PRC" and "Business – The Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments" in this prospectus for further details.

Under the existing regulatory environment and based on the current interpretation of the Amendment and the relevant implementing regulations, we intend to register our three schools as for-profit private schools subject to the further detailed local rules and regulations regarding the conversion of existing schools as and when promulgated and brought into effect by relevant local government authorities.

The MOJ Draft for Comments

On August 10, 2018, the MOJ issued the MOJ Draft for Comments, namely, the Draft Revision of the Implementation Rules for the Law for Promoting Private Education of the PRC (the

Draft for Examination and Approval) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》), for public consultation. The MOJ Draft for Comments further promotes the development of private education by providing that a private school shall enjoy rights or preferential policies stipulated by laws equivalent to those applicable to a public school.

The MOJ Draft for Comments stipulates further provisions on the operation and management of private schools, such as our PRC Operating Entities. Please refer to the sections headed "Regulatory Overview – Regulations on Private Education in the PRC" and "Business – The Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments" in this prospectus for further details. Among other things, a private school shall conduct any connected transactions in a manner that is open, justified and fair and shall establish disclosure mechanisms for such transactions. Any agreement involving material interests or any long-term and recurring agreement entered into between a non-profit private school and its connected parties shall be reviewed and audited by the relevant government authorities in terms of necessity, legitimacy and compliance. As such, our Structured Contracts may be regarded as connected transactions of our private schools and we may incur substantial compliance costs for establishing disclosure mechanisms and undergoing review and audit by the relevant government authorities. While the competent authorities stated that they will not prohibit such connected transaction during interview, such process may not be under our control and may be highly complicated and burdensome and may divert management attention. Government authorities may, during their review and audit process, compel us to make modifications to our Structured Contracts for whatever reason, which may in turn adversely affect the operation of our Structured Contracts. Government authorities may find that one or more agreements underlying our Structured Contracts do not comply with applicable PRC laws and regulations and may subject us to severe penalties, resulting in a material adverse impact on our operation and financial condition.

The MOJ required comments from the public on the MOJ Draft for Comments, if any, to be submitted prior to September 10, 2018, but has not provided the timeframe for the promulgation of the implementation rules for the Law for Promoting Private Education of the PRC. As of the date of Latest Practicable Date, no implementation rules for the Law for Promoting Private Education of the PRC had been promulgated. Uncertainties exist with respect to the interpretation of the MOJ Draft for Comments and we cannot assure you that the implementation of the MOJ Draft for Comments by the competent authorities will not deviate from our current understanding or interpretation of it.

Implementation Regulations

The Guangdong government has promulgated implementation regulations under the Amendment, including the Implementation Opinions of the Government of Guangdong Province on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《廣東省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) (the "**Guangdong Implementation Opinions**") promulgated by the Government of Guangdong Province on April 24, 2018, the Implementation Measures for the Supervision and Administration of For-Profit Private Schools (《關於營利性民辦學校監督管理實施辦法》), which were issued jointly by the Department of Education of Guangdong Province, Department of Human Resources and Social Security of Guangdong Province and Department of Market Supervision and Administration of Guangdong Province and came into effect on December 30, 2018, and the Implementation Measures on Classification Registration of Private Schools (《關於民辦學校分類登記實施辦法》), which were issued jointly by the Department of Education of Guangdong Province, Department of Human Resources and Social Security of Guangdong Province, Department of Civil Affairs of Guangdong Province, Guangdong Provincial Committee of the Communist Party of China Organization Committee Office and Department of Market Supervision and Administration of Guangdong Province and came into effect on December 30, 2018 (together with the Guangdong Implementation Opinions, the "**Implementation Regulations**"). Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC" in this prospectus for further details. As the Implementation Regulations only recently came into force, there may also be uncertainties in terms of the interpretation and enforcement of the Amendment, the Classification Registration Rules and the Implementation Regulations by the relevant government authorities, such as (i) when should we notify the relevant authorities regarding our decision for our schools to be for-profit or non-profit schools; (ii) the preferential tax treatments that may be enjoyed by a for-profit school or a non-profit school, respectively; (iii) whether respective public funding can be obtained by a for-profit school and a non-profit school; and (iv) respective costs for a for-profit and non-profit school to obtain land use rights. There is no assurance that we will be able to operate our business in full compliance with the Amendment and/or Implementation Regulations or continue to operate our business as currently operated if such implementation of the Amendment and/or Implementation Regulations requires us to change any part of our current business operations as interpreted by the relevant government authorities or at all or whether. 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 adversely affect our brand name and reputation, and our business, financial condition and results of operations. Alternatively, if we are forced to change any part of our business operations to comply with the Amendment and/or the Implementation Regulations this could materially adversely affect our business, financial condition and results of operations.

We are not able to accurately predict or estimate the potential costs and expenses to adjust our structure according to the Amendment, the MOJ Draft for Comments and the Implementation Regulations. In addition, our financial condition, results of operations may be materially adversely affected should registration of our schools as for-profit schools incur significant administration and financial costs.

We may not be able to register Huali College as a for-profit private school or complete relevant procedures or obtain the government registrations under the current form of the MOJ Draft for Comments.

Pursuant to the MOJ Draft for Comments, public schools shall not sponsor or participate in sponsoring for-profit private schools while public schools are permitted to sponsor or participate in sponsoring non-profit private schools, subject to approval from the competent authorities. If the MOJ Draft for Comment is promulgated in the current form, we plan to terminate the Cooperation Agreements currently in effect and convert Huali College from a private independent college into a stand-alone private university (not affiliated with the public school), subject to MOE approval, and comply with the local implementation rules, and we may be required to increase the registered capital of Huali College from RMB10 million to RMB200 million. In addition, we may incur additional costs in order to fulfill the requirements for converting Huali College into a stand-alone private university. Please refer to the section headed "Business – The Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments – The MOJ Draft for Comments – Implications for Huali College" in this prospectus for further details. However, there is a risk that Huali College may not be able to choose to register as a for-profit private school as a result of the regulatory restrictions. Considering MOJ Draft for Comments is not the final draft, there is uncertainty about the effective date and the content of the final version.

If the Cooperation Agreements are terminated, we may not be able to use the respective cooperative party's name in the full name of Huali College in future. Termination of the Cooperation Agreements or operation of Huali College under a new name may result in a diminished interest in attending Huali College from potential students and their parents. We cannot guarantee you that we will be able to achieve the same level of growth, if at all, in student enrollment in the future. In addition, the enrolled students of Huali College may lose confidence in Huali College's education quality and brand awareness and choose to transfer to other public or private schools. If we are not able to effectively market Huali College and increase the brand awareness, we may not be able to maintain or increase our student enrollment, which may have an adverse effect on our business, financial condition and results of operations.

Moreover, if the Cooperation Agreements are terminated, we may need to negotiate with the relevant cooperative party on the termination terms. Such termination and negotiation may involve a number of risks and present managerial, operational and financial challenges, including potential change in Huali College's management structure, distraction of management's attention and payment of termination fees, if any, as requested by the relevant cooperative party.

We cannot assure you that we will be able to terminate the Cooperation Agreements, register Huali College as a for-profit private school or complete relevant procedures or obtain the government registrations on a timely basis, if at all, under the current form of the MOJ Draft for Comments. As a result, our business, financial condition, future prospects and results of operations may be adversely affected.

We may incur significant costs relating to the termination of the Cooperation Agreements.

As disclosed above, pursuant to the MOJ Draft for Comments, public schools shall not sponsor or participate in sponsoring for-profit private schools. If the MOJ Draft for Comment is promulgated in the current form, we plan to terminate the Cooperation Agreements currently in effect and convert Huali College from a private independent college into a stand-alone private university, subject to MOE approval, and comply with the local implementation rules. If the Cooperation Agreements are terminated, there may be no termination fee at all or, if there is any termination fee, the actual amount of such termination fee will be decided by the parties upon future commercial negotiations at a later stage. We do not currently have any definitive indication on how much the termination fees will be. We cannot assure you that we will be able to agree on reasonable termination fees. If we cannot agree on the termination fees at the relevant time, we may not be able to proceed with the termination of the Cooperation Agreements in time. If the termination fees are exorbitant or commercially unreasonable, our profitability, financial position and future prospect may be adversely affected.

We are exposed to concentration risks as all of our schools are located in Guangdong Province.

The three schools we operate are located in Guangzhou and Yunfu, Guangdong Province. While we intend to expand into other cities in Guangdong Province in the future, we anticipate that the vast majority of our business operations in the foreseeable future will likely be concentrated in Guangdong Province. Therefore, any materially adverse social, economic or political development, or any natural disaster or epidemic affecting that region could have a material and adverse effect on our business, financial condition and results of operations. We may also be materially adversely affected if any regulations relating to the private higher education sector or private vocational education sector are adopted in Guangdong Province that may place additional restrictions or burdens on us. In addition, because we currently operate only three schools, any materially negative development with respect to any of these schools could have a materially adverse effect on our business, financial condition and results of operations.

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

We have experienced steady growth and expansion that has placed, and continues to place, significant pressure on our management and resources. We plan to further expand our school network in China and abroad by (i) expanding our existing schools; (ii) partnering with local governments to build new schools; and (iii) acquiring other schools. Please refer to the section headed "Business – Our Business Strategies" in this prospectus for more details. We may not succeed in executing our growth strategies due to a number of factors, including failure to do the following:

- increase student enrollment in our existing schools;

- admit all qualified students who would like to enroll in our schools due to constraints of our school capacity;
- identify cities with sufficient growth potential in which we can establish new schools;
- identify suitable acquisition targets;
- effectively execute our expansion plans;
- improve our existing operational, administrative and technological systems and our financial and management controls;
- 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 Guangdong Province;
- effectively integrate any future acquisitions into our Group;
- obtain the requisite licenses 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.

According to our current understanding and interpretation of the MOJ Draft for Comments, if the MOJ Draft for Comments is adopted in its current form, we may not be able to acquire any new schools that have been registered as a non-profit private school under the Amendment and the local implementation rules. This may significantly limit the number of target schools in the market that we may acquire in the future, rendering it difficult or unfeasible for us to identify suitable acquisition targets. Further amendments or revisions to the MOJ Draft for Comments and introduction of relevant laws and regulations in the future may also present additional limitations and restrictions on our acquisition and operation of target schools, which may in turn adversely affect our ability to execute our expansion strategy effectively. Furthermore, uncertainties exist with respect to the interpretation of the MOJ Draft for Comments, and we cannot assure you that the implementation of the MOJ Draft for Comments by the competent authorities will not deviate from our current understanding or interpretation of it. The actual implications may differ from the ones set out above and may be more restrictive and limiting of our ability to execute our expansion strategy through acquisition.

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.

Our business depends on our ability to promptly and adequately respond to changes in market demand.

Our education services primarily focus on teaching students readily applicable and practical skills in a variety of industries to help them gain employment and succeed in their future careers. Generally, we design our curricula based on market trends and employer preferences. If we fail to provide courses that adequately prepare our students for the evolving demands of the job market, our students may not be able to successfully find employment or the students' employment after graduation may not be satisfactory to their parents and our graduates' performance may not be satisfactory to employers. As a result, our programs and services may become less attractive to students and parents. There is no assurance that we can promptly and adequately respond to changes in market demand and provide school learning experiences that are satisfactory to all of our students. As a result, we may also experience negative publicity or a decrease in word-of-mouth referrals. Any such negative developments could result in students' withdrawal from or unwillingness to apply for our schools, and therefore have an adverse impact on our reputation. Furthermore, if we fail to timely develop and introduce new education services and programs in our schools based on changing economic conditions and governmental policies, our ability to attract students and our reputation could be materially adversely affected, which may have a materially adverse impact on our business, financial condition and results of operations.

The private education business has a relatively short history in China and may need time to gain wide acceptance.

Our future success is highly dependent on the acceptance, development and expansion of the market for private higher education services and private vocational education in China. The private education services market started to develop in the early 1980s and experienced rapid growth in the 1990s, and has grown significantly due to favorable policies enacted by the PRC government. In 1997, the State Council of the PRC promulgated the first regulations to promote the private education industry in China. However, private higher education services on a for-profit basis were not permitted in China until 2003 when the Law for Promoting Private Education (《民辦教育促進法》) became effective. The development of the private education industry has been accompanied by significant press coverage and public debate concerning the management and operation of private education service providers. Uncertainty remains in China as to public acceptance of this business model. In addition, there is substantial uncertainty relating to the application and interpretation of PRC law as it relates to the promotion of the private for-profit education industry. For example, certain favorable policies referred in relevant PRC laws are available to private schools, such as preferential tax treatment. Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC" in this prospectus for more details. If the private education business model fails to gain traction or wide acceptance among the general public in China, especially among students and their parents, or if the favorable regulatory environment otherwise changes in the future, we may be unable to grow our business and the market price of our Shares, financial condition and results of operations could be materially adversely affected.

We face competition in the PRC higher education industry and private vocational education industry.

The education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. In the geographic market in which we operate our schools, we compete with other private schools that offer private higher education services and private vocational education services. We compete with these schools in a number of ways, including program and curriculum offerings, tuition fee rates, school locations and premises, qualified and competent teachers and other key personnel. Our competitors may adopt similar curriculum delivery, 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 us 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 changes in student demands, market needs or new technology. As such, we may be required to reduce tuition fee rates or increase spending 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 fee rates, attract and retain qualified and competent teachers or other key personnel, enhance the quality of our education services or control competition costs, our business, financial condition and results of operations could be materially adversely affected.

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 education services to our students. Our teachers are therefore critical for maintaining the quality of our programs and services and for upholding our reputation. As of August 31, 2019, we had a team of 1,650 teachers (full-time and part-time).

We must 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 instruction. Furthermore, due to the highly technical nature of some of our course offerings, we require teachers with expertise in the relevant subject areas. However, there is a limited number of teachers with the necessary practical skills to teach our courses, in particular those courses focusing on hands-on training. 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 running of the schools we operate, is relatively limited in China and in particular, in Guangzhou and Yunfu 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. However, there is no assurance that we will 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 programs 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 programs may decrease or be perceived to decrease in one or more of our schools, which could have a materially adverse effect on our business, financial condition and results of operations.

Our success depends on the continuing efforts of our executive Directors and senior management team and other key personnel and our business may be harmed if we lose their services.

Our future success depends heavily upon the continuing services of our executive Directors and senior management team and in particular, our founder, Mr. Zhang, who has led our development since our inception. If one or more of our executive Directors, senior management or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations could be materially adversely affected. Competition for experienced executive Directors or management personnel in the private higher education industry and private vocational education industry is intense, while the pool of qualified candidates is very limited, and therefore we may not be able to retain the services of our executive Directors or senior management or key personnel, or attract and retain high quality executive Directors or senior executives or key personnel in the future.

In the event we lose their services, or if any member of our executive Directors, senior management team or other key personnel joins our competitor(s) or forms a competing company, our business, financial condition and results of operations could be materially and adversely affected.

Our business is heavily dependent on our education quality and the market recognition of our brand and reputation.

The reputation of our private higher education services and private vocational education services plays an important role in our ability to attract and retain students. However, our ability to maintain our reputation depends on a number of factors, including levels of student and parent satisfaction with our curricula, teachers and teaching quality, employment rates and employment prospects of our graduates. Moreover, our reputation may be also adversely affected if there is any accident on campus, teacher or student scandal, negative press, disruptions to our education services, or failure to pass an inspection by a governmental education authority. Some of these factors are beyond our control. As we continue to grow in size and plan to expand our programs to other markets, it may also become difficult to maintain the quality and consistency of the services we offer, which may lead to diminishing confidence in our brand name.

In addition, other services providers in the private higher education industry and the private vocational education industry may be deemed more reputable or given wider recognition by parents and students during the admission processes, rendering such providers more popular among parents and students in China. If our reputation is negatively impacted and/or parents and students become more interested in programs offered by the other service providers who are deemed more reputable, we may not be able to continue to attract and retain students.

We have developed our student base primarily through word-of-mouth referrals, advertisements on a variety of mainstream media and online social platforms and promotions by our team of marketing personnel. Please refer to the section headed "Business – Our Educational Practice – Our Students and Student Recruitment" in this prospectus for more details. However, we cannot assure you that our marketing efforts will be successful or sufficient in further promoting our brand or in helping us to remain competitive. If we are unable to further enhance our reputation and increase market awareness of our programs and services, 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 could be materially adversely affected. If our schools are unable to maintain or sustain our brand reputation and recognition, we may also be unable to maintain or increase student enrollment, which could also have a materially adverse effect on our business, financial condition and results of operations.

We may not be able to maintain our high Initial Employment Rates for students, which could harm our ability to attract student enrollment.

Our Initial Employment Rates depend on a wide range of external and internal factors. External factors include the macroeconomic conditions and the recruiting demands of corporate employers. Internal factors include our education quality, the efforts of our career services personnel, our ability to provide adequate staffing to achieve desired results and our relationships with corporate employers. A number of such external and internal factors are outside of our control. Our historical Initial Employment Rates have been high. For the 2017/2018 school year, our Initial Employment Rate of Huali College, Huali Vocational College and Huali Technician College was 95.9%, 93.5% and 98.4%, respectively, ranking them in the top tier among similar schools in South China. However, we cannot assure you that we will be able to maintain our current Initial Employment Rates for our students in the future. Any decrease in our Initial Employment Rates could harm our ability to recruit students, which may materially adversely affect our business, financial condition and results of operations.

Our business could be adversely affected if there are any breaches or disputes with respect to the terms of the Cooperation Agreements.

Huali College is currently operated as a private independent college pursuant to the Cooperation Agreements entered into by Huali Investment with the relevant cooperative party.

According to the Cooperation Agreements, such agreements will be valid until being required to be terminated pursuant to relevant PRC laws and regulations or otherwise superseded by any new agreement entered into by the parties in the future. Please refer to the section headed "Business – Our Schools – Huali College" in this prospectus for further details. However, if the relevant cooperative party breaches the Cooperation Agreements and unilaterally terminates the Cooperation Agreements, or if there is a dispute between the parties with respect to the terms of such Cooperation Agreements, we may not be able to continue to operate Huali College as an independent college and will have to convert Huali College from a private independent college into a stand-alone private university. According to the relevant PRC laws and regulations, in order to convert Huali College into a stand-alone private university, Huali College must meet the standards for establishing a higher education institution and apply to the relevant authorities for approval. If we are not able to complete the conversion process in a timely manner or at all, we may be required to suspend the operations of Huali College and as a result, our business, results of operations and financial condition could be materially adversely affected.

We may not be able to successfully establish new schools overseas pursuant to our proposed timeline or at all.

We plan to expand our network abroad by establishing a new school in California, the United States. Please refer to the sections headed "Business – Planned Expansion – A Higher Education Institution in the U.S." and "Structured Contracts – Background of the Structured Contracts – Plan to Comply with the Qualification Requirement" in this prospectus for further details. However, we have no prior experience establishing and/or operating schools outside China, in particular, in the United States, and we may encounter barriers and challenges upon entering into such overseas markets, including the failure to obtain relevant regulatory approvals, which may result in delays or our inability to carry out our overseas expansion plans. In addition, we may need to make significant investments in developing schools overseas and may not be able to effectively manage our costs or generate sufficient revenue to justify the investments we make. We cannot assure you we will be able to successfully establish and/or operate schools overseas. If we are unable to do so, our business, financial condition and results of operations may be materially adversely affected.

Our cooperation with Independent Third Parties for the international programs at Huali College and Huali Vocational College may fail.

Huali College and Huali Vocational College offer international programs or exchange programs in collaboration with more than 10 universities and colleges abroad in the United Kingdom, the United States, Canada, Australia and other countries in Europe and Asia. Our international programs allow our students to study two or three years in China and spend an additional one to two years in the destination country to obtain dual degrees or dual diplomas from both China and the overseas destination country. Our exchange programs allow our students and teachers to experience different learning environments and cultures overseas. As of August 31, 2019, there were approximately 180 students enrolled in the international programs. We may cooperate with other Independent Third Parties for the provision of international programs or other educational services at our schools, or for the expansion of our school network in the PRC and overseas.

If our cooperation agreements with the Independent Third Parties are terminated prior to their expiration date or are not renewed upon expiration, or we determine that the Independent Third Parties have become unsuitable to continue to be our cooperation partners, we may not be able to find appropriate alternatives in time or at all to continue our cooperation programs or projects. In addition, in the event that we are unable to find appropriate cooperation partners or if our cooperation partners are unable to deliver the services as we expect, we may be unable to successfully implement our business strategies.

Furthermore, we may not be able to fully control the quality of the educational services, such as the quality of teachers, course contents and teaching approaches, delivered by the Independent Third Parties. If students and parents complain about the educational quality of such cooperation programs or schools, it may negatively affect our reputation and our ability to attract and retain students in our schools. Negative publicity involving the Independent Third Parties we cooperate with, whether relevant or irrelevant to our cooperation with such Independent Third Parties, may also negatively affect our reputation and deter prospective students from enrolling in our schools. As a result, our business, financial condition and results of operations may be materially adversely affected.

Our school facilities may have capacity constraints, which could affect our ability to increase student enrollment or cause us to lose students to our competitors.

The educational facilities of our schools are limited in space and size. We may not be able to admit all qualified students who would like to enroll in our schools due to the capacity constraints of our current school facilities. Furthermore, absent additional building facilities such as classrooms and dormitories, we may not be able to expand our capacity at our current campuses to increase our student enrollment unless we relocate to other facilities in the local area with more space.

Accidents or injuries suffered by our students, our employees or other personnel at our school premises 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. We could also face claims alleging that we were negligent or 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. In addition, if any of our students or teachers commits acts of violence, we could face allegations that we failed to provide adequate security or were otherwise responsible for his or her actions. Our schools may be perceived to be unsafe, which may discourage prospective students from applying to or attending our schools. Historically, there have been certain student suicide incidents at our schools. Although our schools were not liable for these incidents, there were negative press releases regarding these incidents which could adversely affect our reputation. Furthermore, we cannot assure that the coverage of the liability insurance we carry will be adequate to fully protect us from any claims and liabilities that may arise in case such suicide incidents occur again in the future at any of our schools. A liability claim against us or any of our employees could adversely affect our reputation and student enrollment and retention. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of our management, all of which could have a materially adverse effect on our business, financial condition and results of operations.

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

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 tuition fee rates 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 enrollment at our schools and maintain and raise tuition fee rates; (ii) general economic and social conditions and governmental regulations or actions pertaining to the provision of private education in China and Guangdong Province; (iii) increased competition and market perception and acceptance of any newly introduced education programs 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 sales 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 profitability on a quarterly, interim or annual basis in the future. Our historical results, growth rates and profitability may not be indicative of our future performance.

We may not be able to obtain all necessary approvals, licenses and permits and to make all necessary registrations and filings for our education and other services in the PRC, and may be subject to severe penalties if the operation of our business in China does not comply with applicable PRC laws and regulations.

The PRC education industry, including the private higher education sector and the private vocational education sector, is highly regulated by, among other authorities, the MOE and other local educational authorities. As a private higher education service provider and a private vocational education service provider, we are subject to extensive laws and regulations in China, such as the Education Law of the PRC (《中華人民共和國教育法》), the Higher Education Law of the PRC (《中華人民共和國高等教育法》), the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), the Implementation Rules for the Law for Promoting Private Education of the PRC (the "**Implementation Rules**") (《中華人民共和國民辦教育促進法實施條例》) and the Provisional Regulations on Registration and Administration of Private Non-enterprise Entities (《民辦非企業單位登記管理暫行條例》). We are required to obtain, renew and maintain various approvals, licenses and permits and fulfill registration and filing requirements in order to conduct our operations. For instance, to establish and operate a school, we are required to obtain a private school operating license from the local education bureau or human resources and social security 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. Our schools are also subject to annual inspections conducted by local government authorities.

While we intend to obtain, using our best efforts, all requisite permits, complete the necessary filings, renewals and registrations on a timely basis, and pass the annual inspections conducted by the relevant local government authorities for our schools, there is no assurance that our efforts will result in full compliance given the significant amount of discretion relevant regulatory authorities may have in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control and anticipation. For instance, historically, during its annual inspection of Huali Technician College for the 2015/2016 school year, the Department of Human Resources and Social Security of Guangdong Province identified several areas of the school operations that were not fully compliant with relevant education-related regulations and requirements and imposed a limitation on the new student enrollment of Huali Technician College for the 2016/2017 school year to 3,500. Although Huali Technician College has taken remedial measures to improve the areas of school operations as identified in the notice issued by the Department of Human Resources and Social Security of Guangdong Province in July 2016 and the limitation on its new student enrollment has been lifted, we cannot assure you that such incidents will not happen in the future or that our remedial measures are or would be appropriate, timely and effective. If we fail to receive or obtain required permits or renew any permits and certificates or pass the annual inspection conducted by the relevant local government authorities in a timely manner, or at all, or the contractual agreements that establish the structure for operating our PRC business are found to be in violation of any PRC laws and regulations in the future, we may be subject to fines, confiscation of the gains derived from our non-compliant operations, the suspension of our non-compliant operations or the compensation of any economic loss suffered by our students or other relevant parties, which may materially adversely affect our business, financial condition and results of operations.

The unavailability of any favorable regulatory treatment, particularly government grants could adversely affect our business, financial condition and results of operations.

We enjoy certain favorable regulatory treatment, particularly government grants, which are offered primarily for the purpose of promoting the development of private higher education institutions. For the years ended August 31, 2017, 2018 and 2019, we recorded government grants in the total amount of RMB7.8 million, RMB3.2 million and RMB3.2 million, respectively.

However, it is in the relevant government authorities' sole and absolute discretion, subject to relevant PRC laws, regulations and policies, to determine whether and when to provide government grants to us, if at all. We cannot assure you that we will be able to receive government grants in the future. Furthermore, any unexpected changes in PRC laws, regulations and policies may result in uncertainty in the availability of government grants or any other favorable treatment to us. If we are unable to obtain or maintain government grants or any other favorable treatment in the future in the same amount or at all, the reduction in the amount of government grants or other favorable treatment received by us may impact our Group's results of operations and cash flows and we may experience decreases in profitability, and our business, financial condition and results of operations could be materially adversely affected.

Failure to make adequate statutory social welfare contribution for our employees may subject us to penalties.

PRC laws and regulations require us to pay several statutory social welfare benefits for our employees, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund. According to relevant PRC laws and regulations, the amount we are required to contribute for each of our employees should be calculated based on the employee's actual salary level of the previous year, and be subject to a minimum and maximum as from time to time prescribed by local authorities.

During the Track Record Period, we had not made the required contributions to the social insurance plans and the housing provident fund for some of our employees. Please refer to the section headed "Business – Employees" for more information.

We cannot assure you that our employees will not complain to the relevant authorities regarding the basis of how we had made the contributions for them, which may in turn result in the relevant authorities ordering us to make supplemental contribution and/or imposing penalties and overdue fines on us, among other things. Such regulatory intervention may adversely affect our financial condition.

We have limited insurance coverage.

We maintain various insurance policies to safeguard against risks and unexpected events, such as school liability insurance and student, teacher and staff comprehensive insurance. However, our insurance coverage is still limited in terms of amount, benefit and scope. The insurance industry in China is still in an early stage of development, and our existing insurance may not be sufficient to cover us for all accidents and potential liabilities. If we were held liable for amounts and claims, exceeding the limits of our insurance coverage, or suffered losses and liabilities due to incidents such as fires, explosions or other accidents at our schools for which we do not currently maintain insurance that we were unable to seek redress from the third-party owners of whose properties for, our business, results of operations and financial condition may be materially adversely affected. In addition, we do not have any business disruption insurance coverage for our operations to cover losses that may be caused by natural disasters or catastrophic events, such as epidemics or earthquakes, so that any business disruption or natural disaster could result in substantial cost and a diversion of resources, which would have a materially adverse effect on our business, financial condition and results of operations.

We are subject to extensive governmental approvals and compliance requirements for establishing our campuses and school premises and in relation to the land and buildings that we own.

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

As of the Latest Practicable Date, we had not yet obtained proper building ownership certificates for certain buildings we occupied or owned. Please refer to the section headed "Business – Properties – Owned Properties – Buildings" for further details. As a result, our rights to these buildings 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 adversely affect our business operations, divert management attention and other resources and incur significant costs. In the event that we lose the rights to any of our land or buildings, our uses of such land or buildings may be limited, or we may be forced to relocate 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. In addition, we may in the future encounter problems 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 adversely affected.

We outsource certain food and meal catering services for our schools to an Independent Third Party and, as a result, we cannot guarantee the quality and price of the food provided to our students. We may be exposed to potential liabilities if we cannot maintain food quality standards.

As of the Latest Practicable Date, our schools outsourced the food and meal catering services to a catering service provider which is an Independent Third Party, which provides such services to our students and faculty. We have procured such an Independent Third Party to obtain relevant qualifications and approvals required by laws and regulations. However, we cannot assure you that we will be able to ensure the quality of food, monitor the meal preparation process to ensure its quality or ensure such an Independent Third Party adhere to our food quality standards. In the event poor food quality results in any serious health violations or medical emergencies, such as mass food poisoning, our business and reputation could be adversely affected.

We may be subject to fines or other penalties if we fail to set up and operate medical centers for Huali Vocational College as required by competent PRC government authority.

As of the Latest Practicable Date, Huali College had obtained a medical institution practice license (醫療機構執業許可證) and operates a medical center, which provides routine medical services to its students and staff. Huali College has also entered into a medical service agreement with Huali Vocational College and Huali Technician College, pursuant to which the medical center operated by Huali College will also provide routine medical services for students and staff of these two schools in Zengcheng campuses. In addition, as of the Latest Practicable Date, Huali Vocational College had obtained a medical institution practice license and were in progress of setting up a medical center for our campus in Yunfu. According to the Regulation on Sanitary Work of Schools (《學校衛生工作條例》), which was promulgated and became effective on June 4, 1990, technician schools may retain full-time health care personnel as needed. As technician schools are not required to have a hospital or medical center on campus under the relevant PRC laws and regulations, we do not maintain a medical center for students and staffs of Huali Technician College Yunfu Campus.

Our PRC Legal Adviser has advised us that, under relevant PRC laws and regulations as of the Latest Practicable Date, formal higher education institutions are required to have a hospital or medical center on campus to provide medical services to students. Our PRC Legal Adviser has also advised that there is no requirement under relevant laws and regulations that such hospital or medical center has to be set up and operated by the school itself and no penalty provision under the relevant PRC laws and regulations if a formal higher education institution fails to set up a hospital or medical center by itself. As of the Latest Practicable Date, Huali Vocational College has not set up a hospital or medical center on campus in Zengcheng. However it has entered into an agreement with Huali College pursuant to which the medical center set up by Huali College will provide routine medical services to students and staff of Huali Vocational College. Our PRC Legal Adviser has advised us that, based on the fact that the medical center of Huali College is located on the same school premises of Huali Vocational College in Zengcheng, the possibility of Huali Vocational College being subject to fines or other penalties due to its failure to set up and operate a medical center on campus by itself is relatively remote. However, in the event we are required by the competent PRC government authority to set up a medical center or a campus hospital (as the case may be) in the future, we will need to purchase medical facilities and employ qualified medical staffs in order to obtain a practice license of medical institution, which will incur substantial cost and a diversion of resources. As a result, our business, financial condition and results of operations could be adversely affected.

We may face disputes from time to time relating to labor or other nature of disputes that could interfere with our operations and business.

In the ordinary course of business, we may be named as a party in regulatory or legal actions, claims and disputes in connection with our business activities. These actions may include employment-related claims and contractual disputes or claims for personal injury or property damage or actions by regulatory or tax authorities. While we believe we have a satisfactory relationship with our employees, we may nevertheless be subject to the risk of labor disputes and adverse employee relationships. These potential disputes and adverse relationships could result in work stoppages or other events that could disrupt our business operations, which could have a materially adverse effect on our business, financial condition or results of operations.

We had net current liabilities as of August 31, 2017, 2018 and 2019. 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 August 31, 2017, 2018 and 2019, we had net current liabilities of RMB427.7 million, RMB251.5 million and RMB956.1 million, respectively. We had net current liabilities as of each of these dates primarily because (i) we recorded large amounts of contract liabilities, which primarily consisted of advanced payments of tuition fees and boarding fees received from students that we recognize as revenue proportionately over the relevant period of the applicable programs; (ii) we recorded substantial amounts due to related parties, which primarily consisted of payables to related parties in relation to the construction of our schools; (iii) we recorded substantial amounts of accruals and other payables, which primarily consisted of payables for the purchase of property, plant and equipment, payables for joint tuition support fees under the Cooperation Agreements, miscellaneous fees received from students, payables for property management service and government subsidies payable to students; and (iv) we had substantial amounts of outstanding bank loans that were primarily incurred to support our business expansion and fund our working capital. In addition, the net current liabilities position as of August 31, 2019 is also attributable to: (i) an increase in current liabilities portion of amounts due to Hualiyuan Technology, which was transferred from non-current liabilities; and (ii) the drop in cash and cash equivalents mainly due to payment for the purchase of property, plant and equipment and intangible assets for the expansion of Huali College and Huali Vocational College and for the acquisition of land use rights and property, plant and equipment for establishing a new junior college in Jiangmen City, Guangdong Province.

We cannot assure you that we will always 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 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, we provide refunds to students who withdraw from our schools. Please refer to the section headed "Business – Our Schools – Overview – Student withdrawals and refunds" in this prospectus for further details. If an unusually large number of students withdraw from our schools in the future, our financial position may be adversely impacted.

We are subject to risks associated with investment properties, and changes in the fair value of our investment properties may materially adversely affect our operating results, financial condition and prospects.

As of August 31, 2017, 2018 and 2019, our investment properties amounted to RMB120.2 million, RMB129.0 million and RMB132.2 million, respectively. Such investment properties primarily consist of a primary school and its ancillary facilities within our Planned Huali Vocational College Yunfu Campus that are measured at fair value. For details of our investment properties, see "Financial Information – Discussion of Key Balance Sheet Items – Investment properties" in this prospectus. We recognize fair value change arising from re-measurement of our investment properties directly in profit or loss in the period in which they arise. For the years ended August 31, 2017, 2018 and 2019, we recognize fair value gains on investment properties of RMB4.1 million, RMB8.8 million and RMB3.2 million, respectively.

In addition, valuation of these investment properties requires the use of significant unobservable inputs. The investment properties are carried at fair value with changes in fair value recognized in other gains. We have applied the income approach, which takes into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield, to derive at the fair value of our investment properties. The use of the significant unobservable inputs, including market rents and the related uncertainties in the estimates, could result in losses that materially and adversely affect our results of operations. The uncertainties underlying the relevant accounting estimates and any material depreciation in the value of our investment properties may adversely affect our financial condition and results of operations.

Our business may be subject to seasonal fluctuations, which may cause our cash inflow from operation to fluctuate from quarter to quarter.

We generally receive a majority of tuition fees and boarding fees for a full school year to be paid by students to our schools prior to the beginning of each school year (a school year typically commences in September each year). We usually recognize revenue proportionately over the relevant period of the program. Accordingly, we have experienced, and expect to continue to experience, seasonal fluctuations in our cash inflow from operation. However, our costs and expenses may vary significantly and do not necessarily correspond with our recognition of revenue.

We expect fluctuations in our cash inflow from operation to continue. These fluctuations could result in volatility and adversely affect the price of our Shares.

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

Our schools are operating under the "华立" ("Huali") trade name. We are aware that "" ("HUA LI") trademark was registered in 1995 in the PRC (with registration number 778165) by

Holley Technology Ltd. (華立科技股份有限公司) ("**Holley Technology**"), an Independent Third Party, in class 41 covering, among others, education services, education information, training, academies and teaching service, valid from February 21, 2015 to February 20, 2025. In 2004, Zhejiang Administration for Industry and Commerce recognized "HUA LI" trademark as a "Well-Known Trademark" (馳名商標) which can prevent the registration of identical or similar marks and enjoy protection in the same or different classes and regions. According to public information available, we have not found any actual use of "HUA LI" trademark by Holley Technology in relevant education-related activities covered by class 41. Although our PRC Legal Adviser is of the view that, the risk of us infringing or having infringed Holley Technology's trademark rights through our current business activities and our use being limited within the scope of the names our PRC Operating Entities is remote, we cannot assure you that Holley Technology will not claim that we have infringed on their trademark rights in the future. Please refer to the section headed "Business – Intellectual Property" in this prospectus for more details. If Holley Technology brings claims of trademark infringement against us and we are found to have violated their trademark rights, we may be subject to fines or prohibited from using the "华立" ("Huali") trade name or displaying it prominently, which could have a materially adverse effect on our business, financial condition or results of operations.

We cannot assure you that materials and other educational content used in our schools and programs do not or will not infringe intellectual property rights of third parties. As of the Latest Practicable Date, we had not encountered any material claims for intellectual property infringement that have not been amicably resolved. However, there is no guarantee in the future that third parties will not claim that we have infringed on their proprietary rights. There is no assurance that we can defend ourselves vigorously in any such litigation or legal proceedings and 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 education programs. Any similar claim against us, even without any merit, could also hurt our reputation and brand image. Any such event could have a materially 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 school's ability to obtain financing to fund their operations.

The operation and expansion of our schools require significant capital investment, including the costs of acquiring land for school sites, constructing school facilities, purchasing equipment and hiring qualified teachers and administrative staff. To support the operation of our existing schools and to fund our future growth plans, including to expand our school network coverage and expand and to construct, maintain, renovate and upgrade our existing schools, we need to secure additional funding to fund our future capital expenditures. Historically, we have funded our operations primarily with cash generated from operations and proceeds from bank loans.

However, 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 or pledges should not be created on property owned by public welfare entities like schools and used for educational facilities or public welfare facilities. The buildings that certain of our schools own and occupy may be considered "educational facilities" or "public welfare facilities" and our schools may be considered "public welfare entities" according to the Law for Promoting Private Education (《民辦教育促進法》), which provides that private education is considered in the nature of "public welfare" in the PRC. Accordingly, these properties may not be pledged as collateral when our schools enter into loan agreements with banks. In such case, the schools' ability to obtain financing to fund their operations will be limited. Even if collateral is meant to be created based on such properties under any loan agreement to be entered into between any of our schools and the potential lender, such pledge may not be valid or enforceable under the laws and regulations of the PRC, and we cannot preclude the possibility that a governmental authority, including PRC court or administrative authority, may consider the pledge created on such facilities to be in violation of PRC laws if we and the lenders have any dispute with regard to the relevant loans under applicable loan agreements or if the validity of the pledges is otherwise challenged. In such a case, it is likely that such pledges would 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, which may cause the business operations of the relevant schools and our financial condition to be materially adversely affected.

We cannot assure you that we will be able to secure additional funding on terms acceptable to us or in a timely manner, or at all. If our internally generated capital resources and available credit facilities are insufficient to finance our capital expenditure and growth plans, we may have to seek additional financing from third parties, including banks, venture capital funds, joint-venture partners and other strategic investors. We may also consider raising funds through issuance of new shares, which would lead to dilution of our existing Shareholders' interests in our Company. If we are unable to obtain financing in a timely manner, at a reasonable cost and on acceptable terms, we may be forced to delay our expansion plans, downsize or abandon such plans, which may materially adversely affect our business, financial condition and results of operations, as well as our future prospects.

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

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 Cushman & Wakefield Limited used in the property valuation report include, among others: (i) the transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid, and (ii) the Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted.

Certain of the assumptions used by Cushman & Wakefield Limited 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 realizable values or a forecast of their realizable 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 Cushman & Wakefield Limited.

Unauthorized disclosures or manipulation of student, teacher and other 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 database 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. All of the events above could have a materially adverse effect on our business, financial condition and results of operations. 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.

The discontinuation of any preferential tax treatments currently available to us could materially and adversely affect our results of operations.

According to the Implementation Rules, private schools, the school sponsors of which do not require reasonable returns enjoy the same preferential tax treatment as public schools. While it is indicated in the Implementation Rules that the relevant authorities under the State Council may consider formulating separate preferential tax treatment policies applicable to private schools the sponsor of which requiring reasonable returns, no such preferential tax treatment policy has been promulgated yet.

Pursuant to the Amendment, a non-profit private school may enjoy the same preferential tax treatments as a public school. In addition, pursuant to the Amendment, a for-profit private school may enjoy preferential tax treatments in accordance with relevant PRC laws and regulations. However, the existing PRC laws and regulations and the Amendment which have taken effect on September 1, 2017 have not set forth any details regarding the preferential tax treatments that may be enjoyed by a for-profit private school, including any restriction on tax exemption amount or preferential tax rate. However, relevant government authorities may promulgate detailed rules and regulations regarding the preferential tax treatments that may be enjoyed by a for-profit private school in the future. There is a possibility that such rules and regulations will reduce or eliminate the preferential tax treatments currently enjoyed by our schools. The unavailability of any favorable tax treatments currently available to our schools would cause our effective tax rate to increase, which would increase our tax expenses and reduce our net profit.

In addition, for the year ended December 31, 2018, XZ Huali and Huali Shengrong were subject to an income tax rate of 10% and value-added tax in China in accordance with the relevant tax regulations. These preferential tax treatments may be subject to change and we cannot provide any assurance that the preferential tax treatments applicable to XZ Huali will continue to apply 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.

RISKS RELATING TO OUR STRUCTURED CONTRACTS

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially adversely affected.

We are a Cayman Islands company and as such we are classified as a foreign enterprise under PRC laws. Foreign investment in the education industry in China is extensively regulated and subject to numerous restrictions. Under the Negative List, higher education is a restricted industry for foreign investors. Foreign investors are allowed to invest in the higher education industry only in the form of cooperative joint venture in which the PRC party must play a dominant role. Furthermore, under 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 issued by the MOE on June 18, 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 educational institution shall be lower 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實施辦法》), which was promulgated by the MOE on June 2, 2004 and became effective on July 1, 2004, foreign investors invested in higher education must be foreign education institutions with relevant qualifications and experience. In addition, vocational education is subject to restrictions under the Administrative Measures for the Sino-Foreign Cooperative Education on Vocational Skills Training (《中外合作職業技能培訓辦學管理辦法》). Please refer to the section headed "Regulatory Overview" in this prospectus for more details.

Accordingly, we have been and are expected to continue to be dependent on our Structured Contracts to operate our education business. We entered into a series of arrangements pursuant to which our wholly-owned subsidiary, XZ Huali, receives substantially all of the economic benefits from our PRC Operating Entities. Please refer to the section headed "Structured Contracts" in this prospectus for more details.

If the Structured Contracts 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, the relevant PRC regulatory authorities, including the SAMR, the Ministry of Civil Affairs, MOFCOM and the MOE, which regulates the higher education industry and the Ministry of Labor and Social Security, which regulates the vocational education industry and their provisional branches, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries or PRC Operating Entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries or PRC Operating Entities;
- imposing fines or other requirements with which we or our PRC subsidiaries or PRC Operating 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 licenses or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; or
- restricting the use of proceeds from our additional public offering or financing to finance our businesses and operations in China.

The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct our business in China and a loss of our economic benefits in the assets and operations of our consolidated affiliated entities. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of the consolidated affiliated entities or our right to receive their economic benefits, we would no longer be able to consolidate such entities, which currently contribute all of our consolidated revenues.

There is substantial uncertainty with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) formally adopted by the second session of the thirteenth National People's Congress on March 15, 2019, which will come into effect from January 1, 2020, does not mention certain concepts, including "actual control" or "controlling PRC companies by contracts or trusts", nor does it specify regulation on controlling through contractual arrangements. Since the Foreign Investment Law is new, there are substantial uncertainties with respect to its implementation and interpretation and it is also possible that variable interest entities will be deemed as foreign-invested enterprises and be subject to restrictions or prohibitions in the future. Such restrictions or prohibitions may cause interruptions to our current corporate structure, corporate governance and business operations, which may in turn materially and adversely affect our business, financial condition and results of operations.

The Structured Contracts may not be as effective in providing control over our PRC Operating Entities as direct ownership.

We have relied and expect to continue to rely on the Structured Contracts to operate the majority of our education business in China. For a description of these Structured Contracts, please refer to the section headed "Structured Contracts" in this prospectus for more details. These Structured Contracts may not be as effective in providing us with control over our PRC Operating Entities as equity ownership. If we had ownership of the school sponsor's interest of our PRC Operating Entities, we would be able to exercise our rights as a direct or indirect holder of the school sponsor's interest of our PRC Operating Entities to effect changes in the board of directors of our PRC Operating Entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, as these Structured Contracts stand now, if our PRC Operating Entities or their respective school sponsor, Huali Investment, or the Registered Shareholder fail to perform their respective obligations under these Structured Contracts, we cannot exercise school sponsor's rights to direct such corporate action as the direct ownership would otherwise entail.

In addition, while the Registered Shareholder pursuant to the Structured Contracts pledged and granted first priority security interests over all of his equity interest in Huali Investment together with all related rights thereto to XZ Huali as collateral security for performance of the Structured Contracts and all such loss and expenses incurred to XZ Huali as a result of any events of default on the part of the Registered Shareholder, Huali Investment or each of our PRC Operating Entities, there is no equity pledge arrangement between our Company and Huali Investment in respect of the school sponsor's interest of our PRC Operating Entities held by Huali Investment. As advised by our PRC Legal Adviser, according to the applicable laws and regulations as of the Latest Practicable Date, any equity pledge arrangement where Huali Investment pledges its school sponsor's interest in any of our PRC Operating Entities which are privately run non-enterprise institution in favor of us would be unenforceable under PRC laws and regulations.

If the parties under such Structured Contracts refuse to carry out our directions in relation to everyday business operations, we will be unable to maintain effective control over the operations of our PRC Operating Entities. If we were to lose effective control over our PRC Operating Entities, certain negative consequences would result, including our being unable to consolidate the financial results of our PRC Operating Entities with our financial results. Given that revenue from our PRC Operating Entities constituted our total consolidated revenue for the years ended August 31, 2017, 2018 and 2019, our financial position would be materially adversely impacted if we were to lose effective control over our PRC Operating Entities. In addition, losing effective control over our PRC Operating Entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our PRC Operating Entities may impair our access to the cash flow from operations, which may reduce our liquidity, and materially adversely affect our business, financial condition and results of operations.

Any failure by our PRC Operating Entities or their respective ultimate Shareholders to perform their obligations under our Structured Contracts would potentially lead to our having to incur additional costs and expend substantial resources 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 Structured Contracts, if any our PRC Operating Entities or the school sponsor, Huali Investment, or the Registered Shareholder fails to perform its or his respective obligations under these Structured Contracts, 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.

Our Structured Contracts are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would 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 the competent PRC court. The legal environment in the PRC is not as developed as in other jurisdictions, such as Hong Kong. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Structured Contracts in which case, we may not be able to exert effective control over PRC Operating Entities for an extended period of time or we may be permanently unable to exert control over PRC Operating Entities. If this were to occur, we would be unable to consolidate the financial results of our PRC Operating Entities with our financial results, which would have a material and adverse effect on our business, financial condition and results of operation and would decrease the value of our Shareholders' investments in our Company.

In addition to the enforcement costs of 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 our having to incur additional costs and expend substantial resources to operate our business in the absence of effective enforcements of these Structured Contracts. If this were to occur, our business, financial condition and results of operations may be materially adversely affected, and the value of our Shareholders' investments in our Company may decrease.

The Registered Shareholder may have conflicts of interest with us, which may materially adversely affect our business and financial condition.

Our control over our PRC Operating Entities and Huali Investment is based upon the Structured Contracts with our PRC Operating Entities, Huali Investment, the Registered Shareholder and the directors of our PRC Operating Entities as appointed by Huali Investment. Huali Investment is the direct holder of our school sponsor's interest of our PRC Operating Entities and the Registered Shareholder, being the sole shareholder of Huali Investment, is also a Controlling Shareholder. The Registered Shareholder may potentially have conflicts of interest with us and breach their contracts or undertakings with us if it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us on the one hand, and the Registered Shareholder on the other hand, the Registered Shareholder will act completely in our interest or that the conflicts of interest will be resolved in our favor. In the event that such conflict of interest cannot be resolved in our favor, we would have to rely on legal proceedings which could result in disruption to our business and we are subject to any uncertainty as to the outcome of such legal proceedings. We have conducted certain arrangements in order to avoid conflicts of interests, please refer to "Structured Contract – Arrangement to Address Potential Conflict of Interest" in this prospectus for more details. In the event that these arrangements are unable to resolve such conflicts, including the Registered Shareholder breached their contracts or undertakings with us and as a result or otherwise subject to claims from third parties, our business, financial condition and results of operations could be materially adversely affected.

Certain terms of the Structured Contracts may not be enforceable under PRC laws.

The Structured Contracts provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the China Guangzhou Arbitration Commission in Guangzhou, the PRC. The Structured Contracts contain provisions to the effect that the arbitral body may award remedies over the equity interests and/or assets of our PRC Operating Entities, injunctive relief and/or winding up of our PRC Operating Entities. In addition, the Structured Contracts 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 Structured Contracts 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 PRC Operating Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Structured Contracts. PRC laws allow an arbitral body to award the transfer of assets of or equity interest in our PRC Operating Entities in favor 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 would not grant injunctive relief or a winding-up order against our PRC Operating Entities as interim remedies to preserve the assets or equity interests in favor of any aggrieved party. Our PRC Legal Adviser is also of the view that, even though the Structured Contracts 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 favor of an aggrieved party) may not be recognized or enforced by PRC courts. As a result, in the event that our PRC Operating Entities, Huali Investment or the Registered Shareholder breaches any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Operating Entities and conduct our education business could be materially adversely affected, which in turn will affect our financial condition and results of operations in the future. Please refer to the section headed "Structured Contracts – Dispute Resolution" in this prospectus for more details regarding the enforceability of the dispute resolution provisions in the Structured Contracts as opined by our PRC Legal Adviser.

The Structured Contracts may be subject to scrutiny of PRC tax authorities and additional tax may be imposed, which could materially 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 materially adverse tax consequences if the PRC tax authorities determine that the Exclusive Technical Service and Management Consultancy Agreement we have with our PRC Operating Entities does 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, there is a risk that PRC tax authorities determine that our subsidiaries or PRC Operating Entities are evading their tax obligations, and we may not be able to rectify this within any required timeline. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for under-paid taxes, which could materially adversely affect our business, financial condition and results of operations.

We may not be able to meet the Qualification Requirement.

Pursuant to the Negative List and the Sino-Foreign Regulations, the foreign investor in a Sino-foreign joint venture school offering higher education must be a foreign education entity with relevant qualification and experience, holding less than 50% of the capital in a Sino-foreign education entity ("**Foreign Ownership Restriction**") and the domestic party shall play a dominant role ("**Foreign Control Restriction**"). Based on our consultation with the Department of Education of Guangdong Province, the foreign investor should be an education entity in the country where the foreign investor is located. As of the Latest Practicable Date, whilst we do not meet the Qualification Requirement as we have no experience in operating schools outside of the PRC, we have taken concrete steps to comply with the Qualification Requirement. Please refer to the section headed "Structured Contracts – Background of the Structured Contracts – Plan to Comply with the Qualification Requirement" in this prospectus for more details on our plans to comply with the Qualification Requirement.

We cannot assure you that we will meet the Qualification Requirement in the future and the plan we have adopted will be sufficient to satisfy the Qualification Requirement. If the Foreign Ownership Restriction and Foreign Control Restriction are lifted, we may be unable to unwind the Structured Contracts by acquiring the school sponsor's interest in our PRC Operating Entities before we are in a position to comply with the Qualification Requirement. If we otherwise attempt to unwind the Structured Contracts by acquiring the school sponsor's interest of our PRC Operating Entities before we satisfy the Qualification Requirement, we may be considered by the regulatory authorities as ineligible for operating schools and forced to cease operation of our PRC Operating Entities, which could have a materially adverse effect on our business, financial condition and results of operations.

Our exercise of the option to acquire school sponsor's interest of our PRC Operating Entities may be subject to certain limitations and we may incur substantial costs and expend significant resources to enforce the Structured Contracts if any of our PRC Operating Entities fails to perform its obligations thereunder.

We may incur substantial costs to exercise the option to acquire the school sponsor's interests in our PRC Operating Entities. Pursuant to the Exclusive Call Option Agreement, XZ Huali or its designated purchaser has the exclusive right to purchase all or part of the school sponsor's interest in our PRC Operating Entities or all or part of the Registered Shareholder's interest in Huali Investment at the lowest price permitted under the PRC laws and regulations. In the event that XZ Huali or its designated purchaser acquires the school sponsor's interests in our PRC Operating Entities and the relevant PRC authorities determine that the purchase price for acquiring the school sponsor's interest of our PRC Operating Entities is below market value, XZ Huali or its designated purchaser may be required to pay enterprise income tax with reference to the market value which may be substantial and could materially and adversely affect our business, financial condition and results of operations.

We rely on dividends and other payments from XZ Huali to pay dividends and other cash distributions to our Shareholders.

We are a holding company and rely principally on dividends paid by our subsidiaries in China for our cash needs, including paying dividends and other cash distributions to our Shareholders to the extent we choose to do so, servicing any debt we may incur and paying our operating expenses. XZ Huali's income in turn depends on the service fees paid by our PRC Operating Entities and Huali Investment. However, there are restrictions under PRC laws for the payment of dividends to us by XZ Huali. For example, relevant PRC laws and regulations permit payments of dividends by PRC Operating Entities only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations and the PRC Operating Entities would have to make up any losses of previous years when conducting outward remittance. Under PRC laws and regulations, the PRC Operating Entities are required to set aside at least 10% of their 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 their registered capital. Consequently, XZ Huali 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 XZ Huali to pay dividends to us and the limitations on the ability of PRC Operating Entities to pay service fees to Huali Investment could materially and adversely limit our ability to service any debt obligations we may incur outside of China or pay dividends to holders of our Shares.

Our PRC Operating Entities may be subject to limitations on their ability to operate private education or make payments to related parties.

The principal regulations governing private education in China are the Law for Promoting Private Education of the PRC (《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, 2016 and 2018, 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》). Under these regulations, a private school may elect to be a school the school sponsor of which does or does not require reasonable returns. A private school the school sponsor of which does not require reasonable returns cannot distribute returns to its school sponsor. 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 the school sponsor of which 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 the school sponsor of which does not require reasonable returns, this amount is at least 25% of the annual increase in the net assets of the school, if any. During the Track Record Period, our PRC Operating Entities appropriated such development fund of RMB66.0 million, RMB48.7 million and RMB58.4 million for the years ended August 31, 2017, 2018 and 219, respectively. A private school the school sponsor of which 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 fee rates, ratio of the funds used for education-related activities to the course fees collected, admission standards and education quality when determining the percentage of the school's net income that would be distributed to the investors as reasonable returns. However, current PRC laws and regulations do not provide a formula or guidelines for determining what constitutes a "reasonable return." In addition, current PRC laws and regulations do not set forth different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school the school sponsor of which requires reasonable returns or a school the school sponsor of which does not require reasonable returns.

Pursuant to the Amendment, the sponsor of a private school may choose to establish non-profit or for-profit private schools (with the exception that schools providing compulsory education can only be established as non-profit entities) and will no longer be required to indicate whether their school sponsors require reasonable returns or not. 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 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 non-profit schools and for-profit schools. Please refer to the section headed "Regulatory Overview" in this prospectus for further details of the Amendment.

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 XZ Huali, which in turn depends on the service fees paid to XZ Huali from our PRC Operating Entities and Huali Investment. Our PRC Legal Adviser advises us that XZ Huali's right to receive the service fees from our PRC Operating Entities and Huali Investment does not contravene any PRC laws and regulations. Please refer to the section headed "Structured Contracts – Legality of the Structured Contracts" in this prospectus for further details regarding our PRC Legal Adviser's view on the legality of the payment of service fees under the Structured Contracts.

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 XZ Huali, even retrospectively, to the extent that such service fees are tantamount to "reasonable returns" taken by the sponsor of these schools in violation of PRC laws and regulations. As a result, our ability to pay dividends and other cash distributions to our Shareholders may be substantially limited.

If any of our PRC Operating Entities or Huali Investment 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 adversely affect our ability to generate revenue.

We currently conduct our operations in China through the Structured Contracts with our PRC Operating Entities, Huali Investment and the Registered Shareholder. As part of these arrangements, substantially all of our education-related assets that are important to the operation of our business are held by our PRC Operating Entities. If any of these PRC Operating Entities is wound up, and all or part of their assets become subject to liens or rights of third-party creditors or are distributed to other persons of higher priority than the school sponsor in accordance with the applicable PRC laws and regulations, we may be unable to continue some or all of our business activities, which could materially adversely affect our business, financial condition and results of operations. If any of our PRC Operating Entities undergoes a voluntary or involuntary liquidation proceeding, our PRC Operating Entities may be required to distribute their assets to other persons of higher priority than the school sponsor, or its equity owner or unrelated third-party creditors may claim rights relating to some or all of these assets, which would hinder our ability to operate our business and could materially adversely affect our business, our ability to generate revenue and the market price of our Shares. Whilst Huali Investment undertakes pursuant to the Structured Contracts that in the event of dissolution or liquidation of our PRC Operating Entities, XZ Huali and/or its authorized person shall have the right to exercise all school sponsor's rights on behalf of Huali Investment and Huali Investment shall transfer all assets acquired as a result of such dissolution or liquidation to XZ Huali and/or its designated person, and instruct the liquidation team to conduct the transfer directly, we may not be able to exercise our rights in a timely manner and our business, financial condition and results of operations could be materially adversely affected.

In addition, if Huali Investment is subject to winding up or liquidation proceedings, the assets of Huali Investment, including the school sponsor's interest in our PRC Operating Entities, may be subject to application by the relevant creditors to the courts for compulsory execution and all proceeds generated by the compulsory execution may be applied for settlement of the outstanding liabilities of Huali Investment.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in the economic and political policies of the PRC government could have a materially adverse effect on the overall economic growth of China, which could adversely affect our business.

All of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with regard to the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policies, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven among various sectors of the economy, geographically and during different periods. We cannot assure you that the Chinese economy will continue to grow or that, if there is a growth, such growth will be steady and uniform, or that, if there is a slowdown, such slowdown will not have a negative effect on our business. Although the Chinese government has been carefully curtailing its economic policies, it is unclear whether the policies adopted will be effective in maintaining stable economic growth in the future. Any slowdown in the economic growth of China could lead to reduced demand for the education services we provide, which could materially adversely affect our business, financial condition and results of operations.

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 Entities, which could materially adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the proceeds of this offering in the manner described in the section headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus as an offshore holding company, we may extend loans to our PRC subsidiaries and/or our PRC Operating Entities, establish new subsidiaries, make additional capital contributions to our PRC subsidiaries or acquire, in offshore transactions, offshore entities with business operations inside China. Any loans to our PRC subsidiaries or our PRC Operating Entities are subject to PRC regulations and approvals. For example:

- loans we extend to our wholly-owned subsidiaries in China or another PRC subsidiary to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterparts;

- loans we extend to our PRC Operating Entities, over a certain threshold, must be approved by the relevant governmental authorities and must also be registered with the SAFE or its local counterparts; and

- capital contribution to our PRC Operating Entities must be approved by the MOE and Ministry of Civil Affairs or their respective local counterparts.

On June 9, 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of 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》 (the "**Circular 16**"). The Circular 16 stipulates that the use of foreign exchange incomes under the capital account of a foreign-invested enterprise shall follow the "authenticity and self-use principle" within its business scope, and the use of the foreign exchange receipts under the capital accounts of a foreign-invested enterprise and the RMB funds obtained thereby from foreign exchange settlement shall not conflict with the provisions stated in the Circular 16. Circular 16 may significantly limit our ability to transfer the net proceeds from the Global Offering or any other offering of additional equity securities to our PRC subsidiaries or invest in or acquire any other companies in the PRC.

In addition, any capital contributions to our subsidiaries or to any new subsidiaries that we may establish in the future must be approved or filed by MOFCOM and/or the SAMR or their local counterpart (as the case may be). We cannot assure you that we will be able to obtain these governmental filings or approvals on a timely basis, if at all. If we fail to receive such filings or approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could materially adversely affect our liquidity and our ability to fund and expand our business.

Failure by the Shareholders or beneficial owners who are Chinese residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by Chinese residents may prevent us from distributing profits and could expose us and our Chinese resident Shareholders to liability under the Chinese laws.

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投融資及返程投資外匯管理有關問題的通知》) (the "**SAFE Circular No. 37**"), which was promulgated by SAFE and became effective on July 4, 2014, requires a domestic institution or individual resident (the "**Domestic Resident**") to file a "Registration Form of Overseas Investments Contributed by Domestic Individual Residents" and register with the local SAFE branch before he or she contributes assets or capital to an offshore special purpose vehicle (the "**Offshore SPV**") that is directly established or indirectly controlled by the Domestic Resident for the purpose of offshore investment and financing, utilizing assets or interests (onshore or offshore) legally held by the Domestic Resident. Following the initial registration, the Domestic Resident is also required to register with the local SAFE branch any major change in respect of the Offshore SPV, including, among other things, any major change of the Offshore SPV's Domestic Resident shareholder, name of the Offshore SPV, term of operation, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, and merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties, including the imposition of restrictions on the ability of the Offshore SPV's Chinese subsidiary to distribute dividends to its overseas parent. 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》) (the "**SAFE Circular No. 13**"), which were promulgated on February 13, 2015 and implemented on June 1, 2015, the foreign exchange registration for establishing or taking control of an Offshore SPV by Domestic Residents are required to be conducted with a qualified bank, instead of the local SAFE branch.

As of the Latest Practicable Date, Mr. Zhang has completed the registration under SAFE Circular No. 37 and SAFE Circular No. 13 relating to his set up of Huali Education. Since Mr. Zhang has transferred his entire equity interest in Huali Education as the trust assets to the Trust Co (the "**Transfer of Huali Education**"), Mr. Zhang is required to update his registration under SAFE Circular No. 37 and SAFE Circular No. 13 with the bank reflecting Transfer of Huali Education. However, we may not at all times be fully informed of the identities of all our shareholders, beneficial shareholders, settlors and beneficiaries of HL-Diamond Trust (collectively, the "**Beneficial Owners**") who are Domestic Residents and we do not have control over our Beneficial Owners. As such, we cannot assure you that all of our Domestic Resident Beneficial Owners will comply with SAFE Circular No. 37 and SAFE Circular No. 13. Any failure by our Domestic Resident Beneficial Owners to register with qualified banks pursuant to SAFE Circular No. 37 and SAFE Circular No. 13 or update their filing, or the failure of future Beneficial Owners who are Domestic Residents to comply with the registration requirements may result in penalties and the prohibition of payments to offshore parents from capital reductions, share transfers or liquidations of our Chinese subsidiaries and could materially adversely affect our ownership structure, acquisition strategy, business operations and ability to make dividend payments to the shareholders.

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 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 XZ Huali, 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, 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.

We face foreign exchange risk, and fluctuations in exchange rates could have an adverse effect on our business and investors' investments.

The value of the Renminbi has been under pressure of appreciation in recent years. Due to international pressures on the PRC to allow more flexible exchange rates for the Renminbi, the economic situation and financial market developments in the PRC and abroad and the balance of payments situation in the PRC, the PRC government has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. Any appreciation or depreciation in the value of the Renminbi or other foreign currencies that our operations are exposed to will affect our business in different ways. Our revenue and costs are mostly denominated in Renminbi, and a significant portion 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 PRC Operating Entities. Any significant change in the exchange rates of the Hong Kong dollar against Renminbi may materially adversely affect the value of, and any dividends payable on our Shares in Hong Kong dollars. In such events, our business, financial condition, results of operations and growth prospects may be materially adversely affected.

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 labor costs. According to the National Bureau of Statistics of China, the year-over-year percent change in the consumer price index in China was 2.0% in 2016. The PRC's overall economy and the average wage in the PRC are expected to continue to grow. Future increases in the PRC's inflation and material increases in the cost of labor 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 fee rates.

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 organization 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 the diversion of resources and management attention.

As our Shareholder, you 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 among 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.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us or our management named in the prospectus based on Hong Kong or other foreign laws.

We are a company incorporated under the laws of the Cayman Islands. We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, almost all of our senior executive officers reside within China for a significant portion of the time and are all PRC nationals. As a result, it may be difficult for our Shareholders to effect service of process upon us or those persons inside mainland China. In addition, our PRC Legal Adviser has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Please refer to the section headed "Appendix IV – Summary of the Constitution of our Company and Companies Law" in this prospectus for more information regarding the relevant laws of the Cayman Islands.

On July 14, 2006, Hong Kong and the PRC entered into 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 (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**2006 Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the 2006 Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the 2006 Arrangement may still be uncertain.

On January 18, 2019, the Supreme People's Court of the PRC and Department of Justice of HKSAR 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 (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) ("**2019 Arrangement**"). The 2019 Arrangement sets forth the scope, applicable rulings, procedures and manners to apply for recognition and enforcement, examination on jurisdiction of the original court, conditions to refuse recognize and enforce, and remedies of Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters. Following the promulgation of a judicial interpretation by the Supreme People's Court and the completion of the relevant procedures in the HKSAR, both sides shall announce a date on which the 2019 Arrangement shall become effective. The 2019 Arrangement shall apply to judgments made by the courts of the Mainland and of the HKSAR on or after the effective date. When the 2019 Arrangement becomes effective, the 2006 Arrangement shall be terminated. However, the 2006 Arrangement remains applicable to a "choice of court agreement in writing" within the meaning of the 2006 Arrangement and signed before the effective date of the 2019 Arrangement.

Although the 2019 Arrangement has been signed, it remains unclear when it will come into effect and the outcome and effectiveness of any action brought under the 2019 Arrangement may still be uncertain.

If we are classified as a PRC "resident enterprise", we could be subject to PRC income tax at the rate of 25% on our worldwide income, 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 EIT Law, 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 authorities will normally review factors such as the routine operation of the organizational 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 EIT 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, or the SAT, 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 (《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》), or the SAT Circular 82, on April 22, 2009. The 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 as having its de facto management body within 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 July 27, 2011, effective from September 1, 2011, providing further guidance on the implementation of the SAT Circular 82. This bulletin clarifies matters including residence status determination, post-determination administration and competent tax authorities. Although both the 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.

As almost all of our executive Directors and senior management members are based in China, it remains unclear as to how the tax residency rule will apply to our case. The tax resident status of an enterprise is subject to uncertainties and risks associated with this issue.

Under the EIT Law, foreign corporate shareholders of a PRC resident enterprise will be subject to a 10% (Individual: 20%) withholding tax upon dividends received from the PRC resident enterprise and on gain recognized 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% (Individual: 20%) withholding tax upon dividends received from us and on gain recognized 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.

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

Our business could be materially 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, 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 all of our schools are boarding schools and our campuses provide on-campus accommodation to certain of our teachers and staff, the boarding environment makes our students, teachers and staff exceptionally vulnerable to epidemics or pandemics, which may make it more difficult for us to take preventive measures if an epidemic or pandemic were to occur. If any of these disasters or epidemics and so forth 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 cause significant declines in the number of students applying to or enrolled in our schools. If this takes place, our business, financial condition and results of operations could be materially adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and there can be no assurance that an active market will develop.

Prior to the Global Offering, there has been no public market for our Shares. An active public market may not develop or be sustained after the Global Offering. The initial Offer Price range for our Shares was the result of negotiations between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. We have applied for the listing of, and permission to deal in, the Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active trading market for the Shares will develop. If an active market for the Shares does not develop after the Global Offering, the market price and liquidity of the Shares may be adversely affected. There can be no assurance as to the ability of Shareholders to sell their Shares or the prices at which Shareholders would be able to sell their Shares. Consequently, Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares in the Global Offering.

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 entities, announcements by us or our competitions 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 Renminbi and the Hong Kong dollar, intellectual property litigations, 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 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 this 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.

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, 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 “Appendix V — Statutory and General Information” in this prospectus, 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 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 could result in additional dilution to our Shareholders.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the net proceeds from the Global Offering will be sufficient to meet our anticipated cash needs for the near future. 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 new education programs 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. 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 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 education 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 sectors 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.

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. Zhang will indirectly control 75% of our total issued share capital. Accordingly, Mr. Zhang 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 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. Zhang in the future, Mr. Zhang may exercise control over our Company in ways that conflict with the interests of our other Shareholders, and minority Shareholders could be disadvantaged.

We cannot guarantee that we will pay dividends.

Our Company did not declare or pay any dividend during the Track Record Period. 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 that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the 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 will be at the absolute discretion of the Board. See "Financial Information – Dividends" in this prospectus.

There will be a time gap between the commencement of the Hong Kong Public Offering and trading of our Shares.

Our Hong Kong Public Offering will commence on Thursday, November 14, 2019 while the application results will only be announced on Friday, November 22, 2019 with our Listing on Monday, November 25, 2019. The applicants will not be entitled to any interest from the date of payment of application monies to the date of refund of application monies (where applicable). Accordingly, successful applications are subject to the risk that the price of our Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur during such period.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering on the expansion of our existing schools by constructing additional buildings, the expansion of school network by building new schools and acquiring schools and the repayment of our short-term loans. Please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus for more details. However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

We cannot guarantee the accuracy of facts and other statistics with respect to Hong Kong and the PRC, the economy of Hong Kong and the PRC and the education industry contained in this prospectus.

We have derived certain facts and other statistics in this prospectus relating to the PRC, the economy of the PRC and the education industry from various publications, governmental publications or communications with various governmental agencies that we believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. While our Directors have taken reasonable care in the reproduction of the information and have no reason to believe that such information is false or misleading, they have not been prepared or independently verified by us, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. The facts and other statistics include the facts and statistics included in the sections headed "Risk Factors", "Industry Overview", and "Business". Due to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and you should not place undue reliance on them. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminologies such as "anticipate", "believe", "could", "going forward", "intend", "plan", "project", "seek", "expect", "may", "ought to", "should", "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this prospectus to the public, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

We are a Cayman Islands company and, because judicial precedent regarding the rights of Shareholders is more limited under Cayman Islands law than under Hong Kong law, you may have less protection of your shareholder rights than you would under Hong Kong law.

Our corporate affairs are governed by our Memorandum and Articles and by the 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, such as Hong Kong. For example, the Cayman Islands do not have a statutory equivalent of section 168A of the Companies Ordinance which provides a remedy for Shareholders who have been unfairly prejudiced by the conduct of the company's affairs. Please refer to "Appendix IV – Summary of the Constitution of our Company and Companies Law" in this prospectus for more details.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, Directors or major Shareholders than would shareholders of a corporation incorporated in Hong Kong.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports or other publicly available information without carefully considering the risks and other information contained in this prospectus.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media or otherwise publicly available, nor the fairness or appropriateness of any estimates/forecasts, views or opinions expressed by the press or other media or otherwise publicly available regarding our Shares or the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decision whether to invest in our Shares or in the Global Offering. You should rely solely upon the information contained in this prospectus, the application forms and any formal announcements made by us in making your investment decision regarding our Shares.

In preparation for the Listing, our Company has 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, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. As of the Latest Practicable Date, none of our executive Directors was ordinarily resident in Hong Kong. Furthermore, the business operations of our Group are located in the PRC. Due to the business requirements of our Group, none of our executive Directors has been, is or is expected to be based in Hong Kong.

Accordingly, we have applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules on the following grounds:

(a) the business operations of our Group are at present, and are expected in the foreseeable future to be, primarily located, managed and conducted in the PRC;

(b) all of our executive Directors and members of our senior management are, and are expected to continue to be, based primarily in the PRC; and

(c) for the purposes of the management and operations of our Company, the appointment of additional executive Directors who are ordinarily resident in Hong Kong would not only increase the administrative expenses of our Group, but also reduce the effectiveness and responsiveness of the Board in making decisions for our Company, especially when business decisions are required to be made within a short period of time. In addition, the appointment of new executive Directors, who may not be familiar with the operations of our Company, to our Board for the sole purpose of satisfying the requirement of Rule 8.12 of the Listing Rules may not be in the best interest of our Company and our Shareholders as a whole.

The Stock Exchange has granted a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules subject to the following conditions:

(a) we will appoint and will continue to maintain two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal communication channel with the Stock Exchange and ensure that our Company will comply with the Listing Rules at all times. The two authorized representatives are Mr. Ye Yaming (葉雅明), an executive Director, and Mr. Cheung Kai Cheong, Willie (張啟昌), the joint company secretary of our Company and who is ordinarily resident in Hong Kong. Each of the two authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon request of the Stock Exchange and will be readily contactable by mobile phone, office phone, facsimile, e-mail, and any other contact details prescribed by the Stock Exchange from time to time. Each of the two authorized representatives is duly authorized to communicate on behalf of our Company with the Stock Exchange;

(b) each of the authorized representatives has means to contact all members of our Board (including the independent non-executive Directors) promptly at all times and as and when the Stock Exchange wishes to contact the members of the Board for any matter. In addition, we have provided all of our Directors' mobile phone numbers, office phone numbers, e-mail addresses and facsimile numbers to the Stock Exchange;

(c) each Director who is not ordinarily resident in Hong Kong has confirmed that he possesses or can apply for valid travel documents to visit Hong Kong for business purpose and will be able to meet with the relevant members of the Stock Exchange in Hong Kong with reasonable notice; and

(d) in compliance with Rule 3A.19 of the Listing Rules, we have appointed China Industrial Securities International Capital Limited as our compliance adviser who will act as an additional channel of communication with the Stock Exchange.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the secretary of our Company must be a person who has the requisite academic or professional qualifications or relevant experience to discharge the functions of a company secretary.

We have appointed Mr. Hung Manling (洪文靈) ("**Mr. Hung**") as one of our joint company secretaries. Mr. Hung does not possess the qualification as stipulated in Rule 3.28 of the Listing Rules, and therefore does not meet all the requirements under Rules 3.28 and 8.17 of the Listing Rules.

We have appointed Mr. Cheung Kai Cheong, Willie (張啟昌) ("**Mr. Cheung**"), who possesses the qualification required under Rule 3.28 of the Listing Rules, to act as a joint company secretary to provide assistance to Mr. Hung for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Mr. Cheung will work closely with Mr. Hung to jointly discharge the duties and responsibilities as joint company secretaries and assist Mr. Hung to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, we will ensure Mr. Hung has access to relevant training and support to familiarize himself with the Listing Rules and the duties of a company secretary of a company listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver will be valid for an initial period of three years from the Listing Date, subject to the condition that Mr. Cheung is appointed as a joint company secretary to assist Mr. Hung in discharging his functions as company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules. Before the expiry of such three-year period, the Stock Exchange will re-visit the situation with the expectation that we should then be able to demonstrate to its satisfaction that Mr. Hung has acquired the relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

CONTINUING CONNECTED TRANSACTIONS

We have entered into and are expected to continue with certain transactions which would constitute continuing connected transactions under the Listing Rules upon Listing. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the relevant requirements set out in Chapter 14A of the Listing Rules in respect of such continuing connected transactions. Please refer to the section headed "Connected Transactions" in this prospectus for details of such continuing connected transactions.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information about us to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy and completeness of the information contained in this prospectus and confirm, having made all reasonable enquiries, 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 that there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The 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 authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. No representation is made that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to its date.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering," in this prospectus and the procedures for applying for Hong Kong Public Offer Shares are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus and in the relevant Application Forms.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER 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 or its acquisition of Offer Shares to, confirm that he, she or it is aware of the restrictions on offers of the Offer Shares described in this prospectus. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus 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 authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the Global 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 authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including the Offer Shares and Shares to be issued under the Capitalization Issue.

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 in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange 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 on the Stock Exchange or such 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 (as defined in the Listing Rules) after a trading transaction. You should seek advice from your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights, interests and liabilities.

All necessary arrangements have been made for the Shares to be admitted to CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers of representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

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

Dealings in our Shares registered on our share register kept in Hong Kong will be subject to Hong Kong stamp duty.

LANGUAGE

The English names of the PRC nationals, entities, departments, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

ROUNDING

Any discrepancies in any table in this prospectus between total and sum of amounts listed therein are due to rounding. Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments or have been rounded to one or two decimal places. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding 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 translations between Renminbi and Hong Kong dollars were made at the rate of HK$1.1138 to RMB1.00, the exchange rate prevailing on November 4, 2019 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$7.8375 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 October 25, 2019.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Zhang Zhifeng (張智峰)	Huali College Guangdong University of Technology Zengcheng District Guangzhou Guangdong Province PRC	Chinese
Mr. Ye Yaming (葉雅明)	Unit 506 36 Zhongshan First Road Dongshan District Guangzhou Guangdong Province PRC	Chinese
Mr. Dong Xiaolin (董小麟)	Room 702, Block 3 641 Zhongdapu Garden Haizhu District Guangzhou Guangdong Province PRC	Chinese
Non-executive Director		
Mr. Zhang Yude (張裕德)	Room 2402, Block 2 No. 79 Jinsui Road Tianhe District Guangzhou Guangdong Province PRC	American
Independent Non-executive Directors		
Mr. Chow Kwong Fai, Edward, J.P. (周光暉)	House E, Sunshine Villa 48 Mount Kellett Road The Peak Hong Kong	Chinese (Hong Kong)
Mr. Yang Ying (楊英)	Room 703 10 Hongkou Road Tianhe District Guangzhou Guangdong Province PRC	Chinese
Mr. Ding Yi (丁義)	Room 806, Block 21 13 Shui Yin Heng Road Tianhe District Guangzhou Guangdong Province PRC	Chinese

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong
Sole Global Coordinator	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong
Joint Bookrunners	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong
	BOCOM International Securities Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
	China Galaxy International Securities (Hong Kong) Co., Limited 20/F Wing On Centre 111 Connaught Road Central Hong Kong
	First Shanghai Securities Ltd. 19/F., Wing On House 71 Des Voeux Road Central Hong Kong
Joint Lead Managers	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong
	BOCOM International Securities Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong

China Galaxy International Securities (Hong Kong) Co., Limited
20/F Wing On Centre
111 Connaught Road Central
Hong Kong

First Shanghai Securities Ltd.
19/F., Wing On House
71 Des Voeux Road Central
Hong Kong

Essence International Securities (Hong Kong) Limited
39/F., One Exchange Square
Central
Hong Kong

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

HeungKong Securities Limited
Suite 622 Ocean Centre, Harbour City
Tsim Sha Tsui Kowloon
Hong Kong

Fosun Hani Securities Limited
Suite 2101-2105, 21/F, Champion Tower
3 Garden Road
Central
Hong Kong

Zhongrong PT Securities Limited
Room 201A, 2/F China Building
29 Queen's Road
Central
Hong Kong

Legal advisers to our Company	*As to Hong Kong law* King & Wood Mallesons 13/F, Gloucester Tower The Landmark 15 Queen's Road Central Central Hong Kong *As to PRC law* Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road Beijing 100025 PRC *As to Cayman Islands law* Maples and Calder (Hong Kong) LLP 53/F, the Centre 99 Queen's Road Central Hong Kong *As to California law* King & Wood Mallesons LLP 535 Middlefield Road, Suite 180 Menlo Park, CA 94025, USA
Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law* Reed Smith Richards Butler 20th Floor, Alexandra House 18 Chater Road Central Hong Kong *As to PRC law* JunHe LLP 26/F, HKRI Centre One HKRI Taikoo Hui 288 Shimen Road (No.1) Shanghai 200041 PRC
Reporting accountant and auditor	PricewaterhouseCoopers *Certified Public Accountants* 22/F, Prince's Building Central Hong Kong
Industry consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B, No. 500 Yunjin Road Xuhui District Shanghai 200232 PRC

Receiving bank	CMB Wing Lung Bank Limited CMB Wing Lung Bank Building 45 Des Voeux Road Central Central Hong Kong
Property valuer	Cushman & Wakefield Limited 16/F, Jardine House 1 Connaught Place Central Hong Kong

Registered office in the Cayman Islands	P.O. Box 309, Ugland House Grand Cayman KY1-1104 Cayman Islands
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Headquarters in the PRC	The Administration Building of Guangzhou Huali Science and Technology Town No. 11 Huali Road Zengcheng District Guangzhou Guangdong Province PRC
Joint company secretaries	Mr. Hung Manling (洪文靈) Flat E, 6/F Tower 3, Sham Wan Towers 3 Ap Lei Chau Drive Hong Kong Mr. Cheung Kai Cheong, Willie (張啟昌) 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Authorized representatives	Mr. Ye Yaming (葉雅明) Unit 506, 36 Zhongshan First Road Dongshan District Guangzhou Guangdong Province PRC Mr. Cheung Kai Cheong, Willie (張啟昌) 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
Audit Committee	Mr. Chow Kwong Fai, Edward, J.P. (周光暉) *(Chairman)* Mr. Yang Ying (楊英) Mr. Ding Yi (丁義)
Remuneration Committee	Mr. Yang Ying (楊英) *(Chairman)* Mr. Ye Yaming (葉雅明) Mr. Ding Yi (丁義)
Nomination Committee	Mr. Zhang Zhifeng (張智峰) *(Chairman)* Mr. Yang Ying (楊英) Mr. Ding Yi (丁義)
Compliance adviser	China Industrial Securities International Capital Limited 7/F, Three Exchange Square 8 Connaught Place, Central Hong Kong

Cayman Islands principal share registrar and transfer office	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square Grand Cayman KY1-1102 Cayman Islands
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 bank	Guangzhou Rural Commercial Bank Co., Ltd No. 81 Lixin Middle Road, Shitan Town Zengcheng District Guangzhou Guangdong Province PRC
Website of the Company	www.hualiuniversity.com *(the information contained on the website does not form part of this prospectus)*

This section contains certain information, statistics and data which are derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan, an Independent Third Party (the "Frost & Sullivan Report"). The information from official government publications and the Frost & Sullivan Report may not be consistent with information available from other sources within or outside the PRC. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriter or any other party involved in the Global Offering and no representation is given as to its accuracy.

SOURCE 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 education market in the PRC, the private higher education market in the PRC and South China (including Guangdong, Guangxi and Hainan) and the private vocational education market in the PRC and South China (including Guangdong, Guangxi and Hainan).

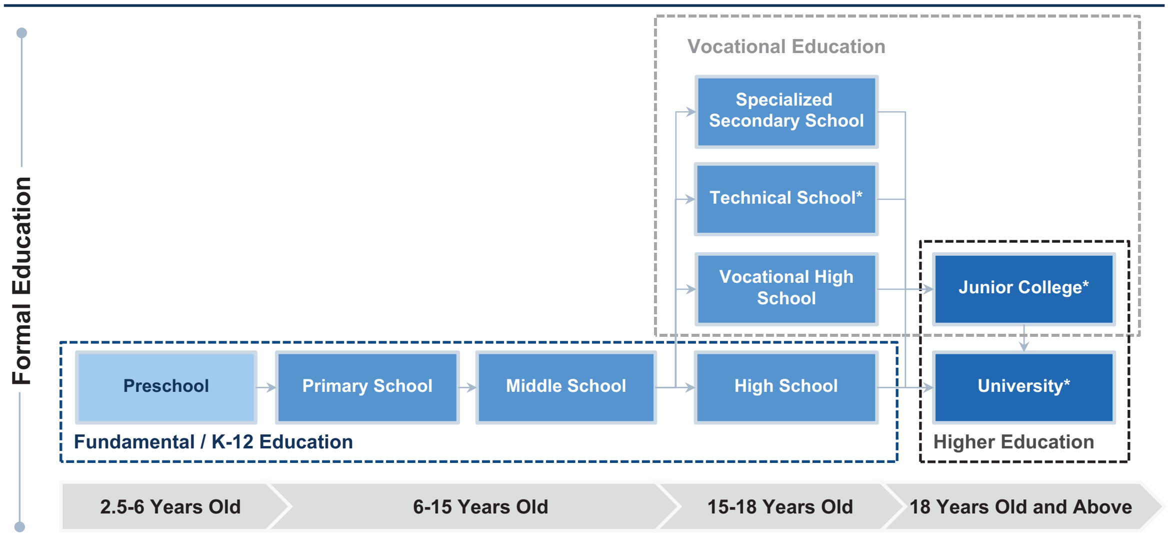
During the preparation of the market research report, Frost & Sullivan performed both primary research, which involves discussions of industry status with leading industry participants and industry experts, and secondary research, which involves review of company reports, independent research reports and data from Frost & Sullivan's own research database. Frost & Sullivan's market research report was compiled based on the following assumptions: (i) China's economy is likely to maintain steady growth in the forecast period; (ii) China's social, economic, and political environment is likely to remain stable in the forecast period; and (iii) market drivers such as great attention on children's education of Chinese households, support from central and local governments, improved investment in private education of the entire society, an increase in income and wealth and relaxation of the one-child policy are likely to drive the Chinese private education market. Total market size projection was obtained from historical data analysis plotted against macroeconomic data as well as related industry drivers by Frost & Sullivan.

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies, and provides growth consulting and corporate training. We are contracted to pay a fee of RMB850,000 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. Our Directors confirm to the best of their knowledge, and after making reasonable enquiries, that there have been no adverse changes in the industry since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information set out in this section.

OVERVIEW OF THE PRC EDUCATION SYSTEM

The PRC education system in general can be categorized into formal education and non-formal education. The formal education system provides students with the opportunity to obtain official certificates from the PRC government, whereas the non-formal education system merely enables students to obtain completion certificates for the training and learning courses they take, which may not be officially recognized in China. Formal education in the PRC comprises (i) fundamental education which includes education from preschool to high school, (ii) vocational education and (iii) higher education. Formal higher education is provided by either junior colleges or universities granting different diplomas/degrees. Formal vocational education includes both secondary vocational education and higher vocational education. Secondary vocational education is provided by technician schools (技工學校), vocational high schools (職業高中) and specialized secondary schools (中等專業學校). Higher vocational education is provided by junior colleges which generally offer three-year vocational programs. Our core business covers higher education and vocational education. The following diagram illustrates the composition of the PRC formal education system.

Illustration of China's Formal Education System



Source: Frost & Sullivan
Note: Within formal education system, the illustration only covers regular formal education, while adult education, which belongs to education according to MOE's classification, is not specifically covered.

* Our business covers technical school, junior college and university.

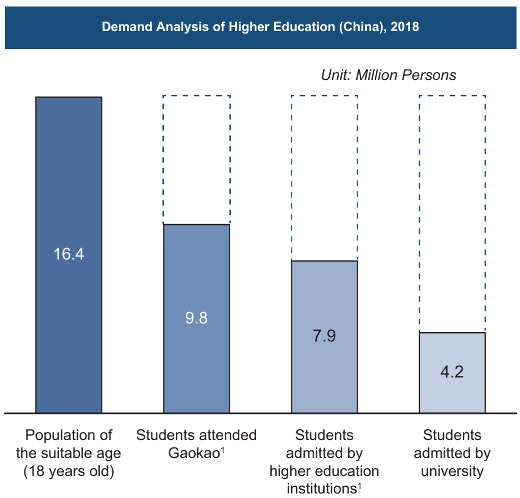
The PRC education system can also be categorized into public education and private education. Public education institutions are established and operated by national or local governments and their major source of funding comes from PRC public expenditure on education, while private education institutions are established and operated by non-governmental institutions or individuals and their major source of funding comes from school operations. The discussion in this section only covers the private higher education industry and private vocational education industry in which we operate.

DEMAND ANALYSIS OF THE HIGHER EDUCATION INDUSTRY IN CHINA

According to the Frost & Sullivan Report, the higher education industry in China has experienced steady growth over the past few years. According to the National Bureau of Statistics of China and the MOE, the total revenue of the higher education industry in China increased from RMB851.0 billion in 2014 to RMB1,201.3 billion in 2018 and is expected to further increase to RMB1,768.2 billion in 2023. According to the Frost & Sullivan Report, student enrollment numbers in higher education in China steadily increased from 27.3 million in 2014 to 31.0 million in 2018 and are expected to further increase to 32.2 million in 2023.

Despite the increase in student enrollment in higher education in recent years, the admission rates for universities remain relatively low. According to the Frost & Sullivan Report, among the 16.4 million population of suitable age, only 48.1% were admitted by higher education institutions and only 25.7% of them were admitted by universities. Therefore, we believe the higher education market in China has significant growth potential.

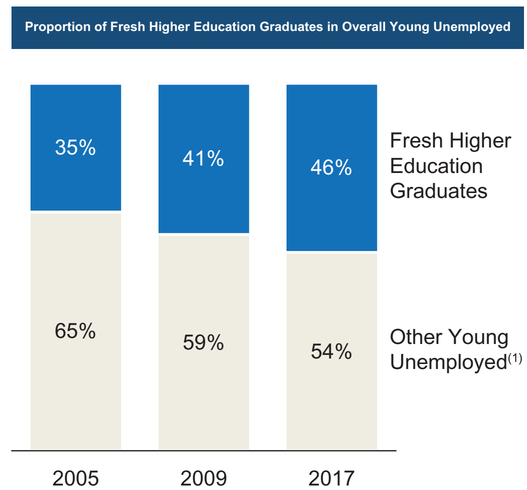
Moreover, it is becoming more difficult for higher education graduates to secure a job. According to the Frost & Sullivan Report, the proportion of overall youth unemployment represented by fresh higher education graduates grew from approximately 35% in 2005 to approximately 46% in 2017. Markets have increasing demand for graduates with professional skills while most public universities in China focus on academic research instead of training of practical skills. It is, therefore, expected that there will be an increasing number of universities focusing on applied technology.



Source: Frost & Sullivan

Note:

(1) The statistics of students sitting the National Higher Education Entrance Exam (i.e. Gaokao) and students admitted by higher education institutions include a small portion of people who are above 18 years old.



Source: Frost & Sullivan

Notes:

(1) The young unemployed refers to a certain group of people among the registered unemployed who are looking for employment opportunities, and comprising graduates of middle schools, high schools, secondary vocational schools, colleges and universities who have not joined the military, pursued further study, or been employed.

(2) The data of proportion of fresh higher education graduates in overall young unemployed in 2018 is currently unavailable.

ENTRY BARRIERS TO PRIVATE HIGHER EDUCATION IN CHINA

According to the Frost & Sullivan Report, the PRC private higher education industry has fairly high entry barriers. Specific entry barriers are set forth below:

- ***Regulatory approvals***: Private school operators in China are required to obtain and maintain a series of approvals, licenses and permits and comply with specific registration and filing requirements. The lengthy, complex and uncertain application process has become a natural entry barrier especially for new school operators;

- ***Operational experience and management capability***: Operational and management experience are vital to school operations as well as in achieving economies of scale, which is a significant entry barrier for new entrants;

- ***Brand awareness and source of students***: Students in China have strong preference to attend schools with a long history and well-established reputation, both of which are difficult to achieve in a short period of time and further impose obstacles for new entrants to attract sufficient students;

- ***Availability of land and relevant facilities***: Insufficient land resources, challenged availability of relevant facilities and rising rental costs in certain cities in China are imposing higher capital and time cost for new school establishment and existing schools to establish branches in new locations;

- ***Capital requirements***: Establishment of a new school in China requires large capital investment for the construction of school campuses and facilities as well as other related expenses. Therefore, the ability for school operators to secure sufficient capital is critical; and

- ***Availability of qualified teaching staff***: The structural adjustment of China's higher education industry has exacerbated the shortage of qualified teachers with relevant practical industry experience and know-how, which may inhibit new participants who do not have sufficient access to such resources from entering the market.

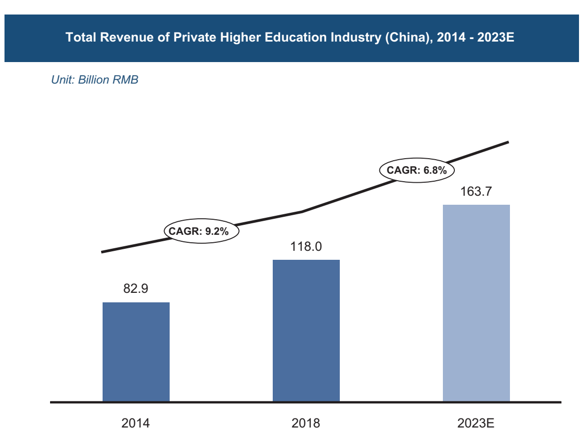
OVERVIEW OF THE PRIVATE HIGHER EDUCATION INDUSTRY IN CHINA AND SOUTH CHINA

China's private higher education industry has experienced rapid growth as government authorities have endeavored to establish a regulatory framework to promote private higher education. According to the Frost & Sullivan Report, private higher education institutions in China can be divided into three categories, namely private regular universities (民辦普通本科學校), private junior colleges (民辦普通專科學校) and independent colleges (獨立學院).

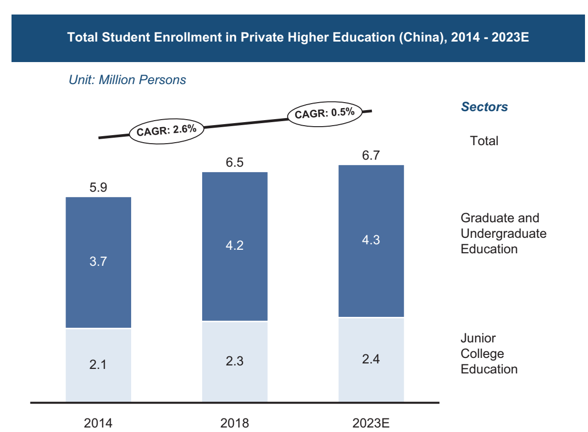
Market size and student enrollment in the private higher education industry in China

According to the Frost & Sullivan Report, the total revenue generated by China's private higher education industry increased from RMB82.9 billion in 2014 to RMB118.0 billion in 2018, representing a CAGR of 9.2%, and is expected to increase to RMB163.7 billion by 2023, representing a CAGR of 6.8%. In line with the increase in student enrollment in higher education, the total number of students enrolled in private higher education has also experienced steady growth. The total number of students enrolled in private higher education institutions in China increased from 5.9 million in 2014 to 6.5 million in 2018, representing a CAGR of 2.6%, and is expected to further increase to 6.7 million in 2023, representing a CAGR of 0.5%, according to the Frost & Sullivan Report.

The following diagrams illustrate the total revenue generated by and the total student enrollment in the private higher education industry in China from 2014 to 2018, and a forecast of revenue and student enrollment in 2023.



Source: Frost & Sullivan



Source: Frost & Sullivan

Tuition fee rates of the private higher education industry in China

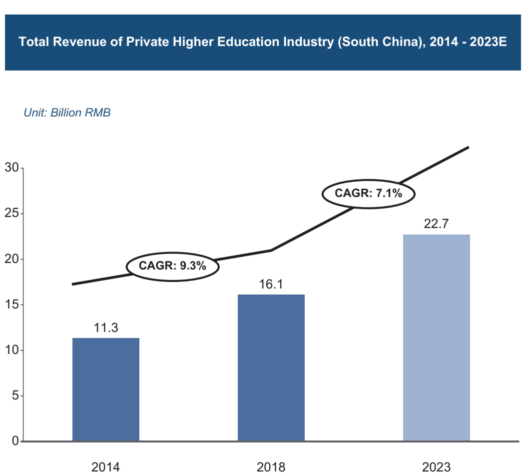
According to the Frost & Sullivan Report, the average tuition fee rates for higher education per student per school year increased from RMB7,557 in 2014 to RMB8,005 in 2018, which correlated to the increase in per capita GDP over the same period. As China's economy continues to develop and per capita GDP continues to increase, China's average tuition fee rates for higher education are expected to grow. In 2018, the average tuition fee rates for private higher education institutions were approximately RMB13,530, much higher than those in public higher education institutions, which were RMB7,052.

Market size and student enrollment in the private higher education industry in South China

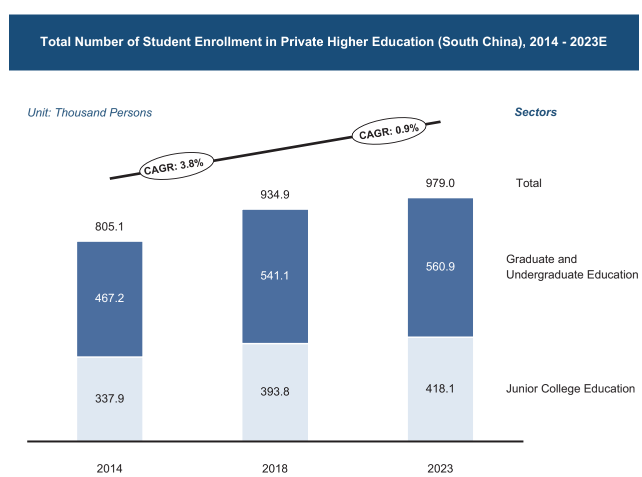
According to the Frost & Sullivan Report, South China consists of Guangdong, Guangxi and Hainan provinces. The economy of Guangdong Province is more developed than the economies of Guangxi and Hainan, and contributes 10.8% to the GDP of China. By the end of 2018, there were 54 private higher education institutions (including Sino-foreign schools) in Guangdong, ranking first in China in terms of the number of private higher education institutions, while the student enrollment in private higher education institutions in Guangdong amounted to 666,000, which accounted for 10.3% of the total student enrollment in private higher education institutions in China. As compared to Guangdong, Guangxi and Hainan are economically relatively backward with limited higher education resources, providing greater scope for the development of private higher education institutions. By the end of 2018, there were only 25 and nine private higher education institutions in Guangxi and Hainan, respectively, and the student enrollment in private education institutions in Guangxi and Hainan was approximately 198,200 and 70,600 respectively, which accounted for 3.1% and 1.1%, respectively, of the total student enrollment in private higher education institutions in China.

According to the Frost & Sullivan Report, total revenue generated by the private higher education industry in South China has been growing rapidly from RMB11.3 billion in 2014 to RMB16.1 billion in 2018, representing a CAGR of 9.3%. In 2018, total revenue generated by the private higher education industry in South China accounted for 13.7% of the total revenue generated by the private education industry in China as a whole. The total revenue of private higher education in South China is expected to increase further from RMB16.1 billion in 2018 to RMB22.7 billion in 2023, representing a CAGR of 7.1%. From 2014 to 2018, the number of student enrollment in private higher education in South China increased from 805,100 to 934,900, representing a CAGR of approximately 3.8%. The rate of growth in the number of students enrolled in private higher education in South China is expected to increase from 934,900 in 2018 to 979,000 in 2023, representing a CAGR of approximately 0.9%.

The following diagrams illustrate the total revenue generated by and the total student enrollment in private higher education in South China from 2014 to 2018, and a forecast of revenue and student enrollment in 2023.



Source: Frost & Sullivan



Source: Frost & Sullivan

According to the Frost & Sullivan Report, the penetration rate of private higher education in South China in terms of student enrollment was 30.2% in 2018, higher than the national average of 20.9%, indicating that more students are willing to choose private institutions for the pursuit of higher education. It is expected the penetration rate of private higher education in South China in terms of student enrollment will remain at 29.9% in 2023.

Market drivers of private higher education in South China

According to the Frost & Sullivan Report, the development of private higher education in South China is primarily driven by the following factors:

- ***Low higher education enrollment rate in South China***: Since the admission quota of higher education institutions is not allocated to a province based on the population of such province, the higher education enrollment rate in Guangdong is low because the higher education resources in Guangdong are insufficient to satisfy needs of its large population. Guangxi and Hainan, on the other hand, have insufficient higher education resources and limited financial support from the local governments. As a result, the respective higher education enrollment rate in Guangdong, Guangxi and Hainan is lower than the national average, implying a great potential for the development of private higher education institutions in South China;

- ***Cross-province national entrance exam***: Guangdong is an important manufacturing center in China and has attracted a steady influx of migrant workers from across the country. As a result of an initiative adopted by the Guangdong local government in 2016, children of migrant workers in Guangdong are allowed to take national entrance exams in Guangdong. Consequently, the demand for private higher education in Guangdong is expected to grow; and

- ***Enhanced quality of education***: As compared to public universities, private higher education institutions tend to offer applied science-focused courses that are tailored to providing practical training to prepare their students for employment after graduation. As Guangdong is an important manufacturing center in China, market demand for talented personnel with practical and readily applicable technical skills has grown and is expected to grow rapidly, which in turn, will drive the growth of the private higher education industry in South China.

Development trends of the private higher education industry in South China

According to the Frost & Sullivan Report, the development trends of the private higher education industry in South China include the following:

- ***Growing penetration of private higher education***: In light of the low higher education enrollment rate and limited education resources in South China, more private higher education institutions are expected to enter the market in the future in order to satisfy the increasing demand for higher education in South China. In addition, the improved education quality of private higher education institutions will also likely win government support to give them larger more admission quota; and

- ***Cultivation of talent to better fit demand in South China***: Guangdong's strength in manufacturing, should present it with significant opportunities in light of the "Made in China 2025" national strategy adopted by the State Council in 2015 to advocate the development of China's manufacturing industry in the coming years. However, it is expected that there will be an insufficient supply of talent in technology and science in Guangdong. Therefore, the private higher education institutions in South China are expected to offer programs focused on applied sciences and cultivate technical talent and specialists.

COMPETITIVE LANDSCAPE OF THE PRIVATE HIGHER EDUCATION INDUSTRY IN CHINA AND SOUTH CHINA

According to the Frost & Sullivan Report, the private higher education industry in China is highly fragmented on a nationwide basis and none of the players has a sizable market share as higher education institution operators tend to focus on a particular location rather than operate on a cross-location or cross-province basis. There were 749 private higher education institutions in total (including 265 independent colleges) in 2018, compared to 727 in 2014.

The private higher education market in South China is also relatively decentralized. According to the Frost & Sullivan Report, by the end of 2018, the top five players in South China's private higher education market accounted for approximately 16.4% of the market share. According to the Frost & Sullivan Report, by the end of 2018, our schools that provide private higher education services (including Huali College and Huali Vocational College) had a total of approximately 28,200 students and our Group ranked fourth among all private higher education service providers in South China in terms of student enrollment and accounted for approximately 3.0% of the market share in South China's private higher education market. The following table illustrates the market share and student enrollment information for the top five private higher education service providers in South China in 2017.

Market Share of Leading Players in Private Higher Education Market (South China), 2018

Rank	Market Players	Number of Student Enrollments (thousand)	Market Share (%)
1	Company A	35.1	3.8%
2	Company B	32.2	3.4%
3	Company C	31.2	3.3%
4	**The Group**	**28.2**	**3.0%**
5	Company D	27.4	2.9%
	Top 5	**154.1**	**16.4%**
	Total	**934.9**	**100.0%**

Source: Frost & Sullivan

TERMINATION OF COOPERATION TRENDS OF THE PRIVATE HIGHER EDUCATION INDUSTRY IN CHINA

With the publication of the MOJ Draft for Comment and its proposed prohibition on public schools' sponsoring of, or participation in sponsoring of, for-profit private schools, there has been a growing number of terminations and planned terminations of cooperation arrangements between private independent colleges and their corresponding public higher education institutions. Such terminations may or may not be conditioned upon payments of termination fees to the public higher education institutions. According to the Frost & Sullivan Report, based on the disclosure of higher education companies listed in Hong Kong, the termination fees ranged from RMB120 million to RMB240.0 million. There is also a situation where the public higher education institution did not require any termination fee. For more details of the MOJ Draft for Comment and its implications for us, please refer to "Business – The Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments – The MOJ Draft for Comments" in this prospectus.

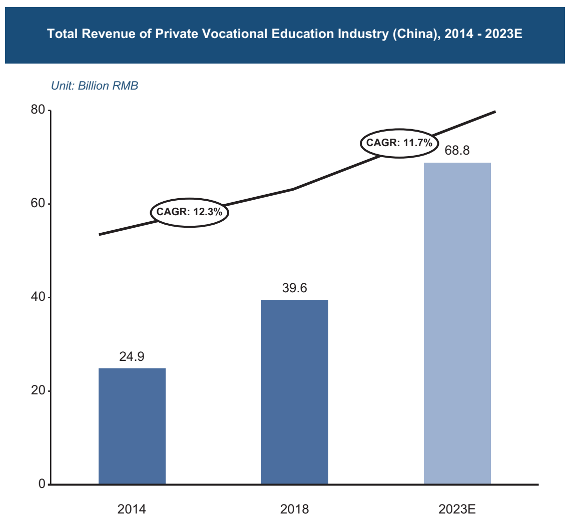
OVERVIEW OF THE PRIVATE VOCATIONAL EDUCATION INDUSTRY IN CHINA AND SOUTH CHINA

Market size and student enrollment of the private vocational education industry in China

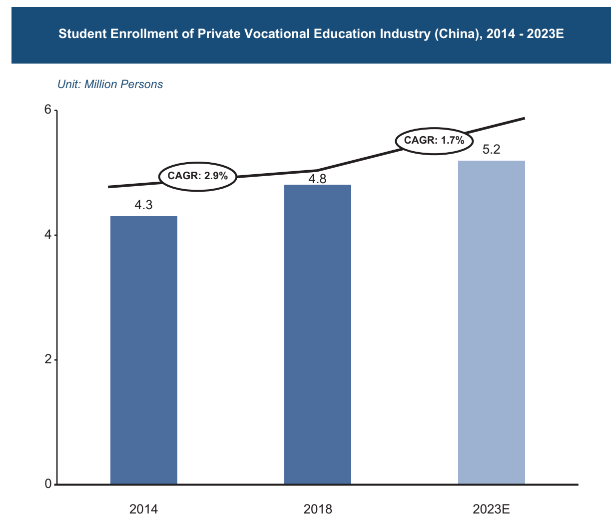
According to the Frost & Sullivan Report, the total revenue generated by the private vocational education industry in China increased from RMB24.9 billion in 2014 to RMB39.6 billion in

2018, and is expected to further increase to RMB68.8 billion in 2023. The total number of students enrolled in private vocational education institutions in China increased from 4.3 million in 2014 to 4.8 million in 2018, and is expected to further increase to 5.2 million in 2023, according to the Frost & Sullivan Report.

The following diagrams illustrate the total revenue generated by and the total student enrollment in the private vocational education industry in China from 2014 to 2018, and a forecast of revenue and student enrollment in 2023.



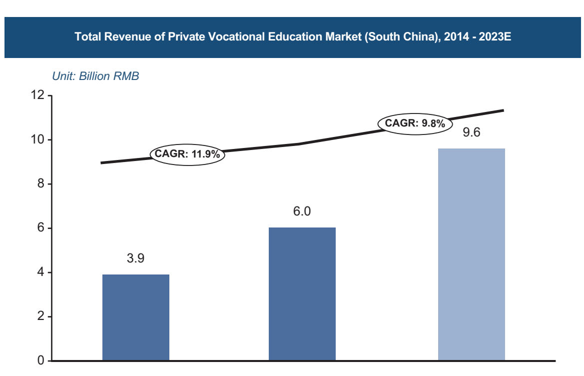
Source: Frost & Sullivan



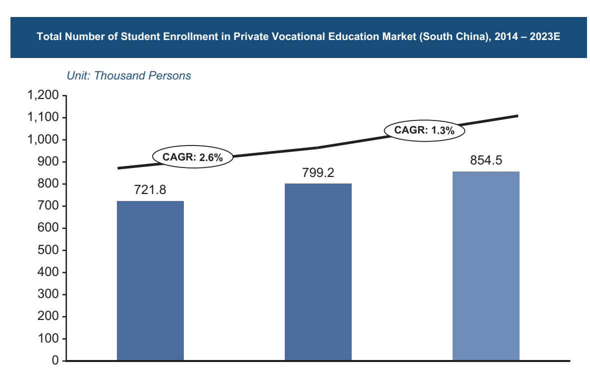
Source: Frost & Sullivan

According to the Frost & Sullivan Report, the total revenue generated by the private vocational education industry in South China increased from RMB3.9 billion in 2014 to RMB6.0 billion in 2018, representing a CAGR of 11.9%. From 2018 to 2023, such revenue is expected to grow at a CAGR of 9.8% and reach RMB9.6 billion in 2023. From 2014 to 2018, student enrollment in private vocational education in South China increased from 721,800 to 799,200, representing a CAGR of approximately 2.6%. The rate of growth in the number of students enrolled in private vocational education in South China is expected to remain stable and increase from 799,200 in 2018 to 854,500 in 2023, representing a CAGR of approximately 1.3%.

The following diagrams illustrate the total revenue generated by and the total student enrollment in the private vocational education industry in South China from 2014 to 2018, and a forecast of revenue and student enrollment in 2023.



Source: Frost & Sullivan



Source: Frost & Sullivan

Market drivers of private vocational education in South China

According to the Frost & Sullivan Report, the development of private vocational education in South China is primarily driven by the following factors:

- ***Low higher education enrollment rate in South China***: The higher education enrollment rate is low in South China. As a result, many high-school graduates who cannot enter higher education institutions are forced to choose vocational education. As compared to public vocational programs, private vocation institutions are more flexible in their education systems, major offerings and career service and therefore popular among students who cannot enter higher education institutions; and

- ***Regional advantages in Guangdong bring about demand for talent***: As an important manufacturing center in China, Guangdong provides a strong base of employers and a large number of job opportunities in the manufacturing industry, which as a result drives the growth of private vocational education industry in South China. Moreover, Guangdong has also attracted a continuous influx of migrant workers from across the country. Children of migrant workers in Guangdong generally prefer vocational educational institutions over general higher education institutions in order to reduce the financial burden on their parents.

Development trends of private vocational education industry in South China

According to the Frost & Sullivan Report, the development trends of the private vocational education industry in South China include the following:

- ***Program adjustment***: Private vocational education institutions in South China are expected to adjust and optimize their program offerings and cultivate talent in response to industry and social developments, in particular for the reforming manufacturing industry in Guangdong;

- ***Degree level upgrade***: The local government of Guangdong has adopted policies to encourage the development of higher vocational education. As a result, it is expected that the number of students entering higher vocational education institutions will increase and also more students enrolled in higher vocational education programs will enter into higher education institutions that offer bachelor degrees; and

- ***Encouragement of private capital***: In light of the increased demand for technical talent in the manufacturing industry in Guangdong, the local government of Guangdong now encourages more private capital from different channels to enter the private vocational education industry. As a result, it is expected that the number of private vocational education institutions will continue to grow in South China.

COMPETITIVE LANDSCAPE OF THE PRIVATE VOCATIONAL EDUCATION INDUSTRY IN SOUTH CHINA

The private vocational education market in South China is relatively decentralized. According to the Frost & Sullivan Report, by the end of 2018, the top five players in South China's private vocational education market accounted for approximately only 13.0 % of the market share. We have a leading position in the South China's private vocational education market where we operate our business, in terms of student enrollment. By the end of 2018, our schools that provide private vocational education services (including Huali Vocational College and Huali Technician College) had a total of approximately 22,200 students and our Group ranked second among all private vocational education service providers in South China in terms of student enrollment and accounted for approximately 2.8% of the market share in South China's private vocational education market. The following table illustrates the market share and student enrollment information for the top five private vocational education service providers in South China in 2018.

Market Share of Leading Players in Private Vocational Education Market (South China), 2018

Rank	Market Players	Number of Student Enrollments (thousand)	Market Share (%)
1	Company E	25.6	3.2%
2	**The Group**	**22.2**	**2.8%**
3	Company A	19.8	2.5%
4	Company F	18.6	2.3%
5	Company D	17.2	2.2%
	Top 5	**103.4**	**13.0%**
	Total	**799.2**	**100.0%**

Source: Frost & Sullivan

This section sets out summaries of certain aspects of the laws and regulations which are relevant to our Group's operation and business.

FOREIGN INVESTMENT IN EDUCATION IN THE PRC

Special Administrative Measures for Access of Foreign Investment (Negative List) (2019)

Pursuant to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019) (《外商投資准入特別管理措施(負面清單)》(2019年版), the "Negative List") which was promulgated by the NDRC and the MOFCOM on June 30, 2019 and became effective on July 30, 2019, foreign investors are only allowed to invest in higher education in cooperation with a domestic party and the domestic party shall play a dominant role in the cooperation, which means the headmaster or other chief executive officer of the schools shall be a PRC national and the representative of the domestic party shall account for not 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.

Regulations on Sino-Foreign Cooperation in Operating Schools

Sino-foreign cooperation in operating schools is specifically governed by the Regulations on Sino-Foreign Cooperative Education of the PRC (《中華人民共和國中外合作辦學條例》) (the "**Sino-Foreign Regulations**"), which were promulgated by the State Council on March 1, 2003 and became effective on September 1, 2003 and was amended on July 18, 2013 and March 2, 2019, and the Law for Promoting Private Education of the PRC, 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 June 2, 2004 and became effective on July 1, 2004.

The Sino-Foreign Regulations and the Implementing Rules mainly apply to the activities of educational institutions established in the PRC cooperatively by foreign educational institutions and Chinese educational institutions, students of which are to be recruited primarily from PRC citizens. They encourage substantive cooperation between overseas educational organizations with relevant qualifications and experience to provide high-quality education and PRC educational organizations to jointly operate various types of schools in the PRC, particularly in the areas of higher education and vocational education. The overseas educational organization must be a foreign educational institution with relevant qualification and experience at the same level and in the same category of education. Sino-foreign cooperative schools are not permitted, however, to engage in compulsory education in the PRC. Any Sino-foreign cooperation school and cooperation program shall be approved by relevant education authorities and must obtain the Permit for Sino-Foreign Cooperation in Operating School, and a Sino-foreign cooperation school established without the above approval or permit may be banned by the relevant authorities, be ordered to refund fees collected from its students and be subject to a fine of no more than RMB100,000, while a Sino-foreign cooperation program established without such approval or permit may also be banned and the corresponding fees collected from students ordered to be refunded.

On June 18, 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 (《教育部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 "**Implementation Opinions**") to encourage private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital in a Sino-foreign education institute shall be less than 50%.

REGULATIONS ON PRIVATE EDUCATION IN THE PRC

Education Law of the PRC

On March 18, 1995, the National People's Congress of the PRC (the "**NPC**") enacted the Education Law of the PRC (《中華人民共和國教育法》) (the "**Education Law**"), which became effective on September 1, 1995, was amended on August 27, 2009 and further amended on December 27, 2015 effective June 1, 2016. The Education Law stipulates that the government formulate plans for the development of education and establish and operate schools and other institutions of education. In principle, enterprises, social organizations and individuals are encouraged to establish and operate schools and other types of institution of education in accordance with PRC laws and regulations. The Education Law restricts a school or other educational institution founded with governmental funds or donated assets in the amended Education Law.

The Education Law also stipulates that some basic conditions shall be fulfilled for the establishment of a school or any other institution of education, and the establishment, modification or termination of a school or any other institution of education shall, in accordance with the relevant PRC laws and regulations, go through the procedures of examination, verification, approval, registration or filing.

Regulations on Higher Education

According to the Higher Education Law of the PRC (《中華人民共和國高等教育法》), which was promulgated on August 29, 1998 and was amended on December 27, 2015 and further amended on December 29, 2018, the establishment of higher education institutions for regular course education and above shall be subject to examination and approval by the administrative department for education under the State Council, those for special course education shall be subject to examination and approval by the people's governments at the level of provinces, autonomous regions and municipalities directly under the Central Government and record-filing with the administrative department for education under the State Council. The establishment of other higher education organizations shall be subject to examination and approval by the administrative department for education under the people's governments at the level of provinces, autonomous regions and municipalities directly under the Central Government.

Further, the MOE issued 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》) on February 3, 2007, which were amended on November 10, 2015, pursuant to which the conditions for running non-state-operated colleges and universities shall conform to the establishment standards as prescribed by the state and the basic indicators for running regular colleges and universities. The investors of a non-state-operated college or university shall, under 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 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》) (the "**Private Education Promotion Implementation Rules**") timely and fully perform their capital contribution obligation. No private college or university may engage in educational and teaching activities in any place other than that as specified in the relevant license for running the relevant non-state-operated education, or establish any branch, or rent or lend to others its license for running non-state-operated education.

Regulations on the Operation of Independent Colleges

According to the Measures for the Establishment and Administration of Independent Colleges (《獨立學院設置與管理辦法》), which were promulgated on February 22, 2008, amended on November 10, 2015 and which became effective on the same day, Independent Colleges refer to the colleges engaging in undergraduate diploma education and above and set up through the cooperation of colleges and universities engaging in undergraduate and graduate diploma education and social organizations and individuals except for the state organs with non-state financial funds. Applications for the establishment of an independent college shall be subject to the approval by the MOE in accordance with the same procedures for the set-up of colleges and universities engaging in undergraduate diploma education.

Regulations on Vocational Education

According to the Vocational Education Law of the PRC (《中華人民共和國職業教育法》) (the "**Vocational Education Law**"), which was promulgated by the NPC on May 15, 1996 and came into effect on September 1, 1996, the state encourages institutional organizations, social organizations and other social groups and citizens to operate vocational schools and vocational training institutions according to relevant provisions of the state.

The Administrative Measures for the Sino-Foreign Cooperative Education on Vocational Skills Training (《中外合作職業技能培訓辦學管理辦法》) (the "**Sino-Foreign Vocational Skills Training Measures**") were promulgated by the Ministry of Labor and Social Security on July 26, 2006 and came into effect on October 1, 2006 and then were amended on April 30, 2015 by the Ministry of Human Resources and Social Security (the "**MOHRSS**"). The Sino-foreign vocational Skills Training Measures apply to the establishment, activities and management of vocational skills training institutions and educational projects initiated by Chinese educational institutions and foreign educational institutions (including vocational skills training institutions) by cooperation. Parties to Sino-foreign cooperation shall satisfy the requirements in accordance with the "Sino-Foreign Regulations" and have relevant qualifications and high-quality education ability. The application for a vocational skills training project of Sino-foreign cooperative education is subject to the examination and approval by the administrative department of labor and social security of the people's government at the level of the province, autonomous region or municipality directly under the Central Government where the said project is located, and shall be reported to the administrative department of labor and social security under the State Council for filing.

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 was promulgated on December 28, 2002 and became effective on September 1, 2003 and was amended on June 29, 2013, and further amended on November 7, 2016, and further amended on December 29, 2018 and effective on the same day. Under the regulation, "private schools" are defined as schools established by social organizations or individuals using non-government funds. The establishment of a private school shall meet the needs for the development of local education, and shall satisfy the requirements in accordance with the Education Law and relevant laws and regulations. The standards for the establishment of private schools shall be applied by reference to those for the establishment of public schools of the same level and category.

Private schools providing academic qualifications education and other education shall be subject to approval by the education authorities at or above the county level, while private schools engaging in vocational qualification training and vocational skill training shall be subject to approvals from authorities in charge of labor and social welfare at or above the county level within the limits of their powers defined by the State, which shall send a duplicate of the approval document to the administrative department for education at the same level for record. A duly approved private school will be granted a Permit for operating a Private School and shall be registered with the Ministry of Civil Affairs of the PRC (the "**MCA**") or its local counterparts as a privately run non-enterprise institution.

The Private Education Promotion Implementation Rules were promulgated on March 5, 2004 and became effective on April 1, 2004. Under these rules, private schools have the same status as public schools. Public schools that provide compulsory education are not permitted to be converted into private schools. The election to establish a private school the sponsors of which require reasonable returns must be set out in the articles of association of the school. 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 time the relevant decision is made to require reasonable returns.

Private schools, where the 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 where the sponsor requires reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. The sponsor of a private school has the right to exercise ultimate control over the school by becoming the member of, and controlling the composition of, the school's decision-making body.

On August 10, 2018, the MOJ issued the MOJ Draft for Comments, namely the Draft Revision of the Implementation Rules for the Law for Promoting Private Education of the PRC (the Draft for Examination and Approval) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) ("**the MOJ Draft for Comments**"), to seek public comments. The MOJ Draft for Comments further promotes the development of private education by providing that a private school shall enjoy rights or preferential policies stipulated by laws equivalent to those applicable to a public school, and stipulates further provisions of the operation and management of private schools. However, it is uncertain when the MOJ Draft for Comments will be signed into law and whether the final version would have any substantial changes to the draft.

The Revisions of the Law for Promoting Private Education of the PRC

On November 7, 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (Order of the President of the PRC No. 55) (關於修改《中華人民共和國民辦教育促進法》的決定) (中華人民共和國主席令第55號) was reviewed and passed by the SCNPC and came into effect on September 1, 2017. In accordance with this decision, as long as the school does not provide compulsory education, school sponsors of private schools are allowed to register and operate the schools as for-profit private schools or non-profit private schools. School sponsors of for-profit private schools are allowed to derive income from the operation of the school and the balance of the net income from the operation of such schools is permitted to be handled in accordance with the PRC Company Law and other relevant laws and administrative regulations. While school sponsors of non-profit private schools are prohibited from deriving income from the operation of the schools, the net income from the operation of such schools shall only be used for the operation of other non-profit schools. Furthermore, any remaining assets upon liquidation of for-profit private schools are permitted to be handled in accordance with the relevant provisions of the PRC Company Law and those of non-profit private schools shall only be used for the operation of other non-profit schools.

Pursuant to the Decision on Amending the Law for Promoting Private Education of the PRC, for-profit private schools are entitled to make their own decisions about fee collection in accordance with market conditions while the fee collection of non-profit private schools is subject to concrete measures to be promulgated by the provincial, autonomous regional or municipal government. In addition, private schools are entitled to preferential tax policies and land policies in accordance with the PRC laws, and non-profit private schools enjoy preferential tax policies and land policies equivalent to those applicable to public schools.

If the school sponsors of private schools established prior to the promulgation date of the Decision on Amending the Law for Promoting Private Education of the PRC ("**Existing Private Schools**") choose to register and operate their schools as non-profit private schools, they shall procure the school to amend its articles of association in accordance with the Decision on Amending the Law for Promoting Private Education of the PRC and continue the school operation pursuant to such revised articles of association. Furthermore, upon the termination of such non-profit private schools, the government authority may provide compensation or reward to the school sponsors who have made capital contributions to such a school from the remaining assets of such schools upon their liquidation and then apply the rest of the assets to the operation of other non-profit private schools. If the school sponsors of Existing Private Schools choose to register and operate their schools as for-profit private schools, the schools shall go through certain procedures, the details of which are subject to concrete measures to be promulgated by the provincial, autonomous regional or municipal government.

Several Opinions on Encouraging Individual Persons or Entities to Conduct Education and Promote the Healthy Development of Private Education

According to Several Opinions on Encouraging Individual Persons or Entities to Conduct Education and Promote the Healthy Development of Private Education (《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》), issued by the State Council of PRC on December 29, 2016, innovative institutional mechanisms shall be implemented in the field of private education, including but without limitation: (i) classification registration and management, under which the school sponsors of private schools shall, at their own discretion, choose to operate their schools as non-profit private schools or for-profit private schools; (ii) different government support policies, which shall be applicable to private schools.

The people's governments at relevant levels are responsible for formulating and perfecting the support policies for non-profit private schools. At the same time, the people's governments at relevant levels may support the development of for-profit private schools by way of government procurement services and preferential tax treatments in accordance with the economic and social development needs and the request for public services, as well as expanding financing channels for private schools and encourage and attracting private funds to enter into the field of private education.

The people's governments at various levels shall perfect the government support policies for private schools, which include: (i) implementing the same subsidy policies for private schools; and (ii) implementing incentive policies regarding taxes and fees for private schools. For-profit private schools shall enjoy preferential tax treatments in accordance with the PRC national regulations while non-profit private schools shall enjoy the same preferential tax treatments as public schools; and (iii) implementing different land supply policies. Non-profit private schools shall enjoy the same land policies as public schools and obtain parcels of land by way of land allocation while for-profit private schools shall obtain parcels of land in accordance with PRC national regulations and policies.

According to the Implementation Opinions on Encouraging Individual Persons or Entities to Conduct Education and Promote the Healthy Development of Private Education (《關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》), issued by the Guangdong Provincial People's Government on April 24, 2018, it is proposed to strengthen the Chinese Communist Party's leadership over private schools, implement classified management, innovate school-running systems, increase policy support, improve management systems, improve teaching quality, improve management services, and further mobilize the enthusiasm of Individual Persons or Entities to conduct education and promote the sustainable and healthy development of private education.

Implementation Regulations on Classification Registration of Private Schools

According to the Implementation Regulations on Classification Registration of Private Schools (《民辦學校分類登記實施細則》) (the "**Classification Registration Rules**"), which were issued jointly by the MOE, the MOHRSS, the MCA, the State Commission Office of Public Sector Reform and the State Administration for Industry and Commerce on December 30, 2016, the establishment of private schools is subject to government approval. Private schools approved to be established shall apply for a registration certificate or license in accordance with the Classification Registration Rules after they are granted with a license for the school's operation by the competent government authorities.

Non-profit private schools that meet the requirements under the Interim Administrative Regulations on the Registration of Private Non-enterprise Entities (《民辦非企業單位登記管理暫行條例》) and other relevant regulations shall apply to the civil affairs department for registration as private non-enterprise entities. Non-profit private schools that meet the requirements under the Interim Regulations on the Administration of the Registration of Public Institutions (《事業單位登記管理暫行條例》) and other relevant regulations shall apply to the administrative authority for registration of public institutions for registration as public institutions. For-profit private schools, on the other hand, shall apply to the industry and commerce department for registration in accordance with the jurisdiction provisions set out by relevant laws and regulations.

The Classification Registration Rules are also applicable to private schools which were established before the promulgation of the Decision on Amending the Law for Promoting Private Education of the PRC on November 7, 2016. If an Existing Private School chooses to register as a non-profit private school, it shall amend its articles of association in accordance with laws, continue its school operations, and complete new registration formalities. If an Existing Private School chooses to register as a for-profit private school, it shall prepare financial liquidation (財務清算) books of account, clarify the ownership of the school's land, buildings and accumulated assets with the consent of the relevant departments of the people's governments at or below the provincial level, pay relevant taxes and fees, obtain new school permits, carry out re-registration and continue school operations. The provincial people's government is responsible for formulating the detailed measures on the alteration of registration of the private schools in accordance with national regulations and the local conditions.

According to the Implementation Measures on Classification Registration of Private Schools (《關於民辦學校分類登記的實施辦法》) (the "**Classification Registration Measures**"), which were issued jointly by the Department of Education of Guangdong Province, Human Resources and Social Security Department of Guangdong Province, Department of Civil Affairs of Guangdong Province, Guangdong Provincial Committee of the Communist Party of China Organization Committee Office and Department of Market Supervision and Administration of Guangdong Province on November 8, 2018, and came into effect on December 30, 2018, if an existing private school chooses to register as a non-profit private school, after completing the property inventory, clarifying the ownership of the property and amending the school articles, it shall apply for registration at the Civil Affairs Department according to relevant regulations. If an existing private school chooses to register as a for-profit private school, it should complete financial liquidation, clarify the ownership of the land, school buildings, school-run accumulation and other properties by the relevant departments and relevant institutions of the government at or below the provincial level according to the law, pay relevant taxes and fees, and apply for a new school operation license. After the cancellation of registration formalities at the original Registration Administration with the new school operation license, it should register for establishment and obtain a business license at relevant Market Supervision and Management Department.

Implementation Regulations for the Supervision and Administration of For-Profit Private Schools

According to the Implementation Regulations for the Supervision and Administration of For-Profit Private Schools (《營利性民辦學校監督管理實施細則》), which were issued jointly by the MOE, the MOHRSS and the State Administration for Industry and Commerce on December 30, 2016, social organizations or individuals are permitted to operate for-profit private universities and private junior colleges and other higher education institutions, but are prohibited from operating for-profit private schools providing compulsory education.

The division, merger, termination and other major changes involving for-profit private schools shall be subject to the approval of the boards of directors of the schools, the approval by the relevant government authorities as well as the registration requirements by the industry and commerce departments. The division, merger and termination, as well as the change of name involving for-profit private universities and private junior colleges shall be subject to the approval of the MOE while other alterations shall be approved by the relevant provincial governments.

According to the Implementation Measures for the Supervision and Administration of For-Profit Private Schools (《關於營利性民辦學校監督管理實施辦法》), which were issued jointly by the Department of Education of Guangdong Province, Human Resources and Social Security Department of Guangdong Province and Department of Market Supervision and Administration of Guangdong Province on November 15, 2018, and came into effect on December 30, 2018, the establishment of for-profit private schools shall be examined and approved according to the following limits of authority: (i) higher education institutions offering undergraduate education shall be approved by the competent Department of Education under the State Council; and (ii) higher vocational education institutions offering technical education shall be examined and approved by the provincial governments and filed with the competent Department of Education under the State Council for the record.

Interim Measures for the Management of the Collection of Private Education Fees

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》) (the "**Private Education Fees Collection Measures**") were promulgated by the NDRC, the MOE and the Ministry of Labor and Social Security (currently known as the MOHRSS) on March 2, 2005 and became effective on April 2, 2005. According to the Private Education Fees Collection Measures and the Implementation Rules for the Law for Promoting Private Education, the types and amounts of fees charged by a private school providing academic qualifications education shall be examined by education authorities or the labor and social welfare authorities and approved by the governmental pricing authority, and the school shall obtain approval for the fees it charges. A private school that provides non-academic qualifications education shall file its pricing information with the governmental pricing authority and publicly disclose such information. If a school raises its tuition fee rates without obtaining the proper approval or making the relevant filing with the relevant government pricing authorities as applicable, 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 relevant PRC laws. From January 1, 2016, pursuant to the Notice on the Cancelation of the Fee Charge Permit System and Strengthening Supervision in process and afterwards (《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》) which was jointly issued by the NDRC and the MOF on January 9, 2015, our schools are no longer required to apply for or to renew any fee charge permit.

On October 12, 2015, the State Council and the CCCPC jointly issued the Several Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Price Mechanism Reform (《中共中央、國務院關於推進價格機制改革的若干意見》), which allows for-profit private schools to determine their prices on their own, while the tuition-collecting policies of non-profit private schools shall be determined by the provincial governments in a market-oriented manner and based on local conditions.

On October 11, 2016, the Guangdong Provincial Development and Reform Commission, Guangdong Provincial Education Department and Guangdong Provincial Department of Human Resources and Social Security jointly issued the Circular on Issues Concerning the Cancelation of Record-filing of Academic Education Tuition Fees and Approval of Accommodation Fees on Private Schools and Private Secondary Vocational Schools (Yue Fagai Jiage [2016] No. 657)(《關於取消我省民辦高校和民辦中職學校學費備案以及住宿費核准有關問題的通知》) (粵發改價格[2016]657號), according to which, the filing of tuition fees and the approval of boarding fees for private schools and private secondary vocational schools are canceled. Private schools in Guangdong are entitled to determine their tuition fees and boarding fees on their own after taking into account the market factors, the conditions for running schools, social affordability and other factors, and shall disclose the fees charged publicly before implementation.

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 promulgated on February 28, 2009, amended on April 24, 2015 and further amended on

December 29, 2018, collective canteens of schools shall obtain licenses in accordance with relevant laws and strictly abide by laws, regulations and food safety standards. With regard to the order of meals from meal suppliers, orders shall be placed with suppliers which have obtained the food production and trading licenses and inspection shall be conducted on the food ordered as required.

According to the Administrative Measures on License of Catering Industry (《餐飲服務許可管理辦法》), which were promulgated on March 4, 2010 and became effective on May 1, 2010, a licensing system for the catering industry was implemented. A catering service provider shall obtain a food service license, and assume the food safety liability in accordance with the law. Pursuant to the Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》) promulgated on August 31, 2015, effective on October 1, 2015 and amended on November 17, 2017, a food operation license shall be obtained in accordance with relevant laws so as to engage in food selling and catering services within the territory of the PRC.

Pursuant to the Administrative Measures for the Supervision of Food Safety in Catering Services (《餐飲服務食品安全監督管理辦法》), which were promulgated on March 4, 2010 and became effective on May 1, 2010, catering service providers shall carry out catering service activities in accordance with relevant laws, regulations, food safety standards and relevant requirements, hold themselves accountable to society and the general public, ensure food safety, accept social supervision, and assume responsibility for food safety in catering services.

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 April 29, 2006, private schools should pay careful attention to and strengthen school hygiene and epidemic prevention and food hygiene and safety.

According to the Regulations on Hygiene Work in Schools (《學校衛生工作條例》), which were promulgated on June 4, 1990 and became effective on June 4, 1990, schools shall carry out hygiene work. Hygiene work mostly involves monitoring the health of students, carrying out health education among students, helping students to develop good health habits, improving the health environment and health conditions for teaching, strengthening prevention and treatment of infectious disease and common diseases among students.

According to the Administrative Regulations on Medical Institutions (《醫療機構管理條例》), which were promulgated on February 26, 1994, became effective on September 1, 1994 and were amended on February 6, 2016, and the Implementing Rules for the Administrative Regulations on Medical Institutions (《醫療機構管理條例實施細則》), which were promulgated on August 29, 1994 and amended on November 1, 2006, June 24, 2008 and further amended on February 21, 2017, effective April 1, 2017, where an entity or individual sets up a medical institution, the entity or individual shall go through the examination and approval procedures with the local health administrative department at the county level or above, and handle other formalities with such relevant departments only after obtaining the approval for establishment. Furthermore, medical institutions shall be registered for practice, and obtain the License for Practicing of Medical Institutions. According to the Working Regulations for Medical Care Institutions of Colleges and Universities (《高等學校醫療保健機構工作規程》) which were promulgated on April 22, 1998 and amended on December 13, 2010, the establishment and operation of a Medical Care Institution in a college or university, such as a campus hospital shall be subject to the regulatory requirements under the Administrative Regulations on Medical Institutions and Implementing Rules for the Administrative Regulations on Medical Institutions.

REGULATIONS ON PROPERTY IN THE PRC

Pursuant to the Property Rights Law of the PRC (《中華人民共和國物權法》) (the "**Property Law**") which was promulgated on March 16, 2007 and came into effect on October 1, 2007, the land or buildings of educational, medical and health and other public welfare facilities of institutions and social groups with the aim of benefiting the public such as schools, kindergartens, hospitals as prescribed by law or administrative regulation may not be mortgaged.

REGULATIONS ON INTELLECTUAL PROPERTY IN THE PRC

Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) (the "**Copyright Law**"), which was promulgated on September 7, 1990, amended on October 27, 2001, and further amended on February 26, 2010 and which came into effect on April 1, 2010, reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, cease the infringement, take remedial action, and offer an apology, pay damages amongst other possible measures.

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the "**Trademark Law**"), which was promulgated on August 23, 1982, amended on February 22, 1993 and October 27, 2001, and further revised on August 30, 2013 and came into effect on May 1, 2014, and then amended on March 24, 2019 and came into effect on November 1, 2019 (1) using a trademark that is identical to a registered trademark of the same goods; or (2) using a trademark that is similar to a registered trademark of the same goods or using a trademark same or similar to a registered trademark in connection with the similar goods that may easily cause confusion, without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use the registered trademark. The infringer shall, in accordance with the regulations, cease the infringement, take remedial action, and pay damages, amongst other possible measures.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》), which were promulgated on August 24, 2017 and came into effect from November 1, 2017, the principle of "first come, first serve" is followed for domain name registrations.

REGULATIONS ON LABOR PROTECTION IN THE PRC

Labor

According to the Labor Law of the PRC (《中華人民共和國勞動法》) (the "**Labor Law**"), which was promulgated by the SCNPC on July 5, 1994, came into effect on January 1, 1995 and was amended on August 27, 2009 and was further amended on December 29, 2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its employees.

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007, came into effect on January 1, 2008, and was amended on December 28, 2012 and came into effect on July 1, 2013, and the Implementation Regulations for the Labor Contract Law (《勞動合同法實施條例》), which were promulgated and became effective on September 18, 2008, detail provisions on the formation, fulfillment, change, cancelation and termination of labor contracts, and specify strict liability of employers for violation of the Labor Contract Law. Under the Labor Contract Law and the Implementation Regulations on Labor Contract Law, a labor contract must be made in writing.

Social Insurance

The Law on Social Insurance of the PRC (《中華人民共和國社會保險法》), which was promulgated on October 28, 2010 and became effective on July 1, 2011 and was then amended on December 29, 2018, has established social insurance systems for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and elaborates in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

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 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.

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 were promulgated by the MOHRSS on September 6, 2011 and became effective on October 15, 2011, employers who employ foreigners shall participate in the basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and maternity insurance in accordance with the law, with the social insurance premiums to be contributed respectively by the employers and foreigner employees as required.

Housing Provident Fund

According to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which were promulgated and became effective on April 3, 1999, and amended on March 24, 2002 and further amended on March 24, 2019, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee. A unit employer shall undertake registration of payment and deposit of the housing provident fund in the housing provident fund management center and, upon verification by the housing provident fund management center, open a housing provident fund account on behalf of its employees in a commissioned bank. Employers who violate such regulations are liable to be punished by the relevant departments.

REGULATIONS ON TAXATION IN THE PRC

Enterprise 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 March 16, 2007 and came into effect on January 1, 2008 and amended on February 24, 2017 and was further amended on December 29, 2018 by the NPC, 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》) (the "**Implementation Rules**"), which were promulgated on December 6, 2007 and came into effect on January 1, 2008 and was further amended on April 23, 2019 by the State Council, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay EIT on its income originating from both inside and outside PRC at the EIT rate of 25%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay EIT on its income derived from inside China and obtained by such establishment or place of business, and on its income which is derived from outside China but has an actual relationship with such establishment or place of business, at the EIT rate of 25%. 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 EIT on its income deriving from inside China at the reduced EIT rate of 10%.

According to Notice of the MOF 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》) (財稅 [2004] 39 號) ("三十九號文") (the "**Circular 39**") and the Notice of the MOF 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》) (財稅 [2006] 3 號) ("三號文") (the "**Circular 3**"), public schools shall not be required to pay EIT 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 EIT on fund allocations received and special subsidies obtained from their administrative departments or institutions at higher levels. On October 17, 2017, the State Administration of Taxation (the "**SAT**") issued the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) ("37號公告") (the "**Announcement 37**") to regulate the withholding of income tax of non-resident enterprises at source, which became effective on December 1, 2017 and was further amended on June 15, 2018.

According to the Law of PRC for Promoting Private Education, private schools are entitled to preferential tax policies in accordance with the PRC laws, while non-profit private schools shall enjoy the preferential tax policies and land policies equivalent to those applicable to public schools.

Income Tax In Relation To Dividend Distributions

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 of Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the "**Arrangement**") on August 21, 2006 and implemented the Arrangement from January 1, 2007. According to the Arrangement, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least a 25% equity interest in the PRC company. 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 a 25% equity interest 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 (GuoShui Han [2009] No. 81) (《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》) (國稅函[2009]81號) promulgated by the SAT that became effective on February 20, 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement seeks to be entitled to be taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends is a company as provided in the tax agreement; (ii) the fiscal resident directly holds a specified percentage of equity interest and voting shares in the Chinese resident company; and (iii) the fiscal resident directly has held a specified percentage of the equity in the Chinese resident company during the 12 months prior to obtaining the dividends.

Value-added Tax ("VAT")

According to the Temporary Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例》), which were promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and was amended on November 10, 2008, and was further amended on February 6, 2016 and further amended and effective on November 19, 2017, 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 were promulgated by the MOF and came into effect on December 25, 1993, and was amended on December 15, 2008 and October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay VAT. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (Cai Shui [2011] No. 110) (《營業稅改徵增值稅試點方案》) (財稅[2011]110 號), which was promulgated by the MOF and the SAT on November 16, 2011, the State began to introduce taxation reforms from January 1, 2012, through the collection of VAT in lieu of business tax.

In accordance with the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (Caishui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》) (財稅[2016]36號), which was promulgated on March 23, 2016 and came into effect on May 1, 2016, upon approval of the State Council, the pilot program of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner starting from May 1, 2016, and business tax payers engaged in various industries shall be included in the scope of the pilot program for the payment of VAT instead of business tax. For general service income, the applicable VAT rate is 6%. Schools engaged in academic education are exempted from VAT on their educational services.

Other Tax Exemptions

According to Circular 39 and Circular 3, buildings and land used by schools established by enterprises shall be exempt from house property tax and urban land use tax. Schools expropriating arable land with approval shall be exempt from arable land use tax. Schools and educational institutions established by any enterprises, government affiliated institutions, social groups or other social organizations or individuals and citizens with non-state fiscal funds for education and open to the public shall upon the approval of the administrative department for education or for labor of the relevant people's government at the county level or above which has also issued the relevant school operating license, shall be exempted from deed tax on their ownership of land and buildings used for teaching activities.

REGULATIONS ON COMPANIES IN THE PRC

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 December 29, 1993 and amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 and further amended on October 29, 2018. The PRC Company Law provides general regulations for companies that are set up and operate in the PRC and also applies to foreign-invested companies with limited liability. According to the PRC Company Law, where there are otherwise different provisions in any law regarding foreign investment, such provisions shall prevail.

REGULATIONS ON FOREIGN EXCHANGE IN THE PRC

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Administration Regulations**"), which were promulgated by the State Council of the PRC on January 29, 1996, and amended on January 14, 1997 and August 5, 2008. Under the Foreign Exchange Administration Regulations, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital account items, such as direct investment or engaging in the issuance or trading of negotiable securities or derivatives, unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Regulations, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing 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 the competent authorities for the administration of foreign exchange and approval or filings with the relevant governmental authorities (if necessary).

According to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-Trip Investment Conducted By Domestic Residents through Special Purpose Vehicles (Hui Fa [2014] 37) (《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》) (匯發[2014]37號) ("**the Circular No. 37**"), which was promulgated on July 4, 2014 and came into effect on the same day, SAFE is responsible for managing the registration of domestic residents' establishment of special purpose vehicles (each a "**SPV**"). A SPV is defined as an "offshore enterprise directly established or indirectly controlled by a domestic resident (including domestic institution and individual resident) using their legally owned assets and equity in a domestic enterprise, or legally owned offshore assets or equity, for the purposes of investment and financing." "Round Trip Investments" refer to "the direct investment activities carried out by a domestic resident directly or indirectly via a SPV, such as 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." Before a domestic resident contributes its legally owned onshore or offshore assets and equity to a SPV, the domestic resident shall complete a foreign exchange registration for offshore investment with the local branch of SAFE, and complete a registration amendment in the event of any change of basic information such as the individual shareholder, name, operation term, or capital increase, decrease, and so forth. In addition, according to the procedural guidelines 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 by him (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 (HuiFa [2015] No. 13) (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》)(匯發[2015]13號) (the "**Circular 13**"), which were promulgated on February 13, 2015 and implemented on June 1, 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.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**Circular 19**"), which came into effect on June 1, 2015. According to the Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the discretional foreign exchange settlement ("**Discretional Foreign Exchange Settlement**"). Discretional 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 have 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 Discretional Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined as 100%. Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make payments from such account, it still needs to provide supporting documents and go through the review process with the banks.

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 payment beyond the business scope of the enterprises or payment prohibited by relevant laws and regulations;

2. directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations;

3. directly or indirectly used for granting entrusted loans in Renminbi (unless permitted by the scope of business), repaying inter-enterprise borrowings (including advances by third parties) or repaying bank loans in Renminbi that have been sub-lent to a third party; and

4. paying the 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 (《關於改革和規範資本項目結匯管理政策的通知》) (the "**Circular 16**") on June 9, 2016, which became effective simultaneously. Pursuant to the Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on self-discretionary basis. The Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a 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.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Laws and Regulations Relating to the Establishment, Operation and Management of a Wholly Foreign-Owned Enterprise

The establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange restrictions, accounting management, taxation and labor matters of a wholly foreign-owned enterprise are subject to the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) which became effective on April 12, 1986 and amended on October 31, 2000 and September 3, 2016, respectively, Implementation Regulation under the Wholly Foreign-owned Enterprise Law of PRC (《中華人民共和國外資企業法實施細則》), which became effective on December 12, 1990 and amended on April 12, 2001 and February 19, 2014.

Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**") which were promulgated on August 8, 2006 and was amended and came into effect on June 22, 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity interests in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity interests 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 by agreement and injects those assets to establish a foreign-invested enterprise. In the case where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company that is related to or connected with it/him, approval from MOFCOM is required.

On October 8, 2016, MOFCOM promulgated provisional measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the "**Measures**") which came into effect on the same date, and were further amended on July 30, 2017 and June 30, 2018. According to the Measures, the establishment, modifications of foreign-invested enterprises, and the merger and acquisition of domestic non-foreign-invested enterprises by foreign investors shall, if not involving special administrative measures regulating participation (准入特別管理措施) or affiliated mergers or acquisitions, be subject to only filing requirement instead of approval.

STATUTES AND REGULATIONS ON PRIVATE POST-SECONDARY EDUCATION IN THE STATE OF CALIFORNIA, U.S.

California Private Post-Secondary Education Act

The California Education Code establishes the structure of the school systems in the State of California U.S. ("California") and governs the operations of both public and private educational institutions. As part of the California Education Code, on October 11, 2009, Assembly Bill 48, also known as the California Private Post-Secondary Education Act of 2009 ("**California Private Post-Secondary Education Act**"), was enacted to regulate private Post-Secondary educational institutions in California.

The Bureau for Private Post-Secondary Education ("**BPPE**") came into existence on January 1, 2010 following the passage of the California Private Post-Secondary Education Act. The BPPE was created primarily to regulate private Post-Secondary educational institutions operating in California.

Pursuant to the California Private Post-Secondary Education Act, a private Post-Secondary educational institution in California must seek approval to operate from the BPPE by demonstrating that the educational institution satisfies the minimum operating standards prescribed by the BPPE under the applicable provisions of the California Private Post-Secondary Education Act and regulations promulgated thereunder.

Under California law, an institution must fulfill the minimum operating standards to reasonably ensure that: (i) the content of each educational program can achieve its stated objective; (ii) the institution maintains specific written standards for student admissions for each educational program and those standards are related to the particular educational program; (iii) the facilities, instructional equipment, and materials are sufficient to enable students to achieve the educational program's goals; (iv) the institution maintains a withdrawal policy and provides refunds; (v) the directors, administrators, and faculty are properly qualified; (vi) the institution is financially sound and capable of fulfilling its commitments to students; (vii) that, upon satisfactory completion of an educational program, the institution gives students a document signifying the degree or diploma awarded; (viii) adequate records and standard transcripts are maintained and are available to students; and (ix) the institution is maintained and operated in compliance with the California Private Post-Secondary Education Act and all other applicable regulations and laws.

Formal application is made to the BPPE for approval to operate a private Post-Secondary educational institution. After submission of the Application for Approval to Operate ("**Application**") to the BPPE by an educational institution together with the required documentation and fees, the BPPE first reviews the completeness of the Application. After the BPPE is satisfied with the completeness of the Application, the Application then is put before a BPPE analyst for compliance review after which if the BPPE has determined that the educational institution is in compliance with all of the applicable requirements, the BPPE issues the approval to operate.

In order to be approved by the BPPE, pursuant to the California Private Post-Secondary Education Act and applicable regulations, an educational institution offering one or more degrees, if it is not already accredited by an agency recognized by the U.S. Department of Education, must submit an Accreditation Plan for the institution to become fully accredited. Upon its review of the Application and its approval of the Accreditation Plan, the BPPE will issue to the educational institution a Provisional Approval to operate until full accreditation is achieved. During the period of Provisional Approval, the educational institution may not offer more than two degree programs, and there are other legal requirements and restrictions during this period. Within the first two years of issuance of the Provisional Approval, the BPPE will empanel a visiting committee who will make a recommendation regarding the educational institution's progress towards achieving full accreditation, and the institution must provide evidence of accreditation candidacy or pre-accreditation status within two years of the issuance of the Provisional Approval.

OVERVIEW OF OUR GROUP'S HISTORY

Our history can be traced back to May 2000 when Guangdong Huali Technician School (廣東省華立技工學校), the predecessor of Huali Technician College, commenced operation. We have since expanded the number of schools we operate to three, namely Huali College, Huali Vocational College and Huali Technician College.

Set forth below are the key milestones in our Group's development.

Year	Event
• June 1999	Establishment of Huali Investment
• May 2000	Guangdong Huali Technician School (廣東省華立技工學校) commenced operation
• April 2001	Establishment of Huali College as a secondary college affiliated with Guangdong University of Technology (廣東工業大學)
• November 2001	Establishment of Guangzhou Huali Technology Institution (廣州華立科技專修學院), the predecessor of Huali Vocational College
• April 2004	Huali College was approved to become one of the first private independent colleges in Guangdong Province to offer undergraduate programs
• July 2005	Conversion of Guangzhou Huali Technology Institution (廣州華立科技專修學院) into Huali Vocational College
• March 2007	Guangdong Huali Technician School (廣東省華立技工學校) was certified as a state key vocational school (國家級重點技工學校)
• August 2007	Guangdong Huali Technician School (廣東省華立技工學校) was upgraded as Guangdong Huali Advanced Technician School (廣東省華立高級技工學校)
• July 2010	Guangdong Huali Advanced Technician School (廣東省華立高級技工學校) was upgraded as Huali Technician College
• December 2011	Huali College was approved to grant bachelor's degree diplomas accredited by the MOE
• May 2016	Establishment of Yunfu Campus of Huali Technician College
• May 2018	Establishment of Yunfu Campus of Huali Vocational College

See also the section headed "Business – Awards and Recognitions" in this prospectus for details on the awards and recognitions received by our PRC Operating Entities.

HISTORY OF HUALI INVESTMENT AND OUR PRC OPERATING ENTITIES

Huali Investment

Huali Investment was established as a limited liability company under the laws of the PRC by Mr. Zhang. As of the Latest Practicable Date, Huali Investment had a registered share capital of RMB400,000,000 and was the school sponsor of our PRC Operating Entities.

Corporate Division

Apart from its school sponsor's interest in our PRC Operating Entities, Huali Investment also held the canteen service business and the equity interests in certain property development companies and a start-up company (collectively "**Non-school Business Companies**") whose business is not related to the business of our Group during the Track Record Period. To have a clear business delineation, Huali Investment underwent a corporate division ("**Corporate Division**"). The Corporate Division was completed on December 5, 2018. Upon completion of the Corporate Division, Huali Investment only held the school sponsor's interest in our PRC Operating Entities and the land use rights and the buildings which served as student dormitories and canteens of our PRC Operating Entities. As the provision of canteen service is not part of our principal business, the canteen service business was not retained by Huali Investment. Nevertheless, the title of the canteens was retained by Huali Investment as the canteens are located within our Zengcheng campus adjacent to the student dormitories which were registered under the same land use rights certificates.

The Non-school Business Companies and the canteen service business owned and run by Huali Investment prior to the Corporate Division have been retained by Lingmei Life Service after the Corporate Division. As far as the canteen service business of Lingmei Life Service is concerned, Lingmei Life Service had been the service provider to our canteens. We terminated its service contract on December 31, 2018 with its replacement by an Independent Third Party service provider to minimize our connected transactions. According to Frost & Sullivan, it is not uncommon for private schools in China to outsource canteen services. As Lingmei Life Service did not provide canteen services to other clients other than our PRC Operating Entities, it ceased to engage in canteen service business after terminating its canteen service to our Group. Thereafter, Lingmei Life Service is purely an investment holding company holding the equity interests of the Non-school Business Companies. The equity interests of Lingmei Life Service are held by Mr. Zhang as to approximately 99.9% and by Mr. Zhang Zhifan, as to approximately 0.1% since Mr. Zhang, being the sole shareholder of Huali Investment, is not permitted under PRC regulatory requirements to hold more than one sole proprietorship enterprise (個人獨資企業) in the PRC. Save for being the brother of Mr. Zhang, the head of board of directors office of Huali Investment and a supervisor of Huali Tenecian College, Mr. Zhang Zhifan does not hold any position in our Group. To the best knowledge of our Directors, during the Track Record Period and prior to the Corporate Division, there was no material non-compliance with the laws or regulations of the PRC or any material claims or litigation in respect of the business retained by Lingmei Life Service in the PRC that is likely to have a material adverse effect on our business operations or financial conditions as a whole. Our PRC Legal Adviser is of the view that the business retained by Lingmei Life Service has complied with all relevant PRC laws and regulations in all material respects.

Huali College

Huali College was founded in 2001 as a private secondary college affiliated with Guangdong University of Technology (廣東工業大學) and was approved by the MOE in 2004 to become one of the first private independent colleges in Guangdong Province to offer undergraduate programs. In December 2011, Huali College was approved by the Academic Degrees Committee of Guangdong Province (廣東省學位委員會) to grant bachelor degrees accredited by the MOE. Both Huali Investment and Guangdong University of Technology are named as school sponsors of Huali College. In April 2001, Huali Investment and Guangdong University of Technology entered into the

2001 Cooperation Agreement regarding, among others, the establishment and operation of Huali College. The 2001 Cooperation Agreement was renewed in December 2004 by the 2004 Cooperation Agreement and further supplemented by the 2017 Cooperation Agreement in June 2017 and the 2018 Cooperation Agreement in September 2018. Pursuant to the articles of Huali College, Huali Investment and Guangdong University of Technology as school sponsor has the rights to (i) know the education quality, management and financial condition of Huali College; (ii) nominate the directors and supervisors of Huali College; and (iii) access to the minutes of board meetings and financial reports of Huali College. Pursuant to the terms of the 2004 Cooperation Agreement, the 2017 Cooperation Agreement and the 2018 confirmation letter, Guangdong University of Technology is entitled to 17% of the total tuition fees Huali College received from the students during each school year in return for the use of intangible assets i.e. its names of Guangdong University of Technology, and its guidance on school operation. According to the capital verification report issued by a practicing accounting firm, the registered capital of Huali College was fully paid up by Huali Investment, the sole contributor of the registered capital of Huali College. Huali Investment is entitled to 100% of the school sponsor's interest. Please refer to the section headed "Business – Our Schools – Huali College – Cooperation Agreements with Guangdong University of Technology" in this prospectus for further details.

Huali Vocational College

The predecessor of Huali Vocational College, Guangzhou Huali Technology Institution (廣州華立科技專修學院) ("**Huali Technology Institution**"), was founded in November 2001. In 2005, the entire assets in Huali Technology Institution were injected into Huali Vocational College after which Huali Technology Institution ceased to operate. The establishment of Huali Vocational College through the conversion of Huali Technology Institution was approved by the People's Government of Guangdong Province, and Huali Vocational College was founded as a formal higher education institution. Huali Vocational College offers three-year vocational programs granting junior college diplomas accredited by the MOE. The school sponsor's interest in Huali Vocational College is wholly owned by Huali Investment.

Huali Technician College

The predecessor of Huali Technician College, Guangdong Huali Technician School (廣東省華立技工學校) was founded in May 2000. It was upgraded as Guangdong Huali Advanced Technician School (廣東省華立高級技工學校) in August 2007. In July 2010, Guangdong Huali Advanced Technician School (廣東省華立高級技工學校) was approved to be upgraded as Huali Technician College. The school sponsor's interest in Huali Technician College is wholly owned by Huali Investment.

California School

With a view to building our presence overseas and creating synergies with our PRC Operating Entities in China, we also plan to expand our network abroad by establishing a degree-granting higher education institution in the State of California, U.S. We have engaged an agent who has experience in post-secondary education as our consultant to assist us in establishing a company in California, U.S. and filing applications with the BPPE regarding the establishment of a higher education institution in California, U.S. In January 2019, we filed an application with the BPPE to establish a private higher education institution. For more details on our plan to establish a new school in the U.S., please refer to the section headed "Structured Contracts – Background of the Structured Contracts – Plan to Comply with the Qualification Requirement" in this prospectus.

CORPORATE REORGANIZATION

In preparation for the Global Offering, we underwent the following Reorganization.

1. Incorporation of the Offshore Group Companies

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on May 24, 2016 with an authorized share capital of US$50,000 divided into 50,000 Shares with a par value of US$1.00 each. On the same day, Mr. Zhang acquired one Share in the share capital of our Company from the incorporator, as fully paid at par and a further 49,999 Shares of our Company were allotted and issued to Mr. Zhang, as fully paid at par.

Huali Education

Huali Education was incorporated in the BVI as a limited liability company on May 12, 2016 and is authorized to issue a maximum of 50,000 shares of US$1.00 each. On the same day, Huali Education allotted and issued 50,000 shares to Mr. Zhang, which represented the entire issued share capital of Huali Education, as fully paid at par. Huali Education is an investment holding company.

Huali Investment (Cayman)

Huali Investment (Cayman) was incorporated as an exempted company with limited liability in the Cayman Islands on June 24, 2016 with an authorized share capital of US$50,000 divided into 50,000 shares with a par value of US$1.00 each. On the same day, Mr. Zhang acquired one share in the share capital of Huali Investment (Cayman) from the incorporator as fully paid at par, and a further 49,999 shares of Huali Investment (Cayman) were allotted and issued to Mr. Zhang, as fully paid at par. Huali Investment (Cayman) is an investment holding company.

Huali (HK) Education

Huali (HK) Education was incorporated as a limited liability company under the laws of Hong Kong on May 18, 2016 with 10,000 shares allotted and issued to Mr. Zhang at a consideration of HK$10,000. Huali (HK) Education is an investment holding company.

2. Transfer of the entire issued share capital of the Company to Huali Education

On August 24, 2016, Huali Education acquired the entire issued share capital of the Company from Mr. Zhang at a nominal consideration of HK$1.00 as part of the Reorganization. As a result of such transfer, Huali Education held the entire issued share capital of the Company. The payment of the consideration was made on the same day.

3. Transfer of the entire issued share capital of Huali Investment (Cayman) to the Company

On August 25, 2016, the Company acquired the entire issued share capital of Huali Investment (Cayman) from Mr. Zhang at a nominal consideration of HK$1.00 as part of the Reorganization. As a result of such transfer, the Company held the entire issued share capital of Huali Investment (Cayman). The payment of the consideration was made on the same day.

4. Transfer of the entire issued share capital of Huali (HK) Education to Huali Investment (Cayman)

On August 25, 2016, Huali Investment (Cayman) acquired the entire issued share capital of Huali (HK) Education from Mr. Zhang at a nominal consideration of HK$1.00 as part of the

Reorganization. As a result of such transfer, Huali Investment (Cayman) held the entire issued share capital of Huali (HK) Education. The payment of the consideration was made on the same day.

5. Establishment of Huali Shengrong in the PRC

On December 27, 2016, Huali Shengrong was established in the PRC as a wholly foreign-owned enterprise with a registered capital of HK$3,000,000 of which (i) 15% should be contributed on or before December 31, 2028; and (ii) the remainder should be contributed on or before December 31, 2045.

6. Establishment of XZ Huali

On January 18, 2017, XZ Huali was established in the PRC as a limited liability company with a registered capital of RMB1,450,000, and is required to be contributed by Huali Shengrong within four years from January 10, 2017.

7. Corporate Division of Huali Investment

The Corporate Division of Huali Investment was completed on December 5, 2018. Please refer to the section headed "– History of Huali Investment and Our PRC Operating Entities – Huali Investment" in this prospectus for further details.

8. Entering into the Structured Contracts to control our PRC Operating Entities and Huali Investment

XZ Huali and Huali Investment entered into various agreements that constitute the Structured Contracts with, among others, our PRC Operating Entities, under which all economic benefits arising from the business of our PRC Operating Entities and Huali Investment were transferred to XZ Huali to the extent permitted under PRC laws and regulations by means of service fees payable by our PRC Operating Entities and Huali Investment to XZ Huali. Please refer to the section headed "Structured Contracts" in this prospectus for further details.

PRC LEGAL COMPLIANCE

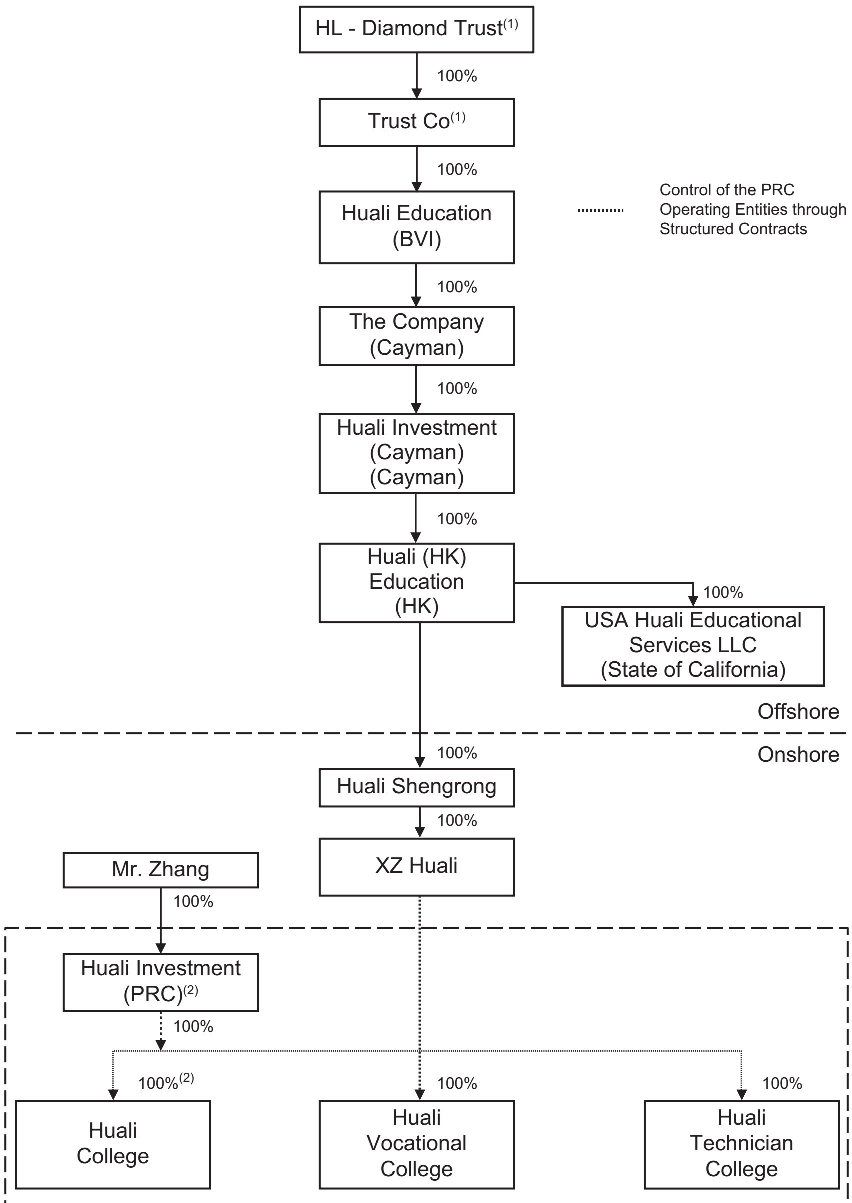
Our PRC Legal Adviser has confirmed that all necessary material approvals, permits and licenses from the relevant PRC government authorities in relation to the Reorganization have been obtained, and the Reorganization complies with all applicable PRC laws and regulations.

Establishment of the HL-Diamond Trust

On April 30, 2018, the HL-Diamond Trust, a discretionary family trust, was established by Mr. Zhang as the settlor and the protector and with Mr. Zhang being the sole discretionary beneficiary. As at the Latest Practicable Date, Mr. Zhang had transferred to Trust Co his entire equity interest in Huali Education as the trust assets. The purpose of the HL-Diamond Trust is for estate planning of Mr. Zhang. Pursuant to the deed of settlement regarding the HL-Diamond Trust, UBS Trustees (B.V.I.) Limited, being the trustee of the HL-Diamond Trust, holds the assets and properties under the HL-Diamond Trust for the benefit of Mr. Zhang. Mr. Zhang retains substantial influence on the management and control of Huali Education given that Mr. Zhang is the sole director of both Huali Education and the Trust Co, being the sole shareholder of Huali Education.

CORPORATE AND SHAREHOLDING STRUCTURE

The following diagram illustrates our corporate and shareholding structure immediately prior to the completion of the Global Offering:

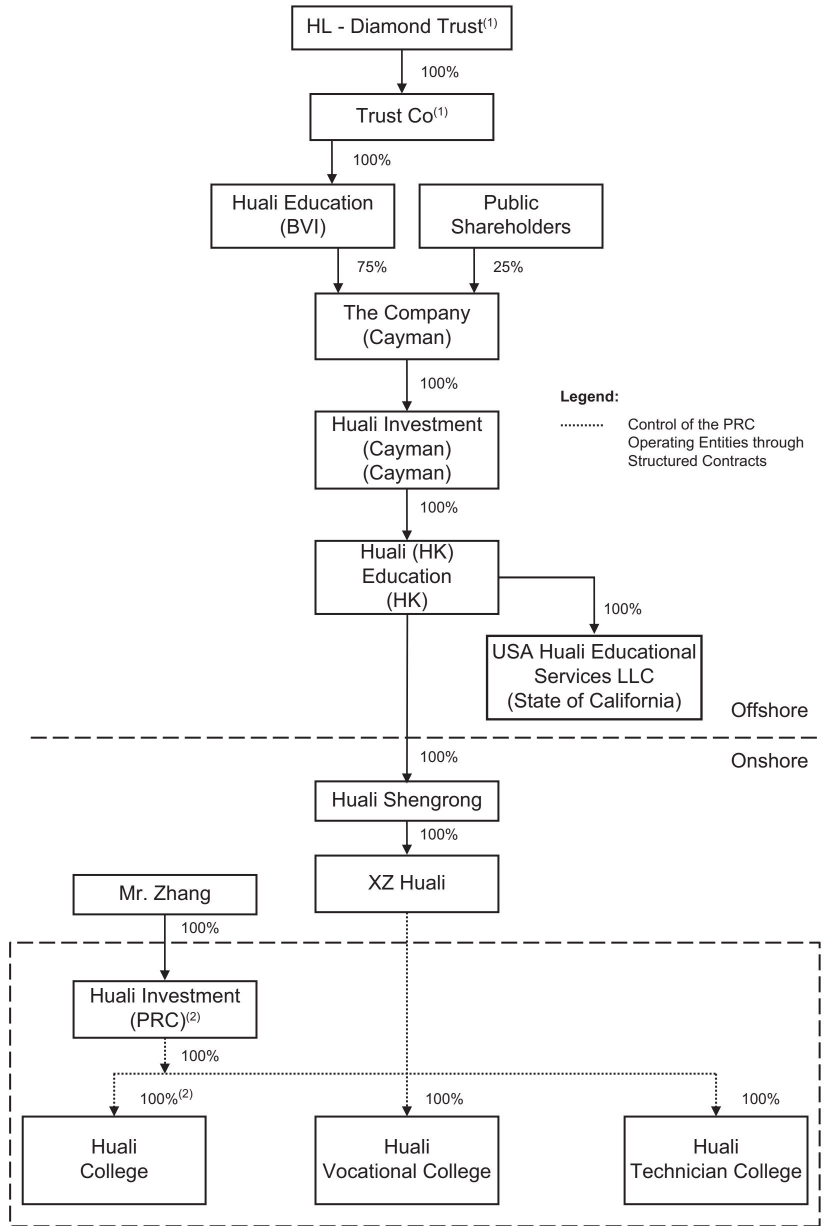


Notes:

(1) The sole shareholder of Huali Education is Trust Co. Trust Co is controlled by UBS Trustees (B.V.I.) Limited as trustee of HL-Diamond Trust. HL-Diamond Trust is a discretionary trust established by Mr. Zhang as the settlor and the protector on April 30, 2018 with Mr. Zhang as the sole discretionary beneficiary. The purpose of the HL-Diamond Trust is for estate planning of Mr. Zhang. Pursuant to the deed of settlement regarding the HL-Diamond Trust, UBS Trustees (B.V.I.) Limited, being the trustee of the HL-Diamond Trust, holds the assets and properties under the HL-Diamond Trust for the benefit of Mr. Zhang. Mr. Zhang retains substantial influence on the management and control of Huali Education given that Mr. Zhang is the sole director of both Huali Education and the Trust Co, being the sole shareholder of Huali Education.

(2) The school sponsor's interest in Huali College is wholly owned by Huali Investment. Guangdong University of Technology is entitled to 17% of the total tuition fees Huali College receives from students during the school year pursuant to the 2001 Cooperation Agreement, 2004 Cooperation Agreement, the 2017 Cooperation Agreement, the 2018 Cooperation Agreement and the 2018 confirmation letter. For details, please refer to the section headed "Business – Our Schools – Huali College – Cooperation Agreements with Guangdong University of Technology" in this prospectus.

The following diagram illustrates our corporate and shareholding structure immediately following the completion of the Global Offering and the Capitalization Issue:



Notes:

(1) The sole shareholder of Huali Education is Trust Co. Trust Co is controlled by UBS Trustees (B.V.I.) Limited as trustee of HL-Diamond Trust. HL-Diamond Trust is a discretionary trust established by Mr. Zhang as the settlor and the protector on April 30, 2018 with Mr. Zhang as the sole discretionary beneficiary. The purpose of the HL-Diamond Trust is for estate planning of Mr. Zhang. Pursuant to the deed of settlement regarding the HL-Diamond Trust, UBS Trustees (B.V.I.) Limited, being the trustee of the HL-Diamond Trust, holds the assets and properties under the HL-Diamond Trust for the benefit of Mr. Zhang. Mr. Zhang retains substantial influence on the management and control of Huali Education given that Mr. Zhang is the sole director of both Huali Education and the Trust Co, being the sole shareholder of Huali Education.

(2) The school sponsor's interest in Huali College is wholly owned by Huali Investment. Guangdong University of Technology is entitled to 17% of the total tuition fees Huali College receives from students during the school year pursuant to the 2001 Cooperation Agreement, 2004 Cooperation Agreement, the 2017 Cooperation Agreement, the 2018 Cooperation Agreement and the 2018 confirmation letter. For details, please refer to the section headed "Business – Our Schools – Huali College – Cooperation Agreements with Guangdong University of Technology" in this prospectus.

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投融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular No. 37**"), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in 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 changes, in respect of the Overseas SPV, including, among other things, a change of the 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 SAFE Circular No. 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 Director Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the "**SAFE Circular No. 13**"), promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Adviser, as of the Latest Practicable Date, Mr. Zhang has completed the initial registration under SAFE Circular No. 37 and SAFE Circular No. 13.

THE M&A RULES

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, SAT, SAIC, CSRC and SAFE, jointly issued the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), which became effective on September 8, 2006, and were amended on June 22, 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) it 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 through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) it 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 (the "**Regulated Activities**").

Given that (i) XZ Huali was established as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition by our Company under the M&A Rules, and (ii) no Regulated Activities were involved in the Reorganization under the M&A Rules, as advised by our PRC Legal Adviser, the establishment of XZ Huali and the Reorganization are not subject to the M&A Rules, and the Listing of our Company does not require approvals from CSRC and MOFCOM under the M&A Rules.

ACQUISITION OF THE INTEREST IN THE PLANNED HUALI VOCATIONAL COLLEGE YUNFU CAMPUS

On April 30, 2017, Huali Vocational College and Hualiyuan Technology entered into an agreement which acknowledges and captures the parties' prior arrangements (agreed in November 2011) on the build-and-transfer arrangements (the "**Build-Transfer Agreement**") between Hualiyuan Technology and Huali Vocational College in respect of the construction of certain school premises and campus facilities in Yunfu (the "**Planned Huali Vocational College Yunfu Campus**"). Pursuant to the Build-Transfer Agreement, Hualiyuan Technology shall be responsible for the overall management and financing of the construction works of the Planned Huali Vocational College Yunfu Campus. The initial planned use of the land concerned was for the construction of a campus for school operations. Pursuant to the Build-Transfer Agreement, the properties to be built by Hualiyuan Technology shall include (i) teaching buildings; (ii) experimental buildings; (iii) libraries; (iv) gatehouses; (v) canteens; and (vi) dormitories, which comply with the planned use of the land. Upon completion of the construction works, Hualiyuan Technology shall transfer the Planned Huali Vocational College Yunfu Campus to Huali Vocational College.

The construction of the Planned Huali Vocational College Yunfu Campus commenced in December 2012. Hualiyuan Technology completed the construction of the Planned Huali Vocational College Yunfu Campus in April 2017. The original contract sum, being the construction cost of the Planned Huali Vocational College Yunfu Campus, is approximately RMB734.6 million.

On the date of the Build-Transfer Agreement, Huali Vocational College and Hualiyuan Technology also entered into an agreement relating to the acquisition (the "**Acquisition**") of the entire interest of the Planned Huali Vocational College Yunfu Campus by Huali Vocational College from Hualiyuan Technology (the "**Acquisition Agreement**"). According to the valuation report of the Planned Huali Vocational College Yunfu Campus issued by Cushman & Wakefield Limited, an independent property valuer (the "**Valuation Report**"), the valuation (the "**Valuation**") of the entire interest of the Planned Huali Vocational College Yunfu Campus was approximately RMB770,000,000. The consideration for the Acquisition was determined at approximately RMB732,737,000 (the "**Consideration**"), which is equivalent to approximately 95% of the Valuation. The figure of 95% was agreed upon after arm's-length negotiations between our Group and Hualiyuan Technology as 5% interest was agreed by Hualiyuan Technology and Huali Vocational College to be attributed to Huali Vocational College leaving 95% interest to be acquired by Huali Vocational College. The 5% interest was agreed by the parties to be attributed to Huali Vocational College after taking into account (i) the contribution made by Huali Vocational College in attending to filings and applications for the relevant land use rights and ownership certificates for the land and properties comprising the Planned Huali Vocational College Yunfu Campus; and (ii) interest payable by Hualiyuan Technology to Huali Vocational College in respect of certain prepayments made by Huali Vocational College to Hualiyuan Technology (the "**Prepayments**") during the construction and development stage of such planned campus. Of the consideration, RMB185,737,000 was settled by netting off the Prepayments owed by Hualiyuan Technology to Huali Vocational College while the remaining balance of RMB547,000,000 was recorded as a payable due to Hualiyuan Technology, of which RMB27,350,000 was repayable by the end of October 2017 pursuant to the Acquisition Agreement and had been fully settled as of the Latest Practicable Date. The remainder of the Consideration shall be paid by April 29, 2020.

The Group leased a small portion of the Planned Huali Vocational College Yunfu Campus to Yunfu Bilingual School as its school premises for primary and secondary education. As of the Latest Practicable Date, Yunfu Bilingual School was controlled by Mr. Zhang through Hualiyuan Technology. The directors of Hualiyuan Technology consider that the disposal of the Planned Huali Vocational College Yunfu Campus and leaseback of a small portion of the subject premises is a more efficient usage of the capital previously deployed in the property. For details, please refer to the section headed "Connected Transactions – Continuing Connected Transactions – Continuing connected transactions subject to reporting and announcement requirements – School Properties Lease Agreement with Yunfu Bilingual School" in this prospectus.

Our PRC Legal Adviser has confirmed that the Build-Transfer Agreement and the Acquisition Agreement are legal, valid and binding under PRC laws.

OVERVIEW

We are a leading large-scale private higher education and vocational education group in South China, offering applied science-focused and practice-oriented programs. As of October 31, 2019, we had an aggregate of 40,627 students enrolled at our three schools, namely Huali College, Huali Vocational College and Huali Technician College. According to the Frost & Sullivan Report, by the end of 2018, as measured by student enrollment, we ranked second among all private vocational education service providers in South China and ranked fourth among all private higher education service providers in South China.

The following table sets forth the information relating to student enrollment and revenue from tuition fees for each of our schools for the school years indicated:

School	Student Enrollment				Tuition Fees		
	School Year(1)				Year ended August 31,		
	2016 /2017	2017 /2018	2018 /2019	2019 /2020	2017	2018	2019
					RMB'000	RMB'000	RMB'000
Huali College	14,092	13,003	15,126	17,794	244,895	248,982	323,333
Huali Vocational College	12,822	13,341	13,044	14,175	179,139	202,718	203,166
– Zengcheng campus	12,822	13,341	12,404	13,119			
– Yunfu campus(2)	-	-	640	1,056			
Huali Technician College	11,874	10,342	9,050	8,658	114,471	114,038	103,222
– Zengcheng campus	10,149	9,503	8,304	7,475			
– Yunfu campus	1,725	839	746	1,172			
Total	38,788	36,686	37,220	40,627	538,505	565,738	629,721

Notes:

(1) Except as specified otherwise in this prospectus, we present our business operating data as of August 31 for each of the school years. Operating data for the 2019/2020 school year was as of October 31, 2019.

(2) The Huali Vocational College Yunfu Campus commenced operations in September 2018.

Our schools offer private higher education and private vocational education in a wide range of fields in applied sciences with an aim to prepare our students with the necessary knowledge base, skill sets and accreditations to secure jobs and pursue careers in particular professions, trades and industries. We have designed our curricula with a distinct emphasis on practical, job-oriented content for a variety of majors that are in demand by potential employers in the Pearl River Delta. We conduct employer surveys and on-going research on industry trends and market demand and seek to continuously improve our major offerings and curricula to respond to the changing needs of the job markets. We have also structured our curricula to combine theoretical study with practical training as we believe practical training serves to enhance our students' ability to apply knowledge and skills to real-life situations and increase their likelihood of employment. We believe our market-focused major offerings, practical job-oriented curricula and practical training help our students to become more marketable to potential employers.

We have a track record of nurturing candidates with practical and readily applicable technical skills for many corporate employers including national and local, well-known companies and institutions. We have established a broad network of over 800 corporate employers, primarily located in the Pearl River Delta, through which we are able to assist our students in obtaining internships and job opportunities. We have also built strong relationships with certain corporate employers and offer customized courses designed to recruit and train students that suit the needs of these specific employers upon graduation. The quality of our education, our extensive employer network and dedicated job placement services allow us to achieve high Initial Employment Rates. For the 2017/2018 school year, our Initial Employment Rate of Huali College, Huali Vocational College and Huali Technician College was 95.9%, 93.5% and 98.4%, respectively, ranking them in the top tier among similar schools in South China. We believe that our graduate employment record attests to the effectiveness of our educational approaches as well as helping to enhance our reputation, raise our profile and attract more students.

We believe the quality of our education programs, evidenced by our high Initial Employment Rates, has helped us enhance our reputation and achieve steady growth in our revenue and gross profit over the Track Record Period. Our revenue increased from RMB578.2 million for the year ended August 31, 2017 to RMB608.0 million for the year ended August 31, 2018 and further increased to RMB674.8 million for the year ended August 31, 2019. Our gross profit increased from RMB319.4 million for the year ended August 31, 2017 to RMB334.4 million for the year ended August 31, 2018 and further increased to RMB367.8 million for the year ended August 31, 2019. For the years ended August 31, 2017, 2018 and 2019, our gross profit margin was 55.2%, 55.0% and 54.5%, respectively.

OUR COMPETITIVE STRENGTHS

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

We are a pioneer in the private education industry in China, operating top-ranked private higher education institutions and private vocational education institutions in South China

We believe we are able to stand out among our competitors by virtue of our leading position and early mover advantages in the private higher education industry and the private vocational education industry.

The PRC government has promulgated a number of policies and regulations since 1999 to encourage the development of private higher education and vocational education. In particular, in 2015, the MOE announced that higher education focused on applied sciences will be a national focus. In 2017, the State Council further promulgated the National Education Development Thirteenth Five-Year Plan (國家教育事業發展"十三五"規劃), which emphasizes development of local, private higher education institutions that focus on cultivation of talent with applied science-focused practical skills and intends to increase recruitment of students in fields of applied sciences. We are a pioneer in providing private higher education and private vocational education in China with a focus on applied sciences. We started operating our first school Huali Technician College in 2000, which was certified as a state key vocational school and offers full-time vocational programs and short-term intensive vocational programs granting technician diplomas of Huali Technician College accredited by the Department of Human Resources and Social Security of Guangdong Province. We also established Huali College in 2001 as a secondary college affiliated with Guangdong University of Technology, which was approved by the MOE in 2004 to become one of the earliest private independent colleges in China to offer undergraduate programs. Subsequently in 2005, we established Huali Vocational College, which offers three-year vocational programs granting junior college diplomas accredited by the MOE.

We are a leading large-scale private higher education and vocational education group in South China. As of October 31, 2019, we had an aggregate of 40,627 students enrolled at our three schools. According to the Frost & Sullivan Report, by the end of 2018, as measured by student enrollment, we ranked second among all private vocational education service providers in South China and ranked fourth among all private higher education service providers in South China. Our schools have received awards and recognitions, including recognition of Huali College as a "National Private Education Advanced Group" in 2010, recognition of Huali Vocational College as a "2014 Most Competitive Private School" in 2014, and recognitions of Huali Technician College as a

"Top Ten Advanced Unit in Vocational Education in Guangdong Province" in 2016 and 2018. Please refer to the section headed "– Awards and Recognitions" in this prospectus for more details on the awards and recognitions received by our schools.

In addition, according to the Frost & Sullivan Report, there are high entry barriers for the private higher education industry and private vocational education industry in China, including (i) significant initial capital investment to acquiring the land for the school site, constructing school facilities, purchasing equipment, and hiring qualified teaching and administrative staff; (ii) a complex and time-consuming process to obtain all necessary governmental approvals, licenses and permits and to meet various regulatory requirements; (iii) time costs to build up market recognition and brand awareness, which we believe is the key consideration when parents and students choose schools as they would naturally prefer schools with a long operating history and well-established reputation; and (iv) time costs to accumulate knowledge and experience of running education programs that meet the needs of both the students and the potential employers and building cooperative relationships with corporate employers. We believe that these high entry barriers make it difficult to enter the private higher education industry and private vocational education industry and, as a result, we believe afford us a significant competitive advantage over the new entrants and potential entrants in the respective industry.

Our schools' strategic geographic location in Guangdong Province and our strong reputation for offering applied science-focused and practice-oriented formal higher education programs and vocational programs provide a strong basis for our business growth

We believe our business growth largely hinges on our ability to continuously attract students to our schools. According to the Frost & Sullivan Report, there has been an increasing demand for specialized vocational or technical employees due to the continued economic growth in China and a lack of skilled and well-trained vocational and technical operatives. Due to the capacity limitations at public universities, limited public resources, and the corresponding policy reforms that makes higher education systems less dependent on the financial and operational support of local governments, private schools are expected to fill in the gap created by increasing market demand, according to the Frost & Sullivan Report. Moreover, the improvement of teaching quality and graduate employment rates have also promoted the public recognition of private higher education institutions and private vocational education institutions. In particular, there is also substantial room for growth in the market where we operate our schools. All our three schools are located in Guangdong Province, one of China's most developed provinces. According to the Frost & Sullivan Report, Guangdong Province is strong in manufacturing and the economy of Guangdong Province contributed 10.8% to the GDP of China in 2018. Further, in light of the national strategy "Made in China 2025" adopted by the State Council in 2015 to promote the development of China's manufacturing industry in the next 30 years and the national strategy on the development of the "Guangdong-Hong Kong-Macao Greater Bay Area" ("粵港澳大灣區") to deepen cooperation between Guangdong Province, Hong Kong and Macao and drive coordinated regional economic development, Guangdong Province is faced with significant growth opportunities. According to the Frost & Sullivan Report, however, it is expected that there will be an insufficient supply of talent in technology and science in Guangdong Province to satisfy demand.

Through over 19 years of operation, we have established a strong reputation for providing applied science-focused and practice-oriented formal higher education programs and vocational programs. In addition, during the Track Record Period, the admission score of Huali College and Huali Vocational College also ranked among the highest of comparable private higher education institutions in Guangdong Province, which demonstrated market recognition of the quality of our education services as well as confidence of students and parents in our schools. We believe we are well positioned to capture the growth opportunities in the private higher education industry and private vocational education industry in China, in particular Guangdong Province.

We have achieved high Initial Employment Rates supported by our market-focused major offerings, practical job-oriented curricula and our access to a broad network of corporate employers

We focus on providing practice-oriented programs and seek to equip our students with practical and readily applicable skills. We have designed our curricula with a distinct emphasis on practical, job-oriented content for a variety of majors that are in demand by potential employers in the Pearl Delta Area. We conduct employer surveys and on-going research on industry trends and market demands and continuously improve our major offerings and curricula to respond to the changing needs of the job markets. We have also structured our curricula to combine theoretical study with practical training as we believe practical training serves to enhance our students' ability to apply knowledge and skills to real-life situations and increase their likelihood of getting employment. Accordingly, we have established a variety of workplace simulation training studios that are designed to simulate typical workplaces and allow our students to put the knowledge they have acquired through our course offerings into practice. We believe our practical job-oriented curricula and practical training help our students to become more marketable to potential employers.

We have a track record of nurturing candidates with practical and readily applicable technical skills for many corporate employers including national and local well-known companies and institutions. In order to facilitate students' employment after their graduation and offer them competitive advantages in the beginning of their career, we encourage our students to obtain professional qualification certificates corresponding to the programs they are enrolled in prior to their graduation. We also require our students to complete around one school year of practical training with potential employers in their chosen profession before graduation. Over the years, we have successfully established a broad network of over 800 corporate employers, primarily located in the Pearl River Delta, through which we are able to assist our students in obtaining internships and job opportunities. We have also built strong relationships with certain corporate employers and offer customized courses designed to recruit and train students that suit the needs of these specific employers upon graduation. Our access to a large number of corporate employers is appealing to potential students, which in turn further allows us to attract students with higher scores in the National Higher Education Entrance Exam. Please refer to the section headed "– Our Educational Practice – Graduate Employment" in this prospectus for more details.

Our job-oriented curricula, extensive employer network and dedicated job placement services allow us to achieve high Initial Employment Rates. For the 2017/2018 school year, our Initial Employment Rate of Huali College, Huali Vocational College and Huali Technician College was 95.9%, 93.5% and 98.4%, respectively, ranking them in the top tier among similar schools in South China. We believe that our high Initial Employment Rates help to enhance our reputation, raise our profile within our targeted market, and attract more students.

Our unified educational philosophy, centralized management structure and unique corporate culture enable us to achieve operating efficiency and replicate our success

We operate each of our schools using a unified educational philosophy, which is to provide the best practice-oriented education based on each student's education level and individual needs and help them to succeed. For all of the schools we operate, we use market demand to guide our selection of major offerings and design of curricula. In addition, in order to maintain the quality of our education services, our teachers undergo frequent training and we conduct teacher performance reviews and evaluations to ensure that consistent teaching standards and educational philosophy are implemented in different schools. We have established a centralized management system which enables us to consistently manage various aspects of our schools including, among others, finance and budgeting, marketing and student recruitment and talent reserve. We believe our centralized management system has enabled us to consistently operate each of our schools under our unified educational philosophy and replicate our success in our Huali Technician College Yunfu Campus established in 2016. In addition, under our centralized management structure, we make overall plans and development strategies for all of our schools, which we believe enables us to fully integrate our resources to promote balanced growth of our schools and optimize synergistic effects among our schools. We have also retained talent and created a family-like business environment and a sense of connection and belonging within our Group, which we believe has been successfully instilled into the ethos of our headquarters management and each of our schools. We have opened our Huali Technician College Yunfu Campus through our talent reserve program, which involves a dedicated group of experienced teachers and administrative staff from 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 campus and for a period thereafter.

We believe that through our unified educational philosophy, centralized management structure and unique corporate culture, we are able to integrate our resources, achieve economies of scale, lower our operating costs and serve a large and growing student population while maintaining consistent education quality and standards, all of which can be employed to enable us to implement consistent strategies with a view to replicating our success when we acquire or establish new schools in the future.

We have an experienced and proven senior management team

We have an experienced and proven senior management team with extensive knowledge in the PRC private higher education industry. Our Board is responsible for the overall management and strategic development of our Group and consists of members who have extensive knowledge in the private education sector and substantial management experience. Our founder and chairman of the Board, Mr. Zhang has more than 18 years of experience in managing private universities and vocational schools and a deep understanding of the PRC private education industry. Mr. Zhang also served in various roles in governmental educational organizations such as member of the 8th and 9th Zengcheng City Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議增城市第八屆、第九屆委員會) from November 2006 to November 2016, the special committee member (特聘委員) of the 11th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆廣東省委員會) from January 2013 to present and special committee member (特聘委員) of the 10th Science, Education, Sanitation and Sport Special Committee under Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十屆廣東省委員會科教衛體委員會) from May 2008 to January 2013. Mr. Zhang has also received various awards in recognition of his dedication to education, including "Outstanding Contribution Award" for Chairman of Private School (民辦學校董事長"突出貢獻獎") awarded by the Private Education Committee for Education Promotion of Guangdong Province (廣東省教育促進會民辦教育委員會), "2005 Outstanding Persons of Education Innovation in China" ("2005全國傑出教育創新人物") jointly presented by the Chinese Academy of Management Science (中國管理科學研究院), the China Society for Futures Studies (中國未來研究會) and the School of Education, Peking University (北京大學教育學院) in July 2005. Mr. Ye Yaming, an executive Director and chief executive officer of our Group, has served in our Group for approximately 18 years. Mr. Ye was recognized as an "Outstanding Educator of Vocational Training in Guangdong Province" ("廣東省就業培訓優秀教師") by Guangdong Provincial Labor Department (廣東省勞動廳) (currently known as the Department of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳)) in September 1994. He was also recognized as a "Guangzhou Outstanding Educator" ("廣州市優秀教師(教育工作者)") jointly by Guangzhou Education Bureau (廣州市教育局) and Guangzhou Education Foundation (廣州市教育基金會) in September 2004. Mr. Dong Xiaolin, an executive Director and vice-president of our Group, has more than 20 years' academic and management experience in public and private universities. Mr. Dong is affiliated with certain governmental institutions in which he has been the major administrative decision-making and advising consultant of economics of the Development Research Center under the People's Government of Guangdong Province (廣東省人民政府發展研究中心) since December 2016 and has been an expert consultant to the 3rd decision-making board of Guangzhou Municipal People's Government (廣州市人民政府) since October 2015.

Each of our schools is managed on a day-to-day basis by a principal, who is assisted by several vice-principals and a team of seasoned mid-level managers. The principals are dedicated and experienced educators and many of our mid-level managers also have extensive experience in the education industry. Some of our vice-principals served as teachers or administrative staff at our schools before being internally promoted to management level and have in-depth understanding of our corporate culture and management philosophy. In addition, we provide professional management training to our management team and conduct performance reviews and evaluations periodically. We believe that our management team possesses the vision and in-depth industry knowledge required to anticipate and take advantage of market opportunities and to effectively prioritize and execute sound business strategies to maximize shareholder value.

OUR BUSINESS STRATEGIES

We intend to maintain and strengthen our leading positions in the private higher education industry and private vocational education industry in South China. To achieve this goal, we plan to pursue the following business strategies:

Continue to enhance our reputation as a provider of private higher education and private vocational education

We believe that the quality of the education services and the reputation of a school are the most important factors that students would normally consider when selecting a school. To increase our student enrollment and expand our business, we intend to continue to enhance our market reputation in the private higher education industry and private vocational education industry in China, in particular in Guangdong Province, our largest feeder market. We believe that our practical job-oriented curricula and high Initial Employment Rates distinguish us from our competitors and make us attractive to potential students. We plan to further solidify our competitive advantages by optimizing our major offerings and curricula. We intend to design new courses and adjust our existing courses to continue to best reflect evolving market trends and meet the demands of employers. We also intend to continue to offer new majors that follow job market trends and cater to market demands. Specifically, we plan to conduct research on our target job markets to understand employers' preferences and hiring needs. In addition, we plan to seek potential employers' advice to further improve our curricula. We also plan to closely follow and plan our major offerings in line with the development plans adopted by the local government authorities of our target job markets. Moreover, we also aim to leverage our large and growing alumni network to further explore school-enterprise collaboration opportunities, which we believe will knit closer ties between us and our existing and potential partners and thereby provide additional internship and employment opportunities for our students.

Continue to increase student enrollment through expanding our business operations in our existing schools and further expand our school network in China and abroad

We will continue to make demand-driven investments in our existing schools to improve and increase our school facilities to accommodate more students and enhance our students' educational experience. According to the Thirteenth Five-Year Plan of Development of Education in Guangdong Province (《廣東省教育發展"十三五"規劃》) (the "**Thirteenth Five-Year Plan**"), only 33.0% of the college-aged population in Guangdong Province were enrolled in higher education institutions in 2015. The Thirteenth Five-Year Plan aims to continue to popularize higher education and increase the gross enrollment rate of higher education to 50%. In response to the Thirteenth Five-Year Plan, we intend to gradually increase student enrollment in our existing schools. Specifically, we plan to (i) expand Huali College by constructing additional buildings in Zengcheng and (ii) expand Huali Vocational College by constructing additional buildings in Zengcheng and Yunfu. By expanding the scale of our schools, we will be able to recruit more students. Please refer to the section headed "– Planned Expansion" in this prospectus for details of our expansion plans.

We will make further efforts to recruit more students for Huali Vocational College Yunfu Campus and Huali Technician College Yunfu Campus, which commenced operations in September 2018 and September 2016, respectively. Those schools have significant potential to increase recruitment. We will continue to increase our teaching staff and increase the number of majors and curricula in Yunfu campuses to further improve the quality of our education and attract more students. Particularly, we started to offer five-year full-time vocational programs to students of junior high-school level at Huali Technician College in September 2018 to further expand student enrollment.

We also plan to upgrade Huali Vocational College (including both Huali Vocational College Zengcheng Campus and Huali Vocational College Yunfu Campus) from a school providing three-year junior college education to a school providing four-year undergraduate education. On January 25, 2017, the MOE issued the Opinion on the Establishment of Higher Education Institution During the Thirteenth Five-Year Plan Period (《關於"十三五"時期高等學校設置工作的意見》), which requires scientific planning of higher education institutions. On March 24, 2017, the Department of Education of Guangdong Province issued the Notice on Issues Concerning the Formulation of the Provincial Thirteenth Five-Year Plan of Establishing Higher Education Institutions (《關於編制省高等學校設置"十三五"規劃有關問題的通知》), pursuant to which the provincial Thirteenth Five-Year Plan of establishing higher education institutions (the "Provincial Plan") shall be formulated before the approval of establishment of any higher education institution is granted. We plan to upgrade our Huali Vocational College according to the applicable laws and regulations as well as the latest requirements of the government authorities. Such upgrade plan is subject to the approval from relevant government authorities.

We also intend to continue to expand our school network in new geographic locations both in China and abroad. With encouragement of local government, we plan to establish a new junior college in Jiangmen City, Guangdong Province to provide higher education and vocational education and grant junior college diplomas accredited by the MOE. Please refer to the section headed "– Planned Expansion" for details. In addition, as of the Latest Practicable Date, we had entered into letters of intent with local governments of Zhanjiang City and Huizhou City in Guangdong Province to explore the possibility of establishing new school or new campus in each city. Moreover, we are also in the process of establishing a new school in the United States to further expand and strengthen our brand. Please refer to the section headed "– Planned Expansion – A Higher Education Institution in the U.S." in this prospectus for details.

In addition to setting up new schools by ourselves, we also plan to acquire new schools located in our preferred regions in the PRC, such as Guangdong Province, Henan Province, Sichuan Province, Shandong Province, Yunnan Province and Chongqing Municipality, and overseas countries in Southeast Asia and North America. As of the Latest Practicable Date, we did not have specific acquisition targets. We will take a variety of factors into account when selecting new school locations and potential acquisition targets, including demographics, potential demand, income trends, regional economic conditions, the level of local government support, the availability of suitable sites and existing market competition.

According to our current understanding and interpretation of the MOJ Draft for Comments, if the MOJ Draft for Comments is adopted in its current form, it may have the following implications for our expansion strategy:

(i) we may acquire schools that are permitted to be registered, and have not been registered, as for-profit private schools or non-profit private schools. When required to do so, we will register such acquired schools as for-profit private schools;

(ii) we may enter into cooperation with public universities with respect to independent colleges that have not been registered as for-profit private schools or non-profit private schools. However, if such independent colleges are required to register as for-profit private schools or non-private schools prior to any acquisition by us, in order for our acquisition to continue, such colleges shall cease collaboration with the public universities subject to the MOE approval and register as for-profit private schools. Such colleges may no longer be able to use the names of the public universities;

(iii) we may acquire schools that have been registered as for-profit private schools. The consideration payable for such acquisitions is expected to take into account the additional costs that may be involved in the for-profit private school registration process; and

(iv) we may not be able to acquire any schools that have already been registered as non-profit private schools.

We currently do not consider that the implications above would have any material impact on our expansion strategy, except that the number of target schools available for our acquisition may be reduced by those that will be registered as a non-profit private school in the future.

We have established a special committee (comprising Mr. Zhang, Mr. Ye Yaming, Mr. Dong Xiaolin, Mr. Ma Zhixiong and Mr. Zhang Zhicheng) led by Mr. Zhang to pay close attention to the developments of the relevant policies and regulations, including the Amendment and the MOJ Draft for Comments. We will assess whether the MOJ Draft for Comments or other relevant implementation rules and regulations in the future will present practical challenges or compliance issues to any future acquisition. Such special committee will ensure that our acquisitions in the future will fully comply with the relevant rules and regulations in effect from time to time.

Continue to improve our profitability by optimizing our pricing and sources of revenue

One of the most significant factors affecting our profitability is the tuition fee rates we charge at our schools. We plan to optimize our pricing through differentiating tuition fee rates for different majors we offer based on popularity and job prospects of such majors. During the Track Record Period, all our schools raised their tuition fee rates for certain majors. For certain popular majors, such as visual communication design, environment design and electrical engineering and automation at Huali College and environment art design, financial management and construction costing at Huali Vocational College, we charge higher tuition fee rates which are about RMB2,000 to RMB3,000 higher than other majors. Moreover, to make our curricula more attractive, we began to provide value-added bilingual education services with respect to certain of the majors offered at Huali College and Huali Vocational College in the 2016/2017 school year. Students enrolled in these bilingual programs are required to pay additional tuition fees of approximately RMB1,000 to RMB2,000 per student per year, compared with students enrolled in ordinary programs. We believe that we are able to maintain the current tuition fee rates and raise the tuition fee rates charged by our schools where appropriate as our brand awareness and market recognition grow. In addition, we retain the discretion to adjust the tuition fee rates charged by our schools, and our schools are only required to publish their proposed tuition fee rate adjustments to the public, but are not subject to any approval or filing requirements. Historically, we have kept our tuition fees at levels we believe are competitive compared to our peer schools in order to attract more students and thereby increase our student enrollment and market share. As we have established a strong reputation for providing quality education to our students, we believe we are in a good position to optimize our pricing without compromising our reputation and our ability to attract and retain students.

The following table sets forth the tuition fee rates of our schools for the 2018/2019 and 2019/2020 school years:

School	Tuition Fee Rates[1]	
	2018/2019 school year	2019/2020 school year
	RMB	RMB
Huali College		
Four- to five-year undergraduate program[2]	23,000-29,000	25,500-29,500
International program	32,000	33,500
Bilingual program	26,000-27,000	27,500
Huali Vocational College		
Three-year junior college program	12,800-16,800	14,800-17,800
-Zengcheng campus	14,800-16,800	14,800-17,800
-Yunfu campus	12,800-14,800	14,800-17,800
International program	28,000	23,000-28,000
Bilingual program	15,800-16,800	15,800-16,800
Huali Technician College		
Three-year vocational program[3]	6,000-12,800	6,000-12,800
-Zengcheng campus	8,800-12,800	8,800-12,800
-Yunfu campus	6,000-7,500	6,000-7,500

Notes:

(1) Tuition fee rates shown above for all of our schools are applicable to students admitted in the relevant school year only.

(2) Generally, Huali College offers four-year undergraduate programs, but also offers a five-year undergraduate program in architecture.

(3) Generally, Huali Technician College offers three-year vocational programs, but also offers two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College. In addition, we offer students at Huali Technician College a dual-diploma program, in which students are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. During the Track Record Period, we charged students who enrolled in these dual-diploma programs additional tuition fees ranging from RMB1,500 to RMB3,000.

We plan to optimize our sources of revenue by taking advantage of the business synergistic effects of our three schools. For example, students of Huali Technician College can participate in a dual-diploma program, where they are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. For the 2018/2019 school year, over 60% of students at Huali Technician College were enrolled in the dual-diploma program. Huali Vocational College runs a 3+2 junior college-undergraduate program, which allows students finishing their three years of study at Huali Vocational College to take exams administered by the Education Examinations Authority of Guangdong Province and Huali College or other target universities and transfer to the undergraduate program of Huali College or other target universities. We believe these programs will enhance the reputation of our schools and add additional important revenue sources. In addition, we plan to offer minors, such as accounting, construction costing and computer science and technology, to students at Huali College alongside their major degree courses, which we believe will not only enhance our students' comprehensive quality and competitiveness but also expand our sources of revenue. Moreover, we also plan to increase enrollment of middle school graduates at Huali Technician College who are generally required to spend three to five years to complete the program, which we believe will also help to grow our revenue.

Continue to strengthen collaboration with corporate employers

We expect graduates of our schools to be not only academically prepared but also equipped with essential practical skills. We emphasize enterprise-school collaboration as we believe this education approach can maximize benefit of our education objectives. As of August 31, 2019, we had entered into cooperative agreements with over 800 corporate employers in the Pearl River Delta to establish internship bases at the site of these corporate employers, including national and local well-known companies and institutions. We plan to collaborate thoroughly with more potential employers in industries with significant growth potential and strong hiring demand, in order to assist our students to obtain more internships and job opportunities.

Moreover, during the Track Record Period, we had established employer-tailored joint cultivation programs at each of our schools. Under such programs, enterprises communicate with our schools about their specific requirements for their prospective employees. Our schools work together with the enterprises with respect to the curricula and class arrangements for the students. Students will take specifically tailored courses so that they can be trained to acquire necessary skills desired by such enterprises. The enterprises may also designate relevant representatives to teach certain courses at our schools. Students who successfully obtain the program completion certificate and pass the interview may be offered internship opportunities at the enterprise. After completion of the internships, qualified students will be offered job opportunities at the enterprises. We believe such programs will provide our students with access to enhanced practical training and also increase Initial Employment Rates of our schools. Therefore, we plan to further expand employer-tailored joint cultivation programs.

Continue to attract, incentivize and retain talented teachers and support their professional development

The quality of our education services largely depends on our teachers. We intend to continue to attract, incentivize and retain talented teachers and build a first-rate faculty team. To this end, we plan to recruit well-recognized technical experts, experienced business administrators and other highly skilled personnel to teach in our schools on either a full-time or a part-time basis. We will continue to apply stringent standards in our recruitment of teachers, including targeting applicants with a bachelor, master or doctor degree and those who have technician qualifications. We plan to conduct regular evaluations of our teachers, which will include students' feedback and teaching supervisors' evaluations of the respective teachers' class preparation and classroom instruction and incentivize the teachers with a remuneration package that is linked to their teaching quality evaluation. We encourage our teachers to pursue further studies and to enhance their professional expertise and knowledge. In addition, we plan to continue to send our teachers to business entities for training, secondment and other on-the-job training during summer break. We plan to hold regular conferences for our teachers to help our teachers understand our students' development needs in order to improve the effectiveness of their teaching. In addition, we plan to continue to offer competitive compensation and benefits to our teachers to attract talent in the market.

OUR EDUCATIONAL PHILOSOPHY

Our fundamental educational philosophy is, based on offering applied science- focused higher education, guided by social responsibility and human development, to cultivate talent with high moral characters, knowledge and practical skills, and pragmatic and innovative characteristics. We are also committed to continuously enhancing our school management and social service capabilities, aiming to create value for the education services provided by our "Huali" schools.

OUR SCHOOLS

Overview

We operate three schools in Guangdong Province, all of which grant government-accredited degrees or certifications, including:

- Huali College: a private independent college, offering four- to five-year undergraduate programs[1] granting bachelor degrees accredited by the MOE;
- Huali Vocational College (including Zengcheng campus and Yunfu campus): a formal higher education institution, offering three-year vocational programs granting junior college diplomas accredited by the MOE; and
- Huali Technician College (including Zengcheng campus and Yunfu campus): a private technician school primarily offering three-year, full-time vocational programs[2] granting technician diplomas of Huali Technician College accredited by the Department of Human Resources and Social Security of Guangdong Province and short-term intensive vocational programs.

Notes:

(1) Generally, Huali College offers four-year undergraduate programs, but also offers a five-year undergraduate program in architecture.

(2) Generally, Huali Technician College offers three-year vocational programs, but also offers two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College.

We set forth below some general information of our schools as of the Latest Practicable Date:

School / Location	Service	Academic Structure and Major Offerings
Huali College – Zengcheng District, Guangzhou City, Guangdong Province	Higher education[1]	33 majors in eight departments: ● three majors in the department of computer and information engineering; ● seven majors in the department of urban construction; ● six majors in the department of media and art design; ● five majors in the department of management; ● two majors in the department of accounting; ● five majors in the department of economics and foreign languages; ● five majors in the department of electromechanical engineering; and ● department of international studies organized for students enrolled in the international programs.

School / Location	Service	Academic Structure and Major Offerings
Huali Vocational College – Zengcheng District, Guangzhou City, Guangdong Province – Yunfu City, Guangdong Province	Higher education and vocational education(1)	31 majors in eight departments: ● seven majors in the department of media and art; ● four majors in the department of urban construction; ● five majors in the department of electronic and intelligent manufacturing; ● four majors in the department of management; ● three majors in the department of computer and information engineering; ● two majors in the department of health; ● four majors in the department of international economics and foreign languages; and ● two majors in the department of accounting.
Huali Technician College – Zengcheng District, Guangzhou City, Guangdong Province – Yunfu City, Guangdong Province	Vocational education(1)	26 majors in 11 departments: ● six majors in the department of art design; ● two majors in the department of computer; ● two majors in the department of accounting; ● two majors in the department of construction management; ● one major in the department of international trade; ● one major in the department of management; ● three majors in the department of commerce; ● two majors in the department of cuisine; ● two majors in the department of automobile; ● two majors in the department of electromechanics; and ● three majors in the department of intelligent manufacturing.

Note:

(1) Higher education is provided by either junior colleges or universities granting different diplomas/degrees. Vocational education includes both secondary vocational education and higher vocational education. Secondary vocational education is provided by technician schools (技工學校), vocational high schools (職業高中) and specialized secondary schools (中等專業學校). Higher vocational education is provided by junior colleges which generally offer three-year vocational programs. Please refer to the diagram set out under the section headed "Industry Overview – Overview of the PRC Education System" in this prospectus for more details.

Student enrollment and capacities

As of October 31, 2019, we had an aggregate of 40,627 students enrolled in our three schools, including 17,794 students at Huali College, 14,175 students at Huali Vocational College and 8,658 students at Huali Technician College.

The following table sets forth the licensed capacity of our schools, indicating the maximum number of new student intake in the respective school year, for the school years indicated:

	Licensed Capacity		
	School Year		
	2016/2017	2017/2018	2018/2019
Huali College	3,940	4,655	5,214
Huali Vocational College	5,700	5,943	6,866

For Huali College and Huali Vocational College, the licensed capacity information was based on the enrollment plan of formal higher education institutions in Guangdong for the respective school year issued by the relevant government authorities, which indicated the maximum number of new student intake in the respective school year. For Huali Technician College, we make the enrollment plan for each school year by ourselves, and the student capacity is not subject to any approval or license from the government authority.

The following table sets forth the information relating to student enrollment and average tuition fees for each of our schools for the school years indicated:

School	School Year(1)			Average Tuition Fees per student(3)		
				Year ended August 31,		
	2016/2017	2017/2018	2018/2019	2017 RMB	2018 RMB	2019 RMB'000
Student Enrollment						
Huali College	14,092	13,003	15,126	17,378	19,148	21,376
Huali Vocational College	12,822	13,341	13,044	13,971	15,195	15,576
– Zengcheng campus	12,822	13,341	12,404	-	-	-
– Yunfu campus(2)	-	-	640	-	-	-
Huali Technician College	11,874	10,342	9,050	9,640	11,027	11,406
– Zengcheng campus	10,149	9,503	8,304	-	-	-
– Yunfu campus	1,725	839	746	-	-	-
Total	38,788	36,686	37,220	13,883	15,421	16,919

Notes:

(1) Except as specified otherwise in this prospectus, we present our business operating data as of August 31 for each of the school years.

(2) The Huali Vocational College Yunfu Campus commenced operations in September 2018.

(3) Average tuition fees equal the revenue from tuition fees for the relevant financial year divided by the student enrollment for the corresponding school year.

We provide school dormitories for our students in Zengcheng campuses. We generally require our students to reside in our school dormitories in Zengcheng during their study (except for the last school year when they engage in off-campus internships). The following table sets forth the information relating to the overall capacity and utilization rate of Zengcheng campuses of our schools for the school years indicated:

	School Year(1)		
	2016/2017	2017/2018	2018/2019
Capacity(2)	25,970	27,896	28,082
Utilization Rate(3)	95.0%	91.1%	91.7%

Notes:

(1) Except as specified otherwise in this prospectus, we present our business operating data as of August 31 for each of the school years.

(2) The capacity of each of the Zengcheng campuses of our schools is limited by the number of beds available in our school dormitories in Zengcheng.

(3) The school utilization rate is calculated by us internally as the number of our students in Zengcheng campuses (excluding students engaging in off-campus internships who did not reside in school dormitories in their last school year and students in Yunfu campuses) in each school year divided by the capacity for each corresponding school year. For the 2016/2017, 2017/2018 and 2018/2019 school years, the number of students who engaged in off-campus internships in the last school year was 12,380, 10,433 and 10,088, respectively.

We do not own any school dormitories in our Yunfu campuses. We generally require our students to reside in the dormitories provided by Hualiyuan Technology, a connected person of the Company, located in close proximity to our Yunfu campuses during their study (except for the last school year when they engage in off-campus internships). We entered into a framework properties lease agreement with Hualiyuan Technology on August 28, 2019, pursuant to which Hualiyuan Technology will lease certain residential apartments to us to serve as school dormitories. For more details, please refer to the section headed "Connected Transactions – Continuing Connected Transactions – The Framework Properties Lease Agreement with Hualiyuan Technology" in this prospectus. We believe the planned capacity and utilization rate based on planned capacity (as defined below) provide more useful information in understanding the utilization status of our Yunfu campuses. The following table sets forth the information relating to planned capacity and utilization rate based on planned capacity of our Yunfu campuses for the school years indicated:

	School Year[(1)]		
	2016/2017	2017/2018	2018/2019
Planned capacity[(2)]			
Huali Vocational College Yunfu Campus[(4)]	-	-	3,000
Huali Technician College Yunfu Campus	5,000	5,000	5,000
Utilization rate based on planned capacity[(3)]			
Huali Vocational College Yunfu Campus[(4)]	-	-	21.3%
Huali Technician College Yunfu Campus	34.5%	16.8%	11.2%

Notes:

(1) Except as specified otherwise in this prospectus, we present our business operating data as of August 31 for each of the school years.

(2) The planned capacity of each of the Yunfu campuses of our schools represents the planned capacity stated in the application documents for applying to establish such new campus.

(3) The school utilization rate based on planned capacity is calculated by us internally as the number of our students in Yunfu campuses in each school year divided by the planned capacity for each corresponding school year.

(4) The Huali Vocational College Yunfu Campus commenced operations in September 2018.

Since our school dormitories in Zengcheng campuses are shared by all our three schools, an increase in student capacity of one school will affect student capacity of the other schools. For example, due to such school capacity limitation, we had to strategically reduce student enrollment at Huali College starting from and including the 2014/2015 school year so that we could increase student enrollment at Huali Technician College in order to promote our market recognition and gain more market share in private vocational education industry. We have recently begun increasing our new student intake in Huali College since we have achieved our goal of enlarging the scale of Huali Technician College and promoting its market recognition. For the 2018/2019 school year, our new student intake in Huali College was 2,105 more than that for the 2014/2015 school year.

The following table sets forth the information relating to new student intake, student graduated in the preceding school year and total student enrollment of our schools for the school years indicated:

	School Year					
	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Huali College						
– New Student Intake(1)	2,357	2,872	3,645	4,153	4,462	5,501
– Student Graduated in the Preceding School Year(1)	3,924	4,397	4,474	5,199	2,427	2,617
– Total Student Enrollment(2)	16,982	15,120	14,092	13,003	15,126	17,794
Huali Vocational College						
– New Student Intake(1)	3,324	4,517	4,223	4,701	4,258	5,314
– Student Graduated in the Preceding School Year(1)	2,573	3,151	3,415	3,919	4,274	3,929
– Total Student Enrollment(2)	11,062	12,187	12,822	13,341	13,044	14,175
Huali Technician College						
– New Student Intake(1)	4,019	3,908	3,437	3,158	2,684	2,996
– Student Graduated in the Preceding School Year(1)	1,431	1,315	2,988	4,014	3,847	3,220
– Total Student Enrollment(2)	8,297	10,890	11,874	10,342	9,050	8,658

Notes:

(1) The number of new intake students and students graduated in the preceding school year was based on the internal records of our schools as of September or October of the relevant school years. In addition to new student intake (admitted as first-year college students), Huali College provides junior college to bachelor's degree transfer programs, allowing students from Huali Vocational College and students who have completed vocational education programs with other institutions in Guangdong Province to continue their study as third-year bachelor's degree program students at Huali College and obtain a bachelor's degree awarded by Huali College upon completion of a two-year or three-year program. The number of newly admitted student enrolment for the junior college to bachelor's degree transfer programs was 104, 199, 109, 156, 226 and 695 for the 2014/2015, 2015/2016, 2016/2017, 2017/2018, 2018/2019 and 2019/2020 school years, respectively.

(2) Except as specified otherwise in this prospectus, we use August 31 to present our business operating data for each of the school years. Operating data for the 2019/2020 school year was as of October 31, 2019.

In addition, with respect to Huali College and Huali Vocational College, the number of students we are able to admit for enrollment for each school year is set and approved by the relevant PRC education authorities. According to the Opinions of the Ministry of Education on Further Regulating Higher Education Enrollment Programs (《教育部關於進一步規範高等教育招生計劃管理工作的意見》), student enrollment for graduate and undergraduate programs is subject to approval of the MOE, while student enrollment for junior colleges is subject to approval of the relevant provincial educational authorities.

Tuition fees and boarding fees

We typically charge our students tuition fees and boarding fees. For the year ended August 31, 2017, 2018 and 2019, tuition fees from our schools accounted for approximately 93.1%, 93.0% and 93.3% of our total revenue, respectively, while boarding fees accounted for the remainder. We require students to pay tuition fees and boarding fees for the entire school year at the beginning of the school year, and recognize tuition fees proportionately over a 12-month period.

The following table sets forth the listed tuition fee rates of our schools for the school years indicated:

School	Tuition Fee Rates[(1)] 2016/2017 school year	2017/2018 school year	2018/2019 school year
	RMB	RMB	RMB
Huali College			
Four- to five-year undergraduate program[(2)]	19,000-22,000	19,000-22,000	23,000-29,000
International program	25,000	28,000	32,000
Bilingual program	21,000-22,000	22,000-23,000	26,000-27,000
Huali Vocational College			
Three-year junior college program	13,800-16,800	13,800-16,800	12,800-16,800
-Zengcheng campus	13,800-16,800	13,800-16,800	14,800-16,800
-Yunfu campus[(3)]	-	-	12,800-14,800
International program	25,000	28,000	28,000
Bilingual program	15,800-16,800	15,800-16,800	15,800-16,800
Huali Technician College			
Three-year vocational program[(4)]	6,300-10,600	5,700-11,500	6,000-12,800
-Zengcheng campus	9,800-10,600	9,800-11,500	8,800-12,800
-Yunfu campus	6,300-8,100	5,700-7,500	6,000-7,500

Notes:

(1) Tuition fee rates shown above for all of our schools are applicable to students admitted in the relevant school year only.

(2) Generally, Huali College offers four-year undergraduate programs, but also offers a five-year undergraduate program in architecture.

(3) Huali Vocational College Yunfu Campus commenced operation in September 2018.

(4) Generally, Huali Technician College offers three-year vocational programs, but also offers two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College. In addition, we offer students at Huali Technician College a dual-diploma program, in which students are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. During the Track Record Period, we charged students who enrolled in these dual-diploma programs additional tuition fees ranging from RMB1,500 to RMB3,000.

During the Track Record Period, our boarding fee rates ranged from RMB600 to RMB2,500 per school year depending on the location, room size and number of students housed in each room.

The tuition fee rates and boarding fee rates that we charge at our schools are typically based on the demand for our educational programs, the cost of our operations, the geographic markets where we operate our schools, the tuition fee rates and boarding fee rates 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. Historically, we have kept our tuition fee rates and boarding fee rates at levels that we believe are competitive as compared to our competitors in order to attract more students and increase our student enrollment and market share. We generally raise tuition fee rates at some of our schools every one to two school years to reflect our increased operating costs and more widely recognized school reputation. Prior to October 11, 2016, Huali College, Huali Vocational College and Huali Technician College were required to make a filing with the relevant governmental authorities regarding their proposed tuition fee rate and boarding fee rate adjustments. Starting from October 11, 2016, Huali College, Huali Vocational College and Huali Technician College are only required to publish their proposed tuition fee rate and boarding fee rate adjustments to the public, but are no longer subject to any filing requirements. As of the Latest Practicable Date, we have complied with the filing or publicity requirements regarding tuition fee rate adjustments.

Student withdrawals and refunds

For the 2016/2017, 2017/2018 and 2018/2019 school years, the number of students who withdrew from our schools amounted to 501, 465 and 348, respectively. In the event a student withdraws during the school year, we have refund policies in place at each of our schools, setting forth the percentage of tuition fees and boarding fees that can be refunded to such student depending on when and why such student decides to leave the school. The following policies were formulated pursuant to the Notice on Further Regulating the Administration of Charges of Higher Education Institutions in Guangdong Province (《關於進一步規範我省高等學校收費管理的通知》 (粵價[2007]186號)) and the Notice on Improving the Administration of Charges of Private Secondary Vocational and Technical Schools in Guangdong Province (《關於完善我省民辦中等職業技術學校收費管理的通知》(粵價[2008]181號)): (i) if a student withdraws from the school for military service, all of the tuition fees and boarding fees paid in advance shall be refunded; (ii) if a student does not enroll after having registered and paid the tuition fees and boarding fees, we typically refund 90% of such student's total tuition fees and boarding fees; (iii) if a student withdraws from the school due to early completion of courses, transfers to another school, or suffers an accident, death or illness, the tuition fees and boarding fees to be refunded shall equal the total amount of tuition fees and boarding fees paid for the school year divided by the number of months (10 months) within such school year, and then multiplied by the difference between the number of months within such school year (10 months) and the number of months (a period of less than one month being treated as a full month) the student actually attended at school; (iv) if a student leaves the school without permission, due to being expelled by schools according to applicable rules and regulations or violation of criminal laws, we will not refund any tuition fees and boarding fees; (v) the enrollment of a student starts from the first day of official class (including school-organized military training). For the years ended August 31, 2017, 2018 and 2019, the total tuition fees and boarding fees refunded to the students amounted to RMB1.6 million, RMB1.6 million and RMB1.7 million, respectively.

Huali College

Overview

Huali College was founded in 2001 as a private secondary college affiliated with Guangdong University of Technology and was approved by the MOE in 2004 to become one of the first private independent colleges in Guangdong Province to offer undergraduate programs. In December 2011, Huali College was approved by the Academic Degrees Committee of Guangdong Province (廣東省學位委員會) to issue bachelor degrees accredited by the MOE. Huali College was awarded "National Private Education Advanced Group" by the China Teacher Development Foundation of the MOE in 2010. In addition, Huali College was recognized as a "College Students KAB Entrepreneurship Education Base" by the International Labor Organization, All-China Youth Federation and All-China Students' Federation in 2016.

Huali College is located in the Zengcheng District Economic Technological Development Area in Guangzhou and occupied a GFA of 207,055.1 sq. m. as of August 31, 2019. As of August 31, 2019, Huali College had a total of 15,126 students. Huali College is open to PRC citizens and generally recruits students who possess a high school or equivalent diploma and have achieved our required total scores on the National Higher Education Entrance Exam, and students who possess a junior college diploma and meet certain academic requirements for undergraduate programs. During the Track Record Period, most of the students enrolled at Huali College came from South China, with students from Guangdong Province accounting for the majority of the total students enrolled.

Huali College achieved a high Initial Employment Rate of 95.9% for the 2017/2018 school year for 2,427 graduates.

Major offerings

Huali College offers 33 majors in eight departments, including three majors in the department of computer and information engineering, seven majors in the department of urban construction, six majors in the department of media and art design, five majors in the department of management, two majors in the department of accounting, five majors in the department of economics and foreign languages, five majors in the department of electromechanical engineering and a department of international studies organized for students enrolled in the international programs. Generally, Huali College offers four-year undergraduate programs, but also offers a five-year undergraduate program in architecture.

Featured programs

International programs

In order to provide our students with necessary exposure to various cultures and opportunities to seek education overseas, Huali College has established academic partnerships with several colleges and universities abroad to offer dual-degree programs, including St. Mary's University in Canada, the University of Northampton in the United Kingdom and Midwestern State University in the U.S. Under the cooperation, these overseas universities will recognize the credits obtained by students for their study at Huali College. Upon completing an agreed additional length of study (typically one or two years) at these universities abroad, these students are able to obtain bachelor degrees granted by both Huali College and these overseas universities. The international dual-diploma programs are offered only to students studying for certain majors including accounting, international economic and trade and business administration.

Employer-tailored joint cultivation programs

Huali College entered into an agreement with a logistics company in December 2012. Under this agreement, students majoring in electronic commerce, logistics management, marketing and other economics and management-related majors may participate in this employer-tailored training program. Through this program, Huali College works together with the logistics company with respect to the curricula and class arrangements for participants. Participants who successfully obtain the program completion certificate and pass the interview will be offered internship opportunities at the logistics company. After completion of the internships, qualified students will be offered job opportunities at the logistics company.

Bilingual programs

Huali College introduced a new bilingual program starting from the 2016/2017 school year, which offers majors in subjects including international economics and trade, computer science and technology, civil engineering and accounting. The core courses of the bilingual programs are taught in both English and Chinese. Students enrolled in bilingual programs are required to pay additional tuition fees of approximately RMB1,000 to RMB2,000 per student per year, compared with students enrolled in ordinary programs.

Cooperation Agreements with Guangdong University of Technology

In April 2001, Huali Investment entered into a cooperation agreement with a term of five years with Guangdong University of Technology (the "**2001 Cooperation Agreement**") for the establishment of Huali College as a private secondary college affiliated with Guangdong University of Technology. According to the 2001 Cooperation Agreement, Huali College shall be funded by investment from Huali Investment and tuition fees from students, have independent accounting and assume sole responsibility for its own profit and loss, while the responsibility of Guangdong University of Technology is to give general guidance and supervision to support the operation of Huali College, supervise and ensure its teaching quality and issue graduation certificates of Guangdong University of Technology to qualified graduates after examination. In relation to the cooperation, Huali College is obligated to pay a joint tuition support fee to Guangdong University of Technology, which is equal to 17% of the total tuition fees Huali College receives from the students during each school year.

In December 2004, Huali Investment and Guangdong University of Technology renewed the 2001 Cooperation Agreement (the "**2004 Cooperation Agreement**") and the renewed 2004 Cooperation Agreement has a term valid until July 2018 upon graduation of intake students for the 2014/2015 school year. The 2004 Cooperation Agreement further stipulated that, in addition to receiving the joint tuition support fee from Huali College (which is equal to 17% of the total tuition fees Huali College receives from the students during the year), the other rights and obligations of Guangdong University of Technology include (i) guiding and supervising the work of Huali College, including recommending the president of Huali college; (ii) guiding Huali College's formulation of various professional teaching plans and syllabuses, and reviewing from time to time the teaching work, student status management and student political and ideological education work of Huali College in order to strengthen the supervision of education quality and ensure the quality of personnel training; (iii) conducting examination of graduating students for Huali College while Huali College shall issue graduation certificate to the qualified graduates; (iv) issuing bachelor's degree diploma of Guangdong University of Technology to undergraduate graduates of Huali College who have satisfied the relevant requirements of bachelor's degree of Guangdong University of Technology; (v) assisting Huali Investment in reporting the relevant tuition fees and accommodation fees in respect of Huali College to the Provincial Price Administration Department, and (vi) supporting Huali College in various ways provided that Guangdong University of Technology's own teaching resources will not be affected. The above clauses shall be subject to relevant provisions of the relevant education department of China. In December 2011, Huali College was approved by the Academic Degrees Committee of Guangdong Province (廣東省學位委員會) to issue bachelor's degree diplomas accredited by the MOE. Therefore, beginning from 2012, any given graduate of Huali College receives a graduation certificate and a bachelor's degree diploma, both of which are issued by Huali College.

In anticipation of the expiration of the 2004 Cooperation Agreement, Huali Investment entered into a supplemental agreement with Guangdong University of Technology (the "**2017 Cooperation Agreement**") in June 2017. Under the 2017 Cooperation Agreement, it is agreed that (i) both parties shall have the same rights and responsibilities as stipulated in the 2004 Cooperation Agreement with respect to intake students for the 2015/2016 and 2016/2017 school years and for any new students enrolled in the school years onward until their graduation; (ii) the 2004 Cooperation Agreement was still effective as of the date of the 2017 Cooperation Agreement and both parties will continue to fulfill their respective rights and responsibilities under the 2004 Cooperation Agreement to ensure the students complete their study in Huali College; (iii) Huali Investment shall notify Huali College of the signing of the 2017 Cooperation Agreement and ensure Huali College acknowledges such 2017 Cooperation Agreement and is willing to carry out the rights and responsibilities undertaken by Huali Investment under the 2004 Cooperation Agreement and the 2017 Cooperation Agreement; and (iv) Huali Investment shall ensure Huali College pays 60% of the total joint tuition support fee (equal to 17% of the total tuition fees Huali College receives from the students during each school year) for the preceding school year before October 31 of each year, and the remaining 40% before March 31 of the following year.

According to the confirmation letter entered into by Guangdong University of Technology, Huali Investment and XZ Huali on April 3, 2018 (the "**2018 Confirmation Letter**"), Guangdong University of Technology and Huali Investment shall continue cooperation in accordance with the 2004 Cooperation Agreement, the 2017 Cooperation Agreement and the 2018 Confirmation Letter, and except where required to be terminated pursuant to any relevant PRC laws and regulations or otherwise superseded by any new agreement in relation to the cooperation entered into between Guangdong University of Technology and Huali Investment, neither party has the right to unilaterally terminate. According to our PRC Legal Adviser, the 2018 Confirmation Letter is legal, valid and binding on Guangdong University of Technology, Huali Investment and XZ Huali, notwithstanding that the relevant terms agreed in the 2018 Confirmation Letter are not incorporated into the articles of association of Huali College (as the relevant terms do not substantially revise terms that are required to be reflected in articles of association by laws, and do not contain any terms that conflict or are inconsistent with the existing terms in the articles of association of Huali College). According to the articles of Huali College, both Huali Investment and Guangdong University of Technology are named as the sponsors of Huali College. However, as advised by our PRC Legal Adviser, notwithstanding that Guangdong University of Technology is named as the school sponsor of Huali College and entitled to the rights stipulated under the articles of association of Huali College and the PRC laws and the Cooperation Agreements, including the joint tuition support fee (equal to 17% of the total tuition fees Huali College receives from the students during each school year), the school sponsor's interest of Huali College is wholly owned by Huali Investment according to the Cooperation Agreements. As further advised by our PRC Legal Adviser, the material rights of Guangdong University of Technology in respect of Huali College under relevant PRC laws and regulations are governed by the articles of association of Huali College and the Cooperation Agreements (including the 2018 Confirmation Letter). The material rights of Guangdong University of Technology under the articles of association of Huali College include (i) information right of the education operation, teaching management and financial position of Huali College; (ii) recommendation right of directors and supervisors of Huali College; and (iii) inspection right of board minutes and accountant's reports of Huali College. The board of directors of Huali College is its decision-making body. According to the articles of association of Huali College, the quorum of the board meeting of Huali College shall be more than half of the directors. One-person-one-vote voting is adopted by the board meeting. Resolutions shall be effected by the approval of a majority of the directors and specified matters that require approval by two-thirds of the directors include: (i) appointment or dismissal of the president; (ii) amendment of the articles of association of Huali College; (iii) formulation of development plans for Huali College; (iv) approval of budgets and final accounts; (v) decision of subdivision, merge and dissolution of Huali College; (vi) other important matters provided by the articles of association of Huali College.

In September 2018, Huali Investment entered into another supplemental agreement with Guangdong University of Technology (the "**2018 Cooperation Agreement**"). Under the 2018 Cooperation Agreement, it is agreed that (i) the board of directors of Huali College shall consist of five directors, of which the chairman shall be the chairman of Huali Investment, the vice-chairman shall be a representative of Guangdong University of Technology, and the three directors shall comprise of a representative of Guangdong University of Technology and two representatives of Huali Investment; (ii) proposals concerning (a) formulation of development plans for Huali College and (b) approval of the budgets and final accounts of Huali College shall be brought to the board of Huali College by Huali Investment; Huali Investment shall consult with Guangdong University of Technology in advance on such proposals and, to the extent that such proposals will not violate the relevant laws and regulations or affect the normal operation of Huali College, Guangdong University of Technology and the directors appointed by Guangdong University of Technology shall vote in favor of such proposals.

During the year ended August 31, 2017, 2018 and 2019, Huali College recorded joint tuition support fees paid to Guangdong University of Technology in the amount of RMB41.7 million, RMB42.1 million and RMB55.0 million, respectively. Such joint tuition support fees are recorded as our operating expenses. Please refer to the section headed "Financial Information – Key Components of Our Results of Operations – Cost of Sales" for details.

The MOJ Draft for Comments may have certain implications for the registration of Huali College as a for-profit private school. Please refer to the section headed "– The Amendment of the

Law for Promoting Private Education of the PRC and the MOJ Draft for Comments – The MOJ Draft for Comments – Implications for Huali College" in this prospectus for more information. Please also refer to the sections headed "Risk Factors – Risks Relating to Our Business and Our Industry – We may not be able to register Huali College as a for-profit private school or complete relevant procedures or obtain the government registrations under the current form of the MOJ Draft for Comments" and "Risk Factors – Risks Relating to Our Business and Our Industry – We may incur significant costs relating to the termination of the Cooperation Agreements" in this prospectus for further details.

Huali Vocational College

Overview

Huali Vocational College was founded in 2005 as a formal higher education institution and offers three-year vocational programs granting junior college diplomas accredited by the MOE. Huali Vocational College was recognized as a "2014 Most Competitive Private School" by Guangzhou Daily Newspaper Group in 2014. In addition, Huali Vocational College was awarded "Innovation and Entrepreneurship Education and Culture Construction Award" by The Higher Education Professional Committee of The China Association for Non-Government Education in 2016.

Huali Vocational College operates two campuses in Guangdong Province, namely, Huali Vocational College Zengcheng Campus and Huali Vocational College Yunfu Campus that commenced operations in September 2018. Huali Vocational College Zengcheng Campus is located in the Zengcheng District Economic Technological Development Area in Guangzhou. Huali Vocational College Yunfu Campus is located in the Xijiang New Town in Yunfu City. The two campuses are operated under unified management and administration in all aspects. As of August 31, 2019, Huali Vocational College occupied an aggregate GFA of 322,943.5 sq. m., including 163,985.3 sq. m. in Zengcheng, Guangzhou, and 158,958.3 sq. m. in Yunfu. As of August 31, 2019, Huali Vocational College had a total of 13,044 students. Huali Vocational College is open to PRC citizens and generally recruits students who possess a high school or equivalent diploma and have achieved our required total scores on the National Higher Education Entrance Exam. In addition to recruiting students based on the National Higher Education Entrance Exam, Huali Vocational College is permitted by the Department of Education of Guangdong Province to recruit students through independent recruitment examinations and High School Academic Proficiency Examinations. During the Track Record Period, most of the students enrolled at Huali Vocational College came from South China, with students from Guangdong Province accounting for the majority of the total students enrolled.

Huali Vocational College achieved a high Initial Employment Rate of 93.5% for the 2017/2018 school year for 4,274 graduates.

Major offerings

Huali Vocational College offers 31 majors in eight departments, including seven majors in the department of media and art, four majors in the department of urban construction, five majors in the department of electronic and intelligent manufacturing, four majors in the department of management, three majors in the department of computer and information engineering, two majors in the department of health, four majors in the department of international economics and foreign languages and two majors in the department of accounting.

Featured programs

Junior college-undergraduate programs

Huali Vocational College runs a 3+2 junior college-undergraduate program, which allows students finishing their three years of study at Huali Vocational College to take unified exams administered by the Education Examinations Authority of Guangdong Province and specialized exams administered by the target universities offering the undergraduate programs. Upon passing the exams, students will be admitted to the undergraduate program of Huali College or other target universities to study for another two or three years. Upon successful completion of the program at the target university, the students will be awarded a bachelor degree.

Huali Vocational College also partners with other bachelor degree- granting universities and colleges in Guangdong Province, such as South China Normal University and South China University of Technology, to offer a junior college-undergraduate program which allows students of Huali Vocational College to study undergraduate courses and obtain a bachelor degree in certain majors, such as accounting, business administration, human resource management and art design, through taking the Self-taught Higher Education Examinations. After finishing their three years of study at Huali Vocational College, the students will be awarded a junior college diploma awarded by Huali Vocational College and upon successfully passing the Self-taught Higher Education Examinations, a bachelor degree.

International programs

Huali Vocational College also offers international programs to students who wish to seek further overseas studies. Huali Vocational College has entered into cooperation agreements with several colleges and universities abroad, including the University of Northampton in the United Kingdom and Midwestern State University in the U.S., pursuant to which Huali Vocational College may offer students dual-diploma programs. Under the cooperation, these overseas universities will recognize the credits obtained by students for their study at Huali Vocational College. Upon completing an agreed additional length of study (typically one or two years) at these universities abroad, these students are able to obtain a junior college diploma granted by Huali Vocational College and a bachelor degree granted by these overseas universities. The international dual-diploma programs are offered only to students studying for certain majors including accounting, international economics and trade and computer network application.

Bilingual program

Huali Vocational College introduced a new bilingual program starting from the 2016/2017 school year, which is offered for majors including business English, digital control technology, international economics and trade and business. The core courses of the bilingual programs are taught in both English and Chinese. Students enrolled in bilingual programs are required to pay additional tuition fees of approximately RMB1,000 to RMB2,000 per student per year, compared with students enrolled in ordinary programs.

Employer-tailored joint cultivation programs

Huali Vocational College has established collaboration relationships with 13 corporate employers and offers customized courses designed to recruit and train students that suit the needs of these specific employers upon graduation. These joint-cultivation programs primarily involve majors such as accounting, finance management, finance and securities, environment design, electrical engineering and automation, vehicle inspection and maintenance and mold design and manufacture. Through such joint-cultivation programs, Huali Vocational College works together with the enterprises with respect to the curricula and class arrangements for students. Students will take specifically tailored courses so that they can be trained to acquire necessary skills desired by such enterprises. The enterprises may also designate relevant representatives to teach certain courses at Huali Vocational College. Students who successfully obtain the program completion certificate and pass the interview may be offered internship opportunities at the enterprises. After completion of the internships, qualified students will be offered job opportunities at the enterprises. We believe that this program gives flexibility to the enterprises and students as either party may decide whether to enter into labor contract with each other after graduation.

Huali Technician College

Overview

Huali Technician College commenced operation in 2000 as a private tertiary vocational school, and it was certified as a state key vocational school in 2005. Huali Technician College primarily offers three-year, full-time vocational programs granting technician diplomas of Huali Technician College accredited by the Department of Human Resources and Social Security of Guangdong Province. Huali Technician College also offers short-term training courses with respect to specific professional skills or knowledge or professional qualification examination preparation courses to its own students. Huali Technician College was recognized as a "2010 Most Employment Competitive Private School in Guangdong" by Southern Metropolis Daily in 2010. In addition, Huali Technician College was recognized as a "Top Ten Advanced Unit in Vocational Education in Guangdong Province" by Guangdong Vocational Ability Construction Association in 2016 and 2018.

Huali Technician College operates two campuses in Guangdong Province, namely, Huali Technician College Zengcheng Campus and Huali Technician College Yunfu Campus. Huali Technician College Zengcheng Campus is located in the Zengcheng District Economic Technological Development Area in Guangzhou City. Huali Technician College Yunfu Campus is located in the Xijiang New Town in Yunfu City. The two campuses are operated under unified management and administration in all aspects. As of August 31, 2019, the campuses of Huali Technician College occupied an aggregate GFA of 52,608.5 sq. m., including 37,130.5 sq. m. in Zengcheng, Guangzhou, and 15,478.0 sq. m. in Yunfu. As of August 31, 2019, Huali Technician College had a total of 9,050 students. Huali Technician College is open to PRC citizens and primarily recruits students who possess a high school or equivalent diploma and wish to acquire practical skills and obtain a technician diploma for a particular profession or trade. Huali Technician College does not require applicants to take any specific admission examinations. Huali Technician College also admits a small number of middle school graduates, who are generally required to spend three to five years to complete the program. During the Track Record Period, most of the students enrolled at Huali Technician College came from South China, with students from Guangdong Province accounting for the majority of the total students enrolled.

Huali Technician College achieved a very high Initial Employment Rate of 98.4% for the 2017/2018 school year for 3,847 graduates.

Major offerings

Huali Technician College offers 26 majors in 11 departments, including six majors in the department of art design, two majors in the department of computer, two majors in the department of accounting, two majors in the department of construction management, one major in the department of international trade, one major in the department of management, three majors in the department of commerce, two majors in the department of cuisine, two majors in the department of automobile, two majors in the department of electromechanics and three majors in the department of intelligent manufacturing. Generally, Huali Technician College offers three-year vocational programs, but also offers two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College.

Featured programs

Dual-diploma program

In order to provide our students at Huali Technician College with further study opportunities, Huali Technician College cooperates with Huali Vocational College to offer a dual-diploma program. Students enrolled in the dual-diploma program are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. For the 2018/2019 school year, over 60% of students at Huali Technician College were enrolled in the dual-diploma program. During the Track Record Period, we charged students who enrolled in these dual-diploma programs additional tuition fees ranging from RMB1,500 to RMB3,000.

Employer-tailored joint cultivation programs

Huali Technician College has established collaboration relationships with four corporate employers and offers customized courses designed to recruit and train students that suit the needs of these specific employers upon graduation. These joint-cultivation programs primarily involve majors such as mold design and manufacture, infant education and digital control programming. Through such programs, Huali Technician College works together with the enterprises with respect to the curricula and class arrangements for students. Students will take specifically tailored courses so that they can be trained to acquire necessary skills desired by such enterprises. The enterprises may also designate relevant representatives to teach certain courses at Huali Technician College. Students who successfully obtain the program completion certificate and pass the interview may be offered internship opportunities at the relevant enterprises. After completion of the internships, qualified students will be offered job opportunities at the relevant enterprises. We believe that this program gives flexibility to the enterprises and students as either party may decide whether to enter into labor contract with each other after graduation.

Historical limitation on the new student enrollment for the 2016/2017 school year

On July 15, 2016, following its annual inspection of Huali Technician College for the 2015/2016 school year, the Department of Human Resources and Social Security of Guangdong Province issued a notice to Huali Technician College, which identified a few areas of the school operations that were not fully compliant with relevant education-related regulations and requirements. Notwithstanding that we were able to renew the private school operating license of Huali Technician College in June 2016 for a term of one year, pursuant to the notice, Huali Technician College was required to limit its new student enrollment for the 2016/2017 school year to 3,500 students. We promptly formulated and implemented detailed remedial measures following receipt of such notice, and Huali Technician College successfully passed the re-inspection conducted by the relevant governing authorities in 2017. On August 31, 2017, our PRC Legal Adviser consulted the Department of Human Resources and Social Security of Guangdong Province, which confirmed that the Department of Human Resources and Social Security of Guangdong Province had organized experts to re-inspect the implementation of such remedial measures and found them to have been adequately implemented, and Huali Technician College had renewed its private school operating license in June 2017 for a term of two years. On September 7, 2017, the Recruitment Office of Technician School of Guangdong Province issued a notice to Huali Technician College, pursuant to which the limitation on Huali Technician College's new student enrollment was lifted. Based on the above, our Directors are of the view that Huali Technician College's failure to fully comply with relevant education-related regulations and requirements, as well as the historical limitation on its new student enrollment, does not constitute a material non-compliance incident and in any event does not have a material adverse impact on our Huali Technician College or our Group as a whole.

PLANNED EXPANSION

According to the Thirteenth Five-Year Plan, only approximately 33.0% of the college-aged population in Guangdong Province were enrolled in higher education institutions in 2015. The Thirteenth Five-Year Plan aims to continue to popularize higher education and increase the gross enrollment rate of higher education to 50%. In response to the Thirteenth Five-Year Plan, we intend to expand the scale of our school operations and gradually increase student enrollment in our schools. Specifically, we plan to (i) expand Huali College by constructing additional buildings in Zengcheng (the "**Huali College Expansion Project**"), (ii) expand Huali Vocational College by constructing additional buildings in Zengcheng and Yunfu (the "**Huali Vocational College Expansion Project**"), and (iii) establish a new junior college in Jiangmen City, Guangdong Province to provide higher education and vocational education and grant junior college diplomas accredited by the MOE (the "**Jiangmen Junior College Project**").

With regard to the Huali College Expansion Project, there are two phases of construction; we commenced phase I in April 2018 and expect to complete it in the first quarter of 2020. We commenced phase II of construction in December 2018 and also expect to complete it in the first quarter of 2020. Upon completion of the Huali College Expansion Project, which will add an estimated aggregate GFA of approximately 91,522 sq. m., we could accommodate approximately 2,200 additional students.

With regard to the Huali Vocational College Expansion Project, we commenced construction of additional buildings in Zengcheng in May 2017 and expect to complete it in the second quarter of 2020. In addition, we commenced construction of additional buildings in Yunfu in September 2017 and expect to complete it in the fourth quarter of 2019. Although our Yunfu campus has a limited operating history, we believe there are reasonable needs for such expansion, considering: (i) a series of new policies promulgated by the PRC government to encourage and support the development of vocational education, including Implementing Plan for Accelerating Education Modernization (2018-2022) (《加快推進教育現代化實施方案（2018-2022）》) issued in February 2019, Notice of Revolution Implementing Plan for the National Vocational Education (《國務院關於印發國家職業教育改革實施方案的通知》) issued in January 2019 and Implementing Scheme of Further Improving Gross Enrollment Rate of Higher Education in Guangdong Province (《廣東省進一步提高高等教育毛入學率實施方案》) issued in January 2019; (ii) the efforts to continuously improve the ratio between teaching and administrative building area and the number of full-time students; and (iii) our strategy to upgrade Huali Vocational College from a school providing three-year junior college education to a school providing four-year undergraduate education. Upon completion of the Huali Vocational College Expansion Project, which will add an estimated aggregate GFA of approximately 58,971 sq. m. in Zengcheng, we could accommodate approximately 3,900 additional students in Zengcheng. In Yunfu, we plan to construct a series of buildings mainly for teaching purposes, including teaching buildings, experimental buildings, culture and sport center, gate house and research and development building which will add an estimated aggregate GFA of approximately 122,106 sq. m.

We intend to continue to expand our school network in new geographic locations in China. With encouragement of local government, we plan to establish a new junior college in Jiangmen to provide higher education and vocational education and grant junior college diplomas accredited by the MOE. According to Frost & Sullivan, in 2018, Jiangmen's nominal GDP was RMB290.0 billion with an annual growth rate of 7.8% from 2017, accounting for 3.0% of the overall nominal GDP in Guangdong Province. The total population of Jiangmen was 4.6 million in 2018, accounting for 4.1% of the overall population in Guangdong Province. However, as of the end of 2018, there was only one private higher education institution in Jiangmen, with approximately 10,400 student enrollments, accounting for approximately 1.6% of Guangdong Province's private higher education market and 1.1% of South China's private education market in terms of student enrollments. Therefore, there is great potential for the development of private higher education in Jiangmen. We currently expect to establish the Jiangmen Junior College Project in two phases, with phase I to be completed in the second quarter of 2020 and phase II to be completed in the first quarter of 2021. We expect that the school will start recruiting students in September 2021, which is subject to relevant approvals from government authorities. The school is expected to accommodate approximately 2,500 students upon completion of the phase I of construction and additional approximately 5,600 students upon completion of the phase II of construction. We anticipate that the expected payback period will be approximately 12 years with an expected investment return* of approximately 8%. In May 2019, we obtained the land use rights certificates (with a total gross site area of approximately 225,467.0 sq.

* Expected investment return refers to the estimated internal rate of return of discounting (a) the school's long term net cash flow from operating activities; and (b) the Group's total investment in the relevant school, to their present values.

m.) and building ownership certificates (with a total GFA of approximately 55,125.5 sq. m.) for the new school through purchase of creditor's rights. In January 2019, we entered into an agreement for the transfer of creditor's rights with Company X (an Independent Third Party). Company X had creditor's rights over lands, buildings and equipment owned by Company Y used as collateral over Company Y and Company Z (Independent Third Parties), and Company X transferred such creditor's rights to us pursuant to the agreement with us. The court issued an enforcement ruling in January 2019, and pursuant to such ruling, due to Company Y and Company Z's failure to fulfill their obligations in time, we will take possession of the collateral and conduct the transfer registration procedures for the relevant property rights. As advised by our PRC Legal Adviser, the legal procedures in relation to the enforcement of ruling of the creditor's rights have been completed, and are not subject to appeal.

We consider that the increase in capacity under our expansion plan is essential to accommodate our growth strategy of increasing student enrollment going forward. During the Track Record Period, our schools in Zengcheng maintained high utilization rates, all of which were above 90%. We expect to increase the capacity of our schools progressively to strike a reasonable balance between student enrollment and utilization. The market share of the Group is 3.0% and 2.8% in the private higher education industry and private vocational education industry in Southern China in 2018, respectively, where there is still potential for development. While the student enrollment in the private higher education industry and the private vocational education industry in South China is expected to grow at a CAGR of only 0.9% and 1.3%, respectively, from 2018 to 2023, according to Frost & Sullivan, we believe as we commit substantial resources to improve our education quality and strengthen our reputation, including strengthening our science-focused and practice-focused programs, making investments in improving school facilities and expanding our course offerings, we will be able to compete more effectively for student enrollment in South China. We believe the planned increase in capacity is appropriate and will enable our schools to grow sustainably.

The following table sets forth details of our planned construction projects:

Construction Projects	Expected Total Investment and Payment Schedule	Actual/Intended Source of Funds	Estimated Completion Time
1. Huali College Expansion Project: Phase I —dormitory building and logistics supporting buildings Phase II —teaching buildings and culture and sports building	Approximately RMB395.9 million, of which RMB120.8 million will be paid before August 31, 2019 and the remaining portion will be paid by August 31, 2022	Approximately RMB120.8 million of cash generated from our operations and approximately RMB275.1 million of proceeds from the Global Offering	Phase I: the first quarter of 2020 Phase II: the first quarter of 2020
2. Huali Vocational College Expansion Project: For Zengcheng —experimental building and dormitory building For Yunfu —teaching buildings, experimental buildings, culture and sports center, gate house and research and development building	For Zengcheng: Approximately RMB237.7 million, of which RMB232.5 million will be paid before August 31, 2019, and the remaining portion will be paid by August 31, 2020 For Yunfu: Approximately RMB558.9 million, of which RMB434.0 million will be paid before August 31, 2019, and the remaining portion will be paid by August 31, 2021	For Zengcheng: Approximately RMB232.5 million of cash generated from our operations and approximately RMB5.2 million of proceeds from Global Offering For Yunfu: Approximately RMB434.0 million of cash generated from our operations and approximately RMB124.9 million of proceeds from the Global Offering	For Zengcheng: the second quarter of 2020 For Yunfu: the fourth quarter of 2019
3. Jiangmen Junior College Project: Phase I —teaching building, modern industrial production technology centers, dormitory buildings and auxiliary facilities Phase II —teaching building, modern industrial production technology center and dormitory buildings	Approximately RMB595.0 million, of which RMB148.9 million will be paid during the year ending August 31, 2019, RMB111.5 million will be paid during the year ending August 31, 2021, and the remaining portion will be paid by August 31, 2022	Approximately RMB233.6 million of cash generated from our operations, approximately RMB83.8 million from bank loans and approximately RMB277.6 million of proceeds from the Global Offering	Phase I: the second quarter of 2020 Phase II: the first quarter of 2021

A Higher Education Institution in the U.S.

With a view to building our presence overseas and creating synergies with our schools in China, we also plan to expand our network abroad by establishing a higher education institution in the State of California, United States. On June 22, 2017, we established a company in California, USA Huali Educational Services LLC ("**Huali USA**"), as our entity to operate and manage the school to be established. In January 2019, through an agent engaged as our consultant, we filed an application with the BPPE to establish a private higher education institution in the State of California. We expect the review by BPPE will take around 12 months. As of the Latest Practicable Date, we had incurred approximately US$137,255 for the establishment of Huali USA and the application to establish the school in California. In addition, we will appoint Mr. Dong Xiaolin to be the principal of California School. For more details on our plan to establish a new school in the U.S., please refer to the section headed "Structured Contracts – Background of the Structured Contracts – Plan to Comply with the Qualification Requirement" in this prospectus.

OUR EDUCATIONAL PRACTICE

Market-focused Major Offerings and Job-oriented Curricula

We determine our major offerings based on market demand and offer majors that are in demand by potential employers in the Pearl River Delta. Our teachers and teaching management personnel conduct research regarding jobs opportunities in target employment markets and the skill sets that the employers require of their candidates before devising and offering corresponding majors to train our students in such a way that they will be able to meet market demand. We constantly review our major offerings in light of changes in market demand and national policies, socio-economic development trends and the special circumstances of the geographical regions where our schools are located and major offerings by our competitors. We also set up new majors and reduce the size of certain less popular majors accordingly. For example, we anticipated there would be significant demand in the robotics development industry, electrical engineering industry and finance industry. As a result, we started to offer majors such as robotics engineering, at Huali College, and electrical system and automation technology, and finance management and practice, at Huali Technician College, in the 2017/2018 school year.

We have also designed the curricula for each major to equip our students with the skill sets required for a specific job position. We determine our educational goals for each major after analyzing market research results, review the skill sets required for a specific job through interviewing potential employers, and then design and formulate the curricula and training standards for the corresponding major. We also invite industry experts to participate in the curriculum design and formulation process.

Practical Training and Internships

In order to provide students with the opportunity to apply and practice the knowledge and skills they have learned, and to further enhance their understanding of such knowledge and hone such skills, we have also structured our curricula to combine theoretical study with practical training. We have established a variety of workplace simulation training studios that are designed to simulate typical workplaces and allow our students to put the knowledge they have acquired through our course offerings into practice. These workplace simulation studios provide an enterprise-like simulated training environment. They are generally operated with specific task-oriented training programs to provide our students with a simulated workplace environment so that our students can seamlessly transition from in-class learning to obtaining real work-like experience. Major-related training courses usually require students to complete task-based projects, either individually or in collaboration with other students. In order to better prepare our students to face challenges professionally after graduation and provide them with better job prospects, certain of our major courses are taught in the form of simulation training.

We also generally require our students to complete around one school year of practical training with potential employers in their chosen profession before graduation in order for them to receive first-hand professional experience of working in real enterprises. Students generally obtain internships at our off-campus internship bases. As of August 31, 2019, we had entered into cooperative agreements with over 800 corporate employers in the Pearl River Delta to establish internship bases at the site of these corporate employers.

Professional Qualifications

In order to prepare our students to contribute productively in their chosen profession upon graduation, we encourage our students to take professional examinations corresponding to the vocational programs they are enrolled in prior to their graduation. As such, these students usually hold relevant professional qualification certificates when they graduate. We believe that the possession of professional certificates in addition to their graduation certificates, will facilitate students' employment after their graduation and offer them competitive advantage in the beginning of their career.

Graduate Employment

We use Initial Employment Rates as an important criterion to measure our teaching results. To assist our students in finding suitable job opportunities that best utilize their skills and provide them with the right platform to achieve their potential, the board of each of our schools formulates overall strategic decisions regarding school-enterprise cooperative programs and the off-campus teaching administrative department of each school proactively reaches out to potential corporate employers regarding internship and practical training opportunities. Over the years, we have successfully established a broad network of over 800 corporate employers with which we have entered into cooperative agreements, through which we are able to assist our students in obtaining internships and job opportunities.

We have also set up a graduate employment office at each of our schools, which is primarily responsible for (i) formulating, consolidating, verifying and reporting graduate career placement strategies; (ii) providing training to career placement officials; (iii) arranging for the employment guidance sessions for our students; (iv) exploring and developing relevant job markets for graduates; (v) organizing on-campus recruitment fairs; and (vi) keeping track of graduates' employment status.

Innovative Entrepreneurship Incubator

In addition to assisting our students to secure employment, we have also established a comprehensive system of innovative entrepreneurship guidance for our students. We encourage students to participate in various innovative start-up projects during their enrollment at our schools. To encourage and support students to hone their practical skills by running their own business, we provide students with rent-free sites. Students can use self-raised capital to build their enterprises and enjoy the income generated by their operations. We build a real business environment that allows students to gain real-life experience. For example, students need to compete and bid to acquire their target projects, and they can transfer their shares in their business. Students generally operate as teams and work in turns, which further strengthens their teamwork. We also link the performance of their business practice with their school credits and establish different evaluation criteria for different industries. As of August 31, 2019, approximately 200 students in total from our three schools participated in more than 50 innovative start-up projects.

Our Students and Student Recruitment

We believe the reputation of our schools and the quality of education we provide are key attractions to our prospective students. As of October 31, 2019, we had a total of 40,627 students enrolled at our three schools.

Historically, we largely relied on word-of-mouth referrals for student recruitment at our schools. We believe that the continued success of our schools will depend on the continued promotion of our brand name. To attract more applications from high-quality students, we utilize a variety of marketing and recruitment tools and have established student recruitment offices to support student recruitment activities. We place student recruitment advertisements on local televisions, newspapers and magazines, as well as our school websites, Weibo, QQ, WeChat and other online or mobile platforms. We also attend student recruitment fairs in various parts of Guangdong Province. We maintain a list of these schools with reference to student admission rates and arrange our resources accordingly. A temporary student recruitment team consisting of teachers is normally formed during the recruitment season. We send our recruitment team to these target high schools every year to promote our schools through information sessions where our teachers and admission staff will answer questions from prospective students and their parents.

We offer scholarships to students with good academic records ranging from RMB400 to RMB8,000 per student per school year. In addition, in order to help students with economic difficulties, we also provide students from the countryside or low income families with subsidies ranging from RMB400 to RMB6,000 per student per school year.

Teaching Staff, Recruitment, Training and Evaluation

Our teachers and teacher recruitment

We believe the quality of education we provide is strongly tied to the quality of our teachers. We consider that teachers who possess the required industry expertise and practical experience, and are capable and dedicated to teaching will be instrumental in shaping the learning habits of our students. We recruit teachers based on the size of our current student enrollment and the number of newly admitted students at the beginning of each school year. We also invite industry experts from entities with which we have cooperative relationships to give lectures or teach classes as adjunct faculty of our schools.

We primarily seek to recruit (i) high quality experienced teachers who are knowledgeable in both theory and practice and hold necessary academic credentials and professional qualifications (i.e., diplomas and professional certificates) and (ii) teachers who have working experience in relevant industries. As of August 31, 2017, 2018 and 2019, we had an aggregate of 1,473, 1,452 and 1,650 teachers (full-time and part-time), respectively. As of August 31, 2017, 2018 and 2019, approximately 29.7%, 18.4% and 10.1% of our teachers are part-time teachers, respectively. For the school years of 2016/2017, 2017/2018 and 2018/2019, the retention rate of our full-time teachers was approximately 73.0%, 73.9% and 77.9%, respectively. Among our teachers as of August 31, 2019, approximately 85.9% have a bachelor's degree or above and approximately 30.8% have a master's degree or above. For the year ended August 31, 2017, 2018 and 2019, the cost attributable to salaries and benefits for teachers amounted to RMB75.6 million, RMB86.1 million and RMB99.0 million.

The following table sets forth the ratio of our schools as of the dates indicated:

	Student-to-teacher ratio		
	As of August 31,		
	2017	2018	2019
Huali College[(1)]	21.1	20.3	18.5
Huali Vocational College[(1)]	20.1	18.3	17.1
Huali Technician College[(2)]	21.0	19.7	18.5

Notes:

(1) We calculate the student-to-teacher ratio for Huali College and Huali Vocational College by dividing the number of full-time students by the number of teachers. We determine the number of teachers to be equal to the number of full-

time teachers plus the number of part-time teachers with an employment term of not less than two years, plus 50% of the number of part-time teachers with an employment term of one to two years. The number of part-time teachers for a school also includes the number of teachers employed by our other schools and assigned to concurrently teach at such school. We apply this calculation method with reference to Qualification Evaluation Index System of Undergraduate Teaching of Higher Education Institutions (普通高等學校本科教學工作合格評估指標體系) promulgated by the MOE in 2011, which may be somewhat different from the calculation method used by the relevant education authorities.

(2) We calculate the student-to-teacher ratio for Huali Technician College by dividing the number of full-time students by the number of teachers (full-time and part-time). The Setting Standards of Technician Colleges (Trial) (技師學院設置標準(試行)) promulgated by the Ministry of Human Resources and Social Security of the PRC in 2012 does not specify the calculation method for the student-to-teacher ratio.

As advised by our PRC Legal Adviser, the student-to-teacher ratio of Huali College and Huali Vocational College should be maintained at a level of not more than 22 for Enrollment Restriction Standard (限制招生標準) and 18 for Qualified Standard (合格標準) according to Basic Conditions for Operating Higher Education Institutions (Trial) (普通高等學校基本辦學條件指標(試行)) promulgated by the MOE in 2004. Huali Technician College should maintain the student-to-teacher ratio at a level of not more than 18 according to Setting Standards of Technician Colleges (Trial) (技師學院設置標準(試行)). During the Track Record Period, the student-to-teacher ratios of our schools calculated in accordance with the methods used by relevant education authorities were above the stated guidelines (except for Huali Vocational College for the year ended August 31, 2019). This was primarily caused by our administrative staff being unfamiliar with the practical implementation of relevant regulations.

For Huali College and Huali Vocational College, as advised by our PRC Legal Adviser, the student-to-teacher ratio is one of the Basic School Operating Condition Indicators ("Indicators") (基本辦學條件指標) under the Basic Conditions for Operating Higher Education Institutions (Trial) promulgated by the MOE in 2004; in the event that any of the indicators of a school does not meet the Enrollment Restriction Standard, the school may receive a yellow card issued by the competent authority and its student admission will be subject to certain restrictions; and in the event that a school receives a yellow card for three consecutive years, it may receive a red card issued by the competent authority, in which case its student admission will be suspended. We, with the assistance of our PRC Legal Adviser, consulted the Department of Education of Guangdong Province, in January 2019 to clarify what effect relevant Indicators being below the stated guidelines could have on our operations. Based on the consultation, we were advised that, (i) due to the differences of development and conditions in different regions, there are situations that private higher education institutions could not fully meet the Indicators for a period of time, (ii) the Department of Education of Guangdong Province encouraged us to make efforts to improve our teaching conditions to meet such Indicators, and (iii) each of Huali College and Huali Vocational College passed the annual inspections conducted by Department of Education of Guangdong Province during the Track Record Period and Huali College and Huali Vocational College have not been penalized for their failure to maintain such Indicators. Based on the foregoing, our PRC Legal Adviser is of the view that the risk that Huali College and Huali Vocational College being penalized by the Department of Education of Guangdong Province is low.

For Huali Technician College, the student-to-teacher ratio is a preliminary review standard for technician colleges and there are no rules imposing penalties on technician colleges that have not met such standards under Setting Standards of Technician Colleges (Trial). As advised by our PRC Legal Adviser, the risk of Huali Technician College receiving an administrative penalty from the Department of Human Resources and Social Security is low while the relevant authority may require Huali Technician College to rectify any deficiency with certain conditions. In July 2016, the Department of Human Resources and Social Security of Guangdong Province issued a notice to Huali Technician College identifying a few areas of the school operations that were not fully compliant with relevant education-related regulations and requirements including the student-to-teacher ratio. On August 31, 2017, our PRC Legal Adviser consulted the Department of Human Resources and Social Security of Guangdong Province, which confirmed that the Department of Human Resources and Social Security of Guangdong Province had organized experts to re-inspect the implementation of such remedial measures, and found that the remedial measures have been adequately implemented and all material deficiencies had been rectified including student-to-teacher ratio.

We actively manage and seek to improve our student-to-teacher ratio as necessary and where practicable based on the needs of our increasing student enrollments and our schools' education plans and activities. In future, we intend to continue to devote our efforts to recruiting, training and retaining teachers and build a highly qualified and stable full-time teaching staff.

As a private higher education service provider, we believe we offer relatively competitive compensation to our teachers. Compensation typically includes a base salary and a performance bonus, which is generally based on the number of teaching hours and the quality of teaching as assessed based on students' test results and other achievements. Typically, our employment contract with a newly hired teacher has an initial term of three years, and is renewable upon expiration according to the PRC labor law.

Teacher training programs

Newly hired teachers undergo mandatory training programs at each of our schools which focus on school administrative regulations and teaching skills and techniques. We also provide continuing training for our existing teachers so that they can stay abreast of the changes in market demand, new teaching theories and/or methodologies, changing teaching and testing standards. We also send our teachers to business entities for training, secondment and other on-the-job training during summer break and arrange overseas study tours.

Teaching quality evaluation

To ensure we continuously maintain the quality of education we provide to our students, we conduct teacher performance reviews and evaluations at the end of each semester. These assessments are generally conducted by school principals and administrators, which include in-class observations and evaluations of our teachers' preparation and the effectiveness of their classroom instructions. Our evaluations generally focus on teachers' moral qualities, teaching capabilities and subject matter expertise, work attitude, teaching results in terms of various personalized targets. As part of the evaluation process, we also highly encourage our students to complete teacher satisfaction surveys at the end of each semester or school year so we can consider their views and suggestions in our assessments. To help our teachers achieve their goals of delivering quality education to our students, we also incentivize our teachers so that the number of hours each of them devotes to teaching and their teaching quality (which is measured by, among other things, students attendance in classes taught by the teachers) are recognized by our schools and our senior management when considering a teacher's total remuneration package.

CENTRALIZED MANAGEMENT SYSTEM

Centralized Management Structure

We have established a centralized management structure across our schools under which we have adopted a unified set of business standards and process at our schools, while the school principals take charge of the daily management in accordance with such unified business standards and process. The principal of each school is assisted by several vice-principals, each of whom is responsible for one or more aspects of the schools' operations, including teaching, student admissions, internship and career services, student affairs, human resources and general administration. The principal of each school reports directly to the Board at the Group level. We believe this centralized management structure allows us to consistently operate each of our schools under our unified educational philosophy, which is to provide the best practice-oriented education based on each student's education level and individual needs and help them to succeed. We believe our centralized management system has enabled us to replicate our success in our Huali Technician College Yunfu Campus established in 2016. In addition, under our centralized management structure, we make overall plans and development strategies for all of our schools, which we believe enables us to fully integrate our resources to promote the balanced growth of our schools and improve synergy among our schools.

Centralized Finance and Budget Management

To efficiently allocate our financial resources and control our risk exposure, we implement centralized finance and budget management. Our finance department at the Group level is responsible for the overall finance and budget management according to our budget management rules. We dispatch finance staff to each of our schools to manage finance matters at the school level. We have also formed a budget management team at each of our schools, which directly reports to our finance office at the Group level. The school principals and vice-principals in charge of finance affairs at each school have the right to approve expenditures incurred during the ordinary course of business within the budgets approved by the finance office at the Group level. For any extraordinary matters not within the course of business, the school needs to seek approval of the finance office at the Group level. Under the centralized finance and budget management system and within the well-established authority system, we aim to ensure the effective implementation of our annual budget plan.

Centralized Marketing and Student Recruitment

We coordinate our marketing and student recruitment efforts at the Group level. Our marketing department at the Group level formulates marketing strategies and policies for all our schools with a view to promoting market awareness of our schools. We have also established a marketing and student recruitment coalition among our schools, which carries out unified marketing and recruitment activities for our schools in order to emphasize the business synergies of our three schools and make our schools more attractive to potential students. For example, students of Huali Technician College can participate in a dual-diploma program, where they are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. For the 2018/2019 school year, over 60% of students at Huali Technician College are enrolled in the dual-diploma program. Huali Vocational College runs a 3+2 junior college-undergraduate program, which allows students finishing their three years of study at Huali Vocational College to take unified exams administered by the Education Examinations Authority of Guangdong Province and Huali College or other target universities and transfer to the undergraduate program of Huali College or other target universities. Huali Vocational College also partners with Huali College to offer a junior college undergraduate program which allows students of Huali Vocational College to study undergraduate courses at Huali College and obtain a bachelor degree through taking the Self-taught Higher Education Examinations.

Centralized Talent Reserve and Unified Corporate Culture

In order to provide education services of consistent quality and support the further expansion of our business operations, we have established a set of unified talent reserve policies. We formulated an organizational structure for each school and adopted a set of unified policies to select talent to fill the various management posts within the organizational structure of each school. We have also adopted a set of unified performance evaluation standards with respect to each aspect of our school operations including teaching and international exchange, student admissions, internship and career services, student affairs, human resources and general administration. We conduct regular inspections to ensure each of our schools maintains consistently high teaching quality. In addition, we have also created a family-like business environment and a sense of connection and belonging within our Group, which has been successfully instilled into the ethos of our management at the Group level and each of our schools. We have opened our Huali Technician

College Yunfu Campus through our talent reserve program, which involves a dedicated group of experienced teachers and administrative staff from 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 campus and for a period thereafter.

THE AMENDMENT OF THE LAW FOR PROMOTING PRIVATE EDUCATION OF THE PRC AND THE MOJ DRAFT FOR COMMENTS

The Amendment

Overview

On November 7, 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 and became effective on September 1, 2017. According to the Amendment, the school sponsors of private schools providing non-compulsory education may, at their own discretion, elect to register the schools as for-profit private schools or non-profit private schools, with the exception of private schools providing compulsory education, which can only be established as non-profit private schools. Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC – The Revisions of the Law for Promoting Private Education of the PRC" in this prospectus for further details of the Amendment.

The following table sets forth key differences between a for-profit private school and a non-profit private school under the Amendment:

Item	For-profit private school	Non-profit private school
Receipt of operating profits	School sponsors are allowed to receive operating profits, and the surplus from operations shall be handled in accordance with the provisions of the PRC Company Law and other applicable laws and regulations.	School sponsors are not allowed to receive operating profits, and all surpluses from operations shall be used for the operation of the school.
License and registration	Private school operating licenses and business licenses	Private school operating licenses and legal person certificate of private non-enterprise/ the legal person certificate of public institution
Fees to be charged	Determined based on school operating costs and market demands, and no prior regulatory approval is required	Determined pursuant to the fee charge regulations to be promulgated by the local governments
Tax treatment	Preferential tax treatment as stipulated by the state government	Same preferential tax treatment as public schools
Land	Acquired according to applicable PRC laws and regulations	Acquired through land allocation or other ways with governmental support and subsidy granted under the same principles as the public school
Public funding	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused state-owned assets	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused state-owned assets, and government grants, incentive funds and donations
Liquidation	The remaining assets of the school after liquidation shall be distributed to the school sponsors in accordance with the PRC Company Law.	The remaining assets of the school after liquidation shall be applied to the operation of other non-profit private schools. For schools established before the promulgation of the Amendment, prior to the remaining assets being used as such, school sponsors may apply for compensation or award from the school's remaining assets after liquidation.

In addition to the Amendment, State-level government authorities also issued certain implementing rules. On December 30, 2016, five State-level government departments, including the MOE, jointly issued the Implementing Measures on Classification Registration of Private Schools (《民辦學校分類登記實施細則》) (the "**Classification Registration Rules**"). The Classification Registration Rules stipulates that if an existing private school chooses to register as a non-profit private school, it shall amend its articles of association in accordance with the relevant laws, continue its school operation and complete new registration formalities. If an existing private school chooses to register as a for-profit private school, it shall make financial settlement of books of account, clarify the ownership of the schools' land, buildings and accumulations with the consent of the relevant departments of the people's governments at or below the provincial level, pay relevant taxes and fees, obtain new school operation licenses, apply for re-registration and continue the school operations. The Classification Registration Rules also stipulate that the provincial people's government shall be responsible for formulating the detailed measures on the alteration of the registration of the private schools in accordance with national laws and various applicable local circumstances. There are also other State-level regulations, such as the Implementing Measures for the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》), which was published on December 30, 2016 and sets forth detailed measures regarding the establishment, modification and termination of a for-profit private school, education and teaching related activities carried out by and financial management of a for-profit private school. Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC – Implementation Regulations for the Supervision and Administration of For-Profit Private Schools" in this prospectus for further details.

The Amendment is silent on the specific measures regarding how existing schools can choose to become for-profit private schools, which, according to the Amendment, shall be regulated by the corresponding laws and regulations to be promulgated by the local government authorities. The Guangdong government has promulgated implementation regulations under the Amendment, including the Implementation Opinions of the Government of Guangdong Province on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《廣東省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) promulgated by the Government of Guangdong Province on April 24, 2018, the Implementation Measures for the Supervision and Administration of For-Profit Private Schools (《關於營利性民辦學校監督管理實施辦法》), which were issued jointly by the Department of Education of Guangdong Province, Department of Human Resources and Social Security of Guangdong Province and Department of Market Supervision and Administration of Guangdong Province and came into effect on December 30, 2018, and the Implementation Measures on Classification Registration of Private Schools (《關於民辦學校分類登記實施辦法》), which were issued jointly by the Department of Education of Guangdong Province, Department of Human Resources and Social Security of Guangdong Province, Department of Civil Affairs of Guangdong Province, Guangdong Provincial Committee of the Communist Party of China Organization Committee Office and Department of Market Supervision and Administration of Guangdong Province and came into effect on December 30, 2018 (together, the "**Implementation Regulations**"). Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC" in this prospectus for further details. As the Implementation Regulations only recently came into force, there are uncertainties in terms of the interpretation and enforcement of the Amendment, the Classification Registration Rules and the Implementation Regulations by the relevant government authorities, such as (i) when should we notify the relevant authorities regarding our decision for our schools to be for-profit or non-profit schools; (ii) the preferential tax treatments that may be enjoyed by a for-profit school or a non-profit school, respectively; (iii) whether respective public funding can be obtained by a for-profit school and a non-profit school; and (iv) respective costs for a for-profit and non-profit school to obtain land use rights. The relevant departments of the government authorities shall formulate the detailed rules to promote the aforesaid classification registration reform.

Implications

As of the Latest Practicable Date, the school sponsors of all our schools had elected not to require reasonable returns.

Under the existing regulatory environment and based on the current interpretation of the Amendment and the relevant implementing regulations, we intend to register our three schools as for-profit private schools subject to the further detailed local rules and regulations regarding the conversion of existing schools as and when promulgated and brought into effect by relevant local government authorities. In the event that our schools choose to be and successfully register as for-profit private schools, the potential impact of the Amendment includes the following:

- The rights and interests of the sponsor of our schools would be protected in more definitive and favorable ways – the Amendment provides that the school sponsors of for-profit private schools can obtain operating profits from the schools, and upon liquidation, the school sponsors of for-profit private schools can retain their remaining assets after the settlement of the schools' indebtedness in accordance with the PRC Company Law and other relevant laws and administrative regulations;

- Our schools would have the discretion to determine the amount of fees to be charged – in accordance with the Amendment, for-profit private schools are entitled to make their own decisions about the amount of fees to be charged based on the schools' operating costs and market demand;

- Our schools may enjoy support from certain PRC government policies – the Amendment stipulates that the governments at or above the county level in the PRC can provide various policy support to for-profit private schools, such as preferential tax policies, purchases of services, student loans, scholarships and the rent or transfers of idle state-owned assets in accordance with applicable laws and regulations;

- There may be increased uncertainty about the extent of the benefits to be provided by the government supporting measures – according to the Amendment, while land will be supplied to non-profit private schools by the government through allocation or other means, for-profit private schools are not expected to enjoy the same treatment as public schools and non-profit private schools; and

- Our schools would be subject to the requirements of applying for re-registration – the Amendment also requires that private schools choosing to register as for-profit private schools shall carry out financial settlement of books of account, clarify property ownership, pay relevant taxes and fees, and re-apply for registration. According to the Implementation Regulations on Classification Registration of Private Schools (《民辦學校分類登記實施細則》), for-profit private schools that have been approved by the relevant government authorities shall be registered with the competent industry and commerce department in accordance with the applicable laws and regulations in the relevant jurisdictions. The registration authority shall, in accordance with applicable regulations, register the private schools that meet the requirements of registration and issue to them relevant registration certificates or business licenses. The specific registration requirements for existing private schools shall be formulated by the local governments in the provinces, autonomous regions or municipalities in the PRC.

Based on the foregoing understanding, there are uncertainties regarding the interpretation and application of the Amendment with respect to various aspects of the operations of private schools, such as the respective preferential tax treatment which may be enjoyed by for-profit private schools and non-profit private schools. Accordingly, as of the Latest Practicable Date, we were not able to fully evaluate or quantify the potential impact that the implementation of the Amendment may have on our business operations. Please refer to the section headed "Risk Factors – Risks Relating to Our Business and Our Industry – We are subject to uncertainties brought by the Amendment of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments" in this prospectus for risks associated with the Amendment. We will closely monitor the progress of the promulgation of the implementation regulations and seek legal advice from our legal advisers from time to time and will update our Shareholders and investors in this regard by way of disclosure in announcement and/or annual/interim reports, as and when appropriate.

The MOJ Draft for Comments

Overview

On August 10, 2018, the MOJ issued the MOJ Draft for Comments, namely the Draft Revision of the Implementation Rules for the Law for Promoting Private Education of the PRC (the Draft for Examination and Approval) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》), to seek public comments. The MOJ Draft for Comments further promotes the development of private education by providing that a private school shall enjoy rights or preferential policies stipulated by laws equivalent to those applicable to a public school, which shall primarily include: (i) a non-profit private school shall enjoy the same tax policies as those enjoyed by a public school and the relevant tax concession, and a for-profit school shall enjoy tax preferential treatments and other preferential policies applied to industries encouraged by the state for development, of which the specific provisions shall be formulated jointly by the administrative department for finance, taxation and other relevant administrative departments of the State Council; and (ii) the local people's governments shall grant preferential treatments in terms of land use by means of allocation in accordance with the principle of treating non-profit private schools equally as public schools, and for schools that provide education for academic credentials, may provide lands by means of bid invitation, auction or listing, assigning contracts, long-term lease or combination of sale as well as rental, and may give appropriate preferential treatment on charges for the assignment or rental of land, and may permit payment in installments.

The MOJ Draft for Comments stipulates further provisions for the operation and management of private schools, such as our PRC Operating Entities. Among other things, (i) a non-profit private school shall use the accounts filed with the competent authorities for charging fees and financial transactions, and a for-profit private school shall deposit the income into a specific settlement account of its own; (ii) private schools shall conduct connected transactions in compliance with the principles of openness, justice and fairness, not harming national interests, the interest of the schools, or the rights and interest of the teachers and the students; private schools shall establish disclosure mechanisms for such transactions; the members of the private schools' decision-making organ who have an interest in the connected transactions shall withdraw from voting for such transactions and not exercise their voting rights on behalf of other members; and contracts of connected transactions entered into by non-profit private schools shall be submitted to and audited by relevant authorities for its necessity, legality and compliance of regulations when requested; (iii) the registered capital of a for-profit private school providing higher diploma education shall be not less than RMB200 million and the registered capital of a for-profit private school providing "other formal education" shall be not less than RMB10 million; (iv) public schools shall not sponsor or participate in sponsoring for-profit private schools while public schools are permitted to sponsor or participate in sponsoring non-profit private schools, subject to approval from the competent authorities; and (v) social organizations that operate or control multiple private schools simultaneously or adopt centralized school management models shall have sufficient resources and capacities and undertake the management and supervisory responsibilities of those private schools that they operate. Social organizations that adopt centralized school management models are not allowed to acquire non-profit private schools or control them through ways such as franchising or "contractual arrangements".

Implications for our PRC Operating Entities

Based on our current understanding and interpretation of the MOJ Draft for Comments as well as interviews with competent authorities, there would not be any substantive implications for the legal framework of any of our PRC Operation Entities. As disclosed in "– The Amendment – Implications", we intend to register our three schools as for-profit private schools in light of the Amendment and the relevant implementing regulations in effect. If the MOJ Draft for Comments is promulgated in its current form, we may be required to increase the registered capital of both of Huali College and Huali Vocational College to not less than RMB200 million each. We may be required to increase the registered capital of Huali Technician College to not less than RMB10 million if Huali Technician College is identified as "other formal education" by relevant government authorities. As of the Latest Practicable Date, both Huali College and Huali Vocational College had a registered capital of RMB10 million and Huali Technician College had a registered capital of RMB500,000. We plan to use our internal resources to fund such capital increases if required, which could be a combination of the available reserves of our schools and/or capital injections by the school sponsor backed by cash and banking facilities available to us. We consider that the amount required to increase the registered capital of each of Huali College and Huali Vocational College to RMB200 million and the registered capital of Huali Technician College to RMB10 million would not materially adversely affect the financial position of our Group.

Based on the interviews with the Department of Education of Guangdong Province (廣東省教育廳) and the Department of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳) in January 2019, it is confirmed that if the MOJ Draft for Comments is adopted in its current form, the Structured Contracts will not be deemed invalid or ineffective or be required to be terminated as long as the relevant requirements (as disclosed under the section headed "– The MOJ Draft for Comments – Overview" above) for connected transactions under the MOJ Draft for Comments are complied with. We have taken some measures to ensure that the Structured Contracts will be able to comply with such requirements if the MOJ Draft for Comments is adopted in its current form, including investing in necessary resources for XZ Huali's operation (such as hiring full-time and part-time personnel). Meanwhile, we have also committed to take further measures to ensure such compliance, including causing the three schools to establish disclosure mechanisms of connected transactions and other necessary internal policies under the then effective laws and regulations. In addition, along with our PRC Legal Adviser, we have consulted the Department of Education of Guangzhou Province and the Department of Human Resources and Social Security of Guangzhou Province to understand the potential requirements on contractual arrangements, if any, after the promulgation of the MOJ Draft for Comments and the legality and compliance of the Structured Contracts, and we were informed that their understanding of the requirements on contractual arrangements is subject to the final version of MOJ Draft for Comments. Therefore, we will continue to communicate with the government authorities in this regard once the MOJ Draft for Comments is finally promulgated. As advised by our PRC Legal Adviser, if the MOJ Draft for Comments is adopted in its current form, other than the aforesaid, there would be no material impact on the Structured Contracts.

Implications for Huali College

According to our current understanding and interpretation of the MOJ Draft for Comments, the MOJ Draft for Comments may have certain implications for Huali College's election to register as a for-profit private school in the future. Huali College is currently operated as a private independent college pursuant to the Cooperation Agreements entered into by Huali Investment with the relevant cooperative party which is a public school. Pursuant to the MOJ Draft for Comments, public schools shall not sponsor or participate in sponsoring for-profit private schools while public schools are permitted to sponsor or participate in sponsoring non-profit private schools, subject to approval from the competent authorities. In addition, in March 2019, the Department of Education of Guangdong Province issued the Notice by the Office of the Department of Education of Guangdong Province on the Submission of Private Independent College Conversion-Related Materials (《廣東省教育廳辦公室關於報送獨立學院轉設相關材料的通知》), which requests independent colleges to lay plans for converting from a private independent college into a stand-alone private university (not affiliated with the public school). Therefore, should the MOJ Draft for Comments be promulgated in the current form, we plan to terminate the Cooperation Agreements, convert Huali College from a private independent college into a stand-alone private university, register Huali College as a for-profit private school and comply with the local implementation rules. According to the Cooperation Agreements, such agreements will be valid until being required to be terminated pursuant to relevant PRC laws and regulations or otherwise superseded by any new agreement entered into by the parties in the future.

Since 2018, we have been in communication with Guangdong University of Technology with regard to whether to register Huali College as a for-profit or non-profit private school. Guangdong University of Technology has confirmed in writing that it will support our decision to register Huali College as a for-profit private school, should the MOJ Draft for Comments be promulgated in the current form. Moreover, in May 2019, we entered into a memorandum of understanding with Guangdong University of Technology in respect of the conversion of Huali College, pursuant to which, (i) if the relevant laws and regulations or education authorities do not request Huali College to convert into a stand-alone private university within a prescribed period or to select to register as a for-profit or non-profit private school, Guangdong University of Technology and us agreed to continue cooperation according to the Cooperation Agreements; and (ii) if the relevant laws and regulations or education authorities request Huali College to convert into a stand-alone private university or to select to register as a for-profit or non-profit private school, we could determine to register Huali College as a for-profit private school; in compliance with the relevant laws and regulations, Guangdong University of Technology and us agreed to seek for further cooperation after the conversion of Huali College. Guangdong University of Technology has also confirmed that it will support the conversion of Huali College to a stand-alone private university, and accordingly we would terminate the Cooperation Agreements according to the conversion timetable required by the relevant laws and regulations or education authorities.

Relevant Requirements and Future Plans

As confirmed by the relevant competent official during the consultation with the Department of Education of Guangdong Province in April 2019, (i) currently there are no specific standards specifically designed for converting an independent college into a stand-alone private university in Guangdong Province; and (ii) if, at the time of the application, Huali College could meet the requirements for a stand-alone private university as stated in the Interim Provisions on Standards of Establishment of Formal Undergraduate Schools (《普通本科學校設置暫行規定》) (the "**Formal Undergraduate School Establishment Standards**") published by the MOE, the Department of Education of Guangdong Province would support the conversion of Huali College into a stand-alone private university. Based on the above, our PRC Legal Adviser is of the view that, both the MOE and the Department of Education of Guangdong Province should recognize the force of the Formal Undergraduate School Establishment Standards in providing the standards for the conversion of independent colleges. We have prepared concrete and practicable plans to meet the Formal Undergraduate School Establishment Standards. The following table sets forth (i) the key standards for establishing a formal undergraduate school; (ii) the current conditions of Huali College; and (iii) our future plans to meet such standards. In general, we plan to strategically reduce the student enrollment of Huali College since the 2021/2022 school year to 12,000 by the 2024/2025 school year, to meet certain standards as disclosed below. Upon the completion of such future plans, we believe that there is no material practical impediment for Huali College to meet the standards to convert into a stand-alone private university.*

* As advised by our PRC Legal Adviser, according to the relevant laws and regulations, Huali Vocational College and Huali Technician College are (i) subject to the same standards for establishment of schools both before and after registering as for-profit private schools (except for the requirements of increase in the registered capital as disclosed under the section headed "– Implications for our PRC Operating Entities"), (ii) not required to satisfy any other standards that are similar to those under the Formal Undergraduate School Establishment Standards, and (iii) not required to be inspected by the MOE, the Department of Education of Guangdong Province or the Department of Human Resources and Social Security of Guangdong Province for meeting any establishment standards similar to those inspected by the MOE and the Department of Education of Guangdong Province under the Formal Undergraduate School Establishment Standards for registration as for-profit private schools.

No.	Key Standards	Current Conditions	Future Plan to Meet Relevant Standards
1.	Campus site area should not be less than 500 mu (1 mu = 666 sq. m.)	As of August 31, 2019, the site area of the main campus of our college was 735.68 mu.	We have already complied with such standard.
2.	Ratio between the number of full-time students and the number of teachers should be no more than 18:1.	As of August 31, 2019, the ratio between the number of full-time students and the number of teachers of our college was approximately 18.5:1.	We plan to strategically reduce the student enrollment of our college since the 2021/2022 school year to 12,000 by the 2024/2025 school year to meet such requirement.
3.	Site area per student should not be less than 60 sq. m.	As of August 31, 2019, site area per student of our college was approximately 32.4 sq. m.	We plan to acquire additional land use rights with an estimated aggregate gross site area of approximately 230,000 sq. m. by September 2021.
4.	Teaching and administrative building area per student should not be less than 20 sq. m.	As of August 31, 2019, teaching and administrative building area per student of our college was approximately 6.2 sq. m.	As disclosed in the section headed "– Planned Expansion", we plan to expand Huali College by constructing additional buildings. As of August 31, 2019, the teaching and administrative buildings as well as construction in progress occupied an aggregate GFA of approximately 165,984 sq. m. We plan to construct additional teaching and administrative buildings with an estimated aggregate GFA of approximately 74,350 sq. m. by September 2024.
5.	Building area per student should not be less than 30 sq. m.	As of August 31, 2019, building area per student of our college was approximately 15.5 sq. m.	As disclosed in the section headed "– Planned Expansion", we plan to expand Huali College by constructing additional buildings. As of August 31, 2019, the buildings as well as construction in progress occupied an aggregate GFA of approximately 326,107 sq. m. As disclosed above, we plan to construct additional teaching and administrative buildings with an estimated aggregate GFA of approximately 74,350 sq. m. by September 2024, which is also part of the plan to increase the building area per student to satisfy such standard.
6.	The minimum number of students should not be less than 5,000.	As of August 31, 2019 the number of full-time students of our college was 15,126.	We have already complied with such standard.
7.	The price of teaching and research equipment per student should not be less than RMB5,000.	As of August 31, 2019, the price of teaching and research equipment per student of our college was approximately RMB8,123.0.	We have already complied with such standard.
8.	The main disciplines shall be more than one (including one) and there should be at least three majors in each main discipline.	As of August 31, 2019, there were six main disciplines, namely, computer and information engineering, urban construction, media and art design, management, economics and foreign languages and electromechanical engineering, which include three, seven, six, five, four and four majors, respectively.	We have already complied with such standard.

No.	Key Standards	Current Conditions	Future Plan to Meet Relevant Standards
9.	The minimum number of teachers should be 280, of which teachers with master qualification or above should account for not less than 30.0%.	As of August 31, 2019, the number of teachers of our college was 818, of which approximately 41.1% obtained master qualification or above.	We have already complied with such standard.

Our PRC Legal Adviser is of view that if we duly complete our future plans as mentioned above, the key standards as set out in the Formal Undergraduate School Establishment Standards will be satisfied.

Besides the above key standards, an applicant who applies to establish a stand-alone private university should also meet certain other criteria, which, among others, include (i) the standard of teaching and scientific research, (ii) stable source of funding for operating the school, and (iii) the requirement of principal and management. Such standards are not supposed to be quantified and the satisfaction of which are therefore subject to the discretion of relevant government authorities. We believe our business strengths in teaching, school management and strategies to continuously enhance such strengths should enable us to satisfy such criteria.

As advised by our PRC Legal Adviser, upon the fulfillment of the requirements stipulated in the Formal Undergraduate School Establishment Standards, if Huali College applies for its conversion in accordance with the relevant procedures, there will be no material legal impediments for Huali College to receive the conversion approval from the MOE.

Overall Procedures and Timetable

As advised by our PRC Legal Adviser, in order to terminate the cooperation with Guangdong University of Technology and convert Huali College into a stand-alone private university, the following procedures, among others, shall be completed:

- Each of Huali Investment and Guangdong University of Technology shall obtain relevant internal approvals pursuant to its articles of association, including board resolutions, shareholder resolutions and other internal resolutions for (i) the termination of the current cooperation between Huali Investment and Guangdong University of Technology, and (ii) the conversion of Huali College into a stand-alone private university;

- Huali College shall adopt a board resolution to approve such termination and conversion; and

- According to the confirmation by the relevant competent official during the consultation with the Department of Education of Guangdong Province in April 2019, the application package for such termination and conversion shall be prepared according to the specific requirements by relevant government authorities and approved by the MOE.

The conversion will be completed once Huali College has received the approval from the MOE. Based on the current timetable for the expansion plan of Huali College, we aim to file the application package for the conversion by April 2025. We expect to obtain the approval from the MOE in December 2025. Moreover, we intend to file the application of our intention to register Huali College as a for-profit private school by April 2025. The completion time of registration as a for-profit private school is subject to the further detailed implementation measures and conversion timetable that are yet to be published by local government authorities. In addition, as confirmed by the relevant competent official during the consultation with the Department of Education of Guangdong Province in April 2019, (i) Huali College is eligible to apply to register as a for-profit private school under the current laws and regulations as conversion into a stand-alone private university is not a pre-condition for applying for registration as a for-profit school; and (ii) if Huali College makes an application for conversion into a stand-alone private university, Huali College shall file the application of its intention to register Huali College as a for-profit private school or a non-profit private school at the same time. We have informed the Department of Education of Guangdong Province of the expected timetable of conversion into a stand-alone private university proposed by Huali College.

Potential Impacts on the Operations of Huali College

Other than Guangdong University of Technology (i) appointing a representative as the secretary of the Party committee of Huali College, and (ii) designating relevant representatives to join the board of directors of Huali College and recommending the president of Huali College according to the Cooperation Agreements, Huali College operates independently from Guangdong University of Technology. We believe that the operation of Huali College is not dependent on Guangdong University of Technology, which does not share a campus or provide other teaching resources to us, and may not adversely impact the education activities of Guangdong University of Technology. After the conversion of Huali College into a stand-alone private university, we (i) will terminate the Cooperation Agreements currently in effect, (ii) do not need to pay a joint tuition support fee to Guangdong University of Technology and (iii) might not be able to use the brand name of Guangdong University of Technology anymore. Please refer to the section headed "Risk Factors – Risks Relating to Our Business and Our Industry – We may not be able to register Huali College as a for-profit private school or complete relevant procedures or obtain the government registrations under the current form of the MOJ Draft for Comments". Nevertheless, we believe that, other than use of the name of Guangdong University of Technology, Huali College is self-sustainable with no reliance on any resources provided by or shared with Guangdong University of Technology. Specifically, Huali College, which is mainly funded by Huali Investment and tuition fees from students, owns its campus, all essential educational facilities and academic resources, which are independent from those of Guangdong University of Technology, maintains independent finance and accounting systems; handles its own student enrollment, the award of degrees/diplomas and the independent hiring of full-time or part-time teachers and staff. In addition, although the name of Guangdong University of Technology is one of the many factors that attract students, after 18 years of growth, we believe that Huali College has developed and improved many other factors that contribute to the attractiveness of the college to students, including the branding of Huali College in our own right, our market-focused majors and courses, practical job-oriented curricula, access to a broad network of corporate employers and high initial employment rates. In sum, we believe the likelihood of Huali College being materially impacted by its inability to use the name of Guangdong University of Technology is low.

Potential Impacts on Our Financial Conditions

The termination of the cooperation with Guangdong University of Technology and the conversion of Huali College into a stand-alone private university are expected to have certain impacts on our financial conditions as below:

	Assumptions/Conditions	Financial impact
Tuition fee and boarding fee income	The new student intake in Huali College for the 2019/2020 and 2020/2021 school years would be 5,000 students for each school year. We plan to begin reducing the new student intake in Huali College from the 2021/2022 school year. The total number of student enrollments of Huali College would gradually decrease and reach 12,000 (the Group's target) in the 2024/2025 school year. The tuition fee rate of Huali College for the new student intake would increase by 5% annually, whilst the boarding fee rate of Huali College would remain unchanged.	During the Track Record Period, Huali College recorded tuition fee and boarding fee income of RMB258.3 million, RMB265.3 million and RMB344.6 million for FY2017, FY2018 and 2019, respectively. As a result of a strategic reduction of student enrollment of Huali College in connection with the Conversion, tuition fee and boarding fee income of Huali College is estimated to be approximately RMB492.7 million, RMB467.3 million, RMB432.3 million, RMB394.7 million, RMB413.5 million and RMB433.3 million in FY2022, FY2023, FY2024, FY2025, FY2026 and FY2027, respectively.*
Joint tuition support fees	We would not need to pay Guangdong University of Technology the joint tuition support fees from the 2026/2027 school year as we expect to complete the Conversion in December 2025.	Since FY2027, we would not record the cost of the joint tuition support fees, which is equal to 17% of the total tuition fees Huali College receives from its students during each school year. The joint tuition support fee for FY2019 amounted to RMB55.0 million.
Costs for acquisition of additional land use rights and construction of additional buildings	As disclosed above, we need to acquire additional land use rights and construct additional buildings to satisfy the requirements for converting Huali College into a stand-alone private university.	We estimate the additional costs for acquisition of additional land use rights and construction of additional buildings to be approximately RMB432.7 million.
Depreciation and amortization	Additional land use rights would be acquired in FY2021 and the amortization is calculated over a 50-year period beginning from FY2022 using the straight-line amortization method. Additional buildings would be ready for use in FY2025 and the depreciation is calculated over a 40-year period beginning from FY2025 using the straight-line amortization method. The acquisition of additional land use rights and construction of additional buildings would be funded by our internal resources.	From FY2022 to FY2024, we would incur additional amortization cost for land use rights of approximately RMB3.5 million on an annual basis. From FY2025, we would incur additional amortization of land use rights and depreciation of buildings costs of approximately RMB10.0 million on an annual basis.
Increase in the registered capital	As disclosed under the section headed "– Implications for our PRC Operating Entities", we may be required to increase the registered capital of Huali College to no less than RMB200 million.	The registered capital of Huali College would increase from RMB10 million to no less than RMB200 million.

* Compared to the historical figures during the Track Record Period, the estimated increase in the tuition fee and boarding fee income of Huali College from FY2022 to FY2027 is mainly due to the increased average tuition fee rate resulting from (i) graduation of students with lower tuition fee rates and (ii) increase in tuition fee rate for new student intake, and the increase in student enrollment in the 2019/2020 and 2020/2021 school years. In FY2022, FY2023, FY2024, FY2025, FY2026 and FY2027, the student enrollment of Huali College is estimated to be 17,291, 15,820, 14,000, 12,000, 12,000 and 12,000, respectively, and the average tuition fee of Huali College is estimated to be RMB26,983, RMB28,136, RMB29,580, RMB31,382, RMB32,951 and RMB34,598, respectively.

	Assumptions/Conditions	Financial impact
Termination fees	The termination of cooperation between Guangdong University of Technology and us will be subject to further negotiations among the parties and we may incur significant costs relating to the termination.	There may be no compensation fees at all when we terminate cooperation with Guangdong University of Technology or, if there is any compensation fees, and the actual amount of compensation fees will be decided by GUT and us upon future commercial negotiations at a later stage. See "Risk Factors – Risks Relating to Our Business and Our Industry – We may incur significant costs relating to the termination of the Cooperation Agreements" in this prospectus.
Income tax	The Amendment and the MOJ Draft for Comments are still silent on the detailed rules on tax preferential treatments for for-profit private schools.	There is a possibility that Huali College may be required to pay PRC income tax if we successfully register Huali College as a for-profit private school, which will further impact our profits. However, the Amendment and the MOJ Draft for Comments do not stipulate the preferential income tax rate applicable to Huali College.

Implications for our expansion strategy

The MOJ Draft for Comments may have certain implications for our expansion strategy through acquisition. Our acquisition may be limited to for-profit private schools only. Please refer to the section headed "– Our Business Strategies – Continue to increase student enrollment through expanding our business operations in our existing schools and further expand our school network in China and abroad" in this prospectus for details.

Current status of the MOJ Draft for Comments

The MOJ required comments from the public on the MOJ Draft for Comments, if any, to be submitted prior to September 10, 2018, but has not provided the timeframe for the promulgation of the implementation rules for the Law for Promoting Private Education of the PRC. As of the Latest Practicable Date, no implementation rules for the Law for Promoting Private Education of the PRC had been promulgated. Uncertainties exist with respect to the interpretation of the MOJ Draft for Comments and the implementation of the MOJ Draft for Comments by the competent authorities may deviate from our current understanding and interpretation of them. We will pay close attention to the MOJ Draft for Comments and consult with our PRC Legal Adviser for the developments of the MOJ Draft for Comments and other related publications and promulgations.

Special committee to monitor development

As part of our measures to mitigate any compliance risk in relation to the Amendment, the MOJ Draft for Comments and other relevant developments, we have established and assigned the responsibility to a special committee (comprising Mr. Zhang, Mr. Ye Yaming, Mr. Dong Xiaolin, Mr. Ma Zhixiong and Mr. Zhang Zhicheng) led by Mr. Zhang to pay close attention to the developments of the relevant policies and regulations, including the Amendment and the MOJ Draft for Comments and the operations of our PRC Operating Entities and we will promptly consult with our PRC Legal Adviser as and when required. In particular, given that the MOJ Draft for Comments introduced the requirement that public schools shall not sponsor or participate in sponsoring for-profit private schools, we will closely monitor its development and our expansion strategy of acquiring independent colleges in the future (see also "– Our Business Strategies – Continue to increase student enrollment through expanding our business operations in our existing schools and further expand our school network in China and abroad"). We will assess whether the MOJ Draft for Comments or other relevant implementation rules and regulations in the future will present practical challenges or compliance issues to any future acquisition of independent colleges. Such special committee will ensure that any acquisition by us in the future will fully comply with the relevant rules and regulations in effect from time to time. We will ensure that any decision will be made on a fully informed basis by our Board taking into account the findings of such special committee and we will update our Shareholders and investors in this regard by way of disclosure in announcements and/or annual/interim reports, as and when appropriate.

CAMPUS LOGISTICS ARRANGEMENTS

Campus Safety

We consider campus safety as a top priority for our school operations. In order to control any safety risks and ensure timely and effective responses to any safety incidents, Huali College and Huali Vocational College have each obtained a security staff recruitment permit and recruited a team of security staff to manage their respective campus safety. Meanwhile, security staff of Huali College and Huali Vocational College also provide campus safety services for Huali Technician College as Huali Technician College is entitled to use certain properties of Huali College and Huali Vocational College as school premises for no charge free. Please refer to the section headed "– Properties – Owned Properties" in this prospectus for details of the premises that Huali Technician College leased from Huali Vocational College.

As of the Latest Practicable Date, we had not encountered any material accidents on our school campuses. We also maintain various insurance policies to safeguard against risks and unexpected events. Please refer to the section headed "– Insurance" in this prospectus for more details.

Meal Catering Services

As of the Latest Practicable Date, we outsourced meal catering services for our schools to a catering service provider, which is an Independent Third Party. Under our outsourcing agreements with such provider, we provide premises required to operate a canteen at no charge. Such third-party catering service provider holds relevant licenses and permits required by laws and regulations, such as the license for food operation services (食品經營許可證). The catering provider is obliged to ensure the food quality and safety and to ensure this, we oversee the meal catering services and regularly inspect the daily operation of the canteens at our schools. Please refer to the section headed "Risk Factors – Risks Relating to Our Business and Our Industry – We outsource certain food and meal catering services for our schools to an Independent Third Party and, as a result, we cannot guarantee the quality and price of the food provided to our students. We may be exposed to potential liabilities if we cannot maintain food quality standards" in this prospectus for risks associated with meal catering services.

Medical Care Services

As of the Latest Practicable Date, Huali College had obtained a practice medical institution license (醫療機構執業許可證) and operates a medical center, which provides routine medical services to its students and staff. Huali College has also entered into a medical service agreement with Huali Vocational College and Huali Technician College, pursuant to which the medical center operated by Huali College will also provide routine medical services for students and staff of these two schools at their respective campus in Zengcheng. In addition, as of the Latest Practicable Date, Huali Vocational College had obtained a medical institution practice license and were in progress of setting up a medical center for our campus in Yunfu. According to the Regulations on Sanitary Work of Schools (《學校衛生工作條例》), which was promulgated and became effective on June 4, 1990, technician schools may retain full-time health care personnel as needed. As technician schools are not required to have a hospital or medical center on campus under the relevant PRC laws and regulations, we do not maintain a medical center for students and staff of Huali Technician College Yunfu Campus. In certain serious and emergency medical situations, we will send our students to local hospitals for treatment.

Our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, formal higher education institutions are required to have a hospital or medical center on campus to provide medical services to students. Our PRC Legal Adviser has also advised that there is no requirement under the relevant laws and regulations that such hospital or medical center has to be set up and operated by the school itself and no penalty provision under the relevant PRC laws and regulations if a formal higher education institution fails to set up a hospital or medical center by itself. As of the Latest Practicable Date, Huali Vocational College has not set up a hospital or medical center on campus in Zengcheng, however, by agreement with Huali College, the medical center set up by Huali College will provide routine medical services to students and staff of Huali Vocational College in Zengcheng. Our PRC Legal Adviser has advised us that, based on the fact that the medical center of Huali College is located on the same school premises as Huali Vocational College in Zengcheng, the possibility of Huali Vocational College being subject to fines or other penalties due to its failure to set up and operate a medical center on campus by itself is relatively remote. However, Huali Vocational College may be required by the competent PRC government authority to set up a medical center by itself to rectify the matter within a prescribed period. Please refer to the section headed "Risk Factors – Risks Relating to Our Business and Our Industry – We may be subject to fines or other penalties if we fail to set up and operate medical centers for Huali Vocational College as required by competent PRC government authority" in this prospectus for risks associated with medical care services. Taking into account the above and based on the advice of our PRC Legal Adviser, our Directors believe that this is not a material non-compliance matter and will not have a materially adverse effect on our business operations or financial condition as a whole.

COMPETITION

The private education service market in China is rapidly evolving and the private higher education service market and the private vocational education service market in which we operate are highly fragmented and competitive. As we primarily operate in Guangdong Province, we face competition primarily from public and private higher education institutions and vocational education institutions in South China, in particular from those that operate in the same areas as we do. We believe our principal competitive advantages include:

- the reputation of each of our schools;
- our extensive operating experience;
- the scope and quality of our education programs, services and major offerings;
- our extensive network of corporate employers providing an abundance of internship, practice and training opportunities to our students;
- high Initial Employment Rates;
- overall parents and students' experience and satisfaction; and
- our ability to attract and retain highly qualified teachers.

We expect the competition in the private higher education market and private vocational education market to persist and intensify. We believe we are able to compete effectively due to our strong reputation and established programs. However, some of our existing and potential competitors, especially public schools, have governmental support in the form of government subsidies and other payments or support that enables 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. Please refer to the sections headed "Risk Factors – Risks Relating to Our Business and Our Industry – We face competition in the PRC higher education industry and private vocational education industry", "Industry Overview – Competitive Landscape of the Private Higher Education Industry in China and South China" and "Industry Overview – Competitive Landscape of the Private Vocational Education Industry in South China" 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 August 31, 2017, 2018 and 2019.

Our suppliers primarily comprise Guangdong University of Technology, construction and renovation companies, landscaping companies, book suppliers, furniture suppliers and teaching and office equipment vendors.

For the year ended August 31, 2016, our largest supplier was Guangdong University of Technology to which we pay joint tuition support fees in connection with operating Huali College according to relevant cooperation agreements with Guangdong University of Technology. For the years ended August 31, 2017 and 2018, our largest supplier was a third-party construction company, who provided us with building construction services for our campus. For the year ended August 31, 2019, our largest supplier was Guangzhou Gaobiao Construction Engineering Co., Ltd. (廣州高標建築工程有限公司), which is a connected person of our Company, providing us with building construction and decoration services for our campus. For the years ended August 31, 2017, 2018 and 2019, purchases from our largest suppliers amounted to RMB68.0 million, RMB236.0 million and RMB306.7 million, respectively, accounting for 31.7%, 42.2% and 33.7%, respectively, of our total purchases for the relevant periods. The transaction between the Group and Guangzhou Gaobiao Construction Engineering Co., Ltd. is still on-going and we expect to make further payments to it after the Listing. Please refer to the section headed "Connected Transactions – One-off Connected Transaction with Guangzhou Gaobiao Construction Engineering Co., Ltd." in this prospectus for further details.

For the years ended August 31, 2017, 2018 and 2019, purchases from our five largest suppliers amounted to RMB123.9 million, RMB418.6 million and RMB705.1 million, respectively, accounting for 57.8%, 74.8% and 77.4% of our total purchases for the relevant periods.

Except for Guangzhou Gaobiao Construction Engineering Co., Ltd., none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we owned two trademarks, 202 software copyrights, 184 patents, 106 patents under application and six domain names in the PRC. However, as of the same date, we did not own any trademarks, copyrights or patents that we consider to be or may be material to our business, results of operations or financial condition. Please refer to "B. Further Information about our Business – 2. Intellectual property rights of our Group" in Appendix V to this prospectus for more details.

Our schools are operating under the "华立" ("Huali") trade name. We are aware that "" ("HUA LI") trademark was registered by Holley Technology Ltd. (華立科技股份有限公司) ("Holley Technology"), an Independent Third Party, in class 41 covering, among others, education services, education information, training, academies and teaching service in 1995 in the PRC (with registration number 778165) valid from February 21, 2015 to February 20, 2025. In 2004, Zhejiang Administration for Industry and Commerce recognized "HUA LI" trademark as a "Well-Known

Trademark" (馳名商標) which can prevent the registration of identical or similar marks and enjoy protection in the same or different classes and regions. According to public information available, we have not found any actual use of "HUA LI" trademark by Holley Technology in relevant education-related activities covered by class 41.

Under the Trademark Law of the PRC, any of the following acts maybe regarded as an infringement of the right to exclusive use of a registered trademark, including (1) to use a trademark that is identical with a registered trademark in respect of the same goods without authorization of the proprietor of the registered trademark; (2) to use a trademark similar to a registered trademark in respect of the same goods or to use a trademark identical with or similar to a registered trademark in respect of similar goods, without authorization of the proprietor of the registered trademark, where such use is likely to cause confusion.

Under the Interpretation of the Supreme People's Court Concerning the Application of Laws in the Trial of Cases of Civil Disputes Arising from Trademarks (《最高人民法院關於審理商標民事糾紛案件適用法律若干問題的解釋》) promulgated by the Supreme People's Court on October 12, 2002, using wording that is identical or similar to another's registered trademark as a business name and displaying it prominently on identical or similar goods thereby easily causing mistaken recognition on the part of the relevant public constitutes act causing other harm to another's exclusive right to use a registered trademark as set out in Item (5) of Article 52 of the Trademark Law.

Under the Anti-Unfair Competition Law of the PRC, managers shall not use unfair methods which can damage other competitors, including using the name of other enterprise or personal name and making people confuse this commodity to the other's commodity, in their business transactions.

According to our PRC Legal Adviser, considering Huali Investment and our schools will continue to operate under the "华立" ("Huali") trade name, there is a risk that we may face claims of trademark infringement by Holley Technology. If Holley Technology brings claims of trademark infringement against us and we are found to have violated their trademark rights, we may be subject to fines or prohibited from using the "华立" ("Huali") trade name or displaying it prominently.

However, as confirmed by our Directors, (i) Huali Investment and our schools will only use the "华立" ("Huali") trade name when displaying their company names and school names which are not identical or similar to the "HUA LI" trademark; (ii) our schools primarily use "华立" ("Huali") trade name in displaying their school names on the main gates of the school campuses and on the certificates issued by them, which is within the scope of normal use and is not likely to cause confusion on the part of the public that our schools are held by Holley Technology; (iii) Holley Technology is primarily engaged in manufacturing and sales of meters and is not involved in any education-related activities, while we are a private education provider with more than 19 years of history; therefore there is no competition between Holley Technology and us. In addition, our Directors confirm that none of our schools nor Huali Investment has an intention to use the "HUA LI" trademark registered by Holley Technology, engages in business competing against Holley Technology, conducts any act of unfair competition to cause market confusion or mislead the public or conducts other malicious torts.

Based on the above, our PRC Legal Adviser is of the view that, as long as Huali Investment and our schools have been using and continue to use the "华立" ("Huali") trade name strictly in the way as described above, the risk of our infringing or having infringed Holley Technology's trademark right is remote.

LICENSES AND PERMITS

During the Track Record Period and up to the Latest Practicable Date, save as otherwise disclosed in "– Properties" in this prospectus, we had obtained all licenses, permits, approvals and certificates necessary to conduct our operations in all material respects from the relevant governmental authorities in the PRC, and such licenses, permits, approvals and certificates remained in full effect.

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

Holder	License / Permit[(1)]	Granting authority	Grant Date	Expiry Date
Huali College	Private School Operating License	Department of Education of Guangdong Province	September 27, 2018	September 27, 2022
Huali College	Registration Certificate for Private Non-enterprise Entities	Department of Civil Affairs of Guangdong Province	October 18, 2018	October 17, 2022
Huali Vocational College	Private School Operating License	People's Government of Guangdong Province	August 14, 2019	August 13, 2023
Huali Vocational College	Registration Certificate for Private Non-enterprise Entities	Department of Civil Affairs of Guangdong Province	July 10, 2017	July 9, 2021
Huali Technician College	Private School Operating License	Department of Human Resources and Social Security of Guangdong Province	June 13, 2019	June 12, 2021
Huali Technician College	Registration Certificate for Private Non-enterprise Entities	Department of Civil Affairs of Guangdong Province	October 25, 2017	October 24, 2021

Note:

(1) To maintain each of our private school's operating licenses, the respective school is required to pass an annual inspection regardless of whether such license bears an expiry date or not. As of the Latest Practicable Date, each of our schools had passed the latest annual inspection.

HEALTH AND SAFETY MATTERS

We are dedicated to protecting the health and safety of our students. Please refer to the section headed "– Campus Logistics Arrangements – Campus Safety" in this prospectus for further information.

Huali College set up a medical center, which provides routine medical services to students and staff of all three schools residing in Zengcheng. Huali College has obtained the required license for operating the medical center. According to the Regulation on Sanitary Work of Schools (《學校衛生工作條例》), which was promulgated and became effective on June 4, 1990, technician schools may retain full-time health care personnel as needed. As technician schools are not required to have a hospital or medical center on campus under the relevant PRC laws and regulations, we do not maintain a medical center for students and staff of Huali Technician College Yunfu Campus. In certain serious and emergency medical situations, we will promptly send our students to local hospitals for treatment. Please refer to the section headed "– Campus Logistics Arrangements – Medical Care Services" in this prospectus for more details.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any serious accidents, medical situations or safety issues involving our students.

AWARDS AND RECOGNITIONS

We have received numerous awards from various local governments and other sources that recognize our unique contribution to the private education industry in China. The following table sets forth some of the awards and recognition we have received:

Year	Award / Accreditation	Awarding Organization	Awarded Entity
2018	Outstanding Contribution Unit in the 2018 Selection of Best Intern (2018首席實習生評選活動突出貢獻單位)	Guangdong Students' Federation	Huali College
2018	Advanced Group (先進集體)	Guangdong Occupation Technology Education Academy	Huali Vocational College
2018	2018 Good Case of University-Enterprise Collaboration in China (2018年度中國校企合作好案例)	China Industry-University-Research Institute Collaboration Association and China University-Enterprise Collaboration Innovation Alliance	Huali Vocational College
2018	2017 Top Ten Advanced Unit in Vocational Education in Guangdong Province (2017年度廣東省職業教育十佳先進單位)	Guangdong Vocational Ability Construction Association	Huali Technician College
2017	2017 Practical Teaching Base for College Students in Guangdong Province (2017年廣東省大學生實踐教學基地)	Department of Education of Guangdong Province	Huali College
2017	Advanced Aesthetic Education Unit in National Higher Education Institution (全國高校美育工作先進單位)	Organizing Committee for the Exhibition and Evaluation of National Aesthetic Education Achievement	Huali Vocational College
2017	Second Prize for Art and Aesthetic Education Achievement in the Exhibition and Evaluation of National Aesthetic Education Achievement (全國美育成果展評藝術美育教學成果二等獎)	Organizing Committee for the Exhibition and Evaluation of National Aesthetic Education Achievement	Huali Vocational College
2017	2016 Outstanding Teaching Venue for Connecting Self-taught Higher Education Examinations and Higher Vocational and Technical Education (2016年度高等教育自學考試與高職高專教育相溝通優秀教學點)	College of Continuing Education of South China Normal University	Huali Vocational College
2016	College Students KAB Entrepreneurship Education Base (大學生KAB創業教育基地)	International Labor Organization, All-China Youth Federation and All-China Students' Federation	Huali College
2016	Innovation and Entrepreneurship Education and Culture Construction Award (創新創業教育文化建設獎)	The Higher Education Professional Committee of the China Association for Non-Government Education	Huali Vocational College
2016	2015 Top Ten Advanced Unit in Vocational Education in Guangdong Province (2015年度廣東省職業教育十佳先進單位)	Guangdong Vocational Ability Construction Association	Huali Technician College
2014	2014 Most Competitive Private School (2014最具競爭力民辦高校)	Guangzhou Daily Newspaper Group	Huali Vocational College
2014	Guangdong Engineering Cost Elites Cultivation Base (廣東工程造價精英人才培養基地)	Guangdong Engineering Cost Association	Huali College
2013	Advanced Private Training Educational Institution (先進民辦培訓教育機構)	Adult and Vocational Education Professional Committee of Guangdong Private Education Association	Huali Technician College

Year	Award / Accreditation	Awarding Organization	Awarded Entity
2010	2010 Most Employment Competitive Private School in Guangdong (2010年度廣東最具就業競爭力民辦學院)	Southern Metropolis Daily	Huali Technician College
2010	National Private Education Advanced Group (全國民辦教育先進集體)	Chinese Foundation for Teacher Development of Education Department	Huali College
2010	Outstanding Contribution Unit for the Promotion of Association (“攜手興協會”突出貢獻單位)	Guangzhou Private Education Association	Huali Vocational College
2005	State Key Vocational School (國家級重點技工學校)	Ministry of Human Resources and Social Security of PRC	Huali Technician College
2003	National Occupational Skill Testing Institute (國家職業技能鑒定所)	Guangzhou Municipal Human Resources and Social Security Bureau (formerly known as Guangzhou Labor and Social Security Bureau)	Huali Technician College

EMPLOYEES

As of August 31, 2017, 2018 and 2019, we had 1,657, 1,697 and 1,922 employees, respectively. The following table sets forth the total number of employees by function as of August 31, 2019:

Function	Number of Employees	% of Total
Administrative staff	272	14.2%
Teachers[(1)]	1,650	85.8%
Total	1,922	100.0%

Note:

(1) Including 1,483 full-time teachers and 167 part-time teachers.

Each of Huali College and Huali Vocational College has established a labor union and our employees may join the labor union of their respective school voluntarily. As confirmed by our Directors, during the Track Record Period, we did not experience any material labor dispute.

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

Social Insurance

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

In May 2017 and October 2018, our PRC Legal Adviser consulted the Guangzhou Zengcheng District Social Insurance Fund Management Center (廣州市增城區社會保險基金管理中心), which confirmed that (i) none of Huali College, Huali Vocational College, Huali Technician College and Huali Investment had been subject to any penalty due to any violation of relevant laws and regulations relating to social insurance; (ii) the basis on which Huali College, Huali Vocational College, Huali Technician College and Huali Investment made contributions to the social insurance plan was in compliance with the relevant local regulations relating to social insurance; and (iii) it did not find any unpaid contributions of social insurance plan by any of Huali College, Huali Vocational College, Huali Technician College and Huali Investment and therefore would not voluntarily require any of the three schools or Huali Investment to make supplementary contributions for not making contributions to the social insurance plan based on the actual salary level of their employees.

Guangzhou Zengcheng District Social Insurance Fund Management Center also issued certifying letters confirming that as of the date of the certifying letter, it had not found any unpaid contributions to social insurance plans of each of Huali College, Huali Vocational College, Huali Technician College and Huali Investment and had not received any complaint relating to social insurance from any employee of the three schools.

During the Track Record Period, we did not make contributions to the social insurance plans for some of our employees, mainly for foreign teachers, security staff, logistics staff and employees whose social insurance had been paid by other employers. For the years ended August 31, 2017, 2018 and 2019, the aggregate amount of unpaid social insurance contribution was approximately RMB0.9 million, RMB0.4 million and RMB55,000, respectively. With respect to the employees for whom we did not make contributions to the social insurance plans, our PRC Legal Adviser has advised us that, under the relevant PRC laws and regulations, late fees and fines will be imposed on an employer for not making full social insurance payments for employees in a timely manner. If any competent PRC government authority is of the view that the social insurance payments we made for our employees breached the requirements under the relevant PRC laws and regulations, it can order us to pay the outstanding balance to the relevant PRC local authorities within a prescribed time period and a late fee of 0.05% of the total outstanding balance per day from the date of indebtedness. If such payment is not made within the prescribed time period, the competent authority may further impose a fine from one to three times the amount of the overdue payment. As of August 31, 2019, the maximum aggregate amount of penalty with respect to such non-compliance is estimated to be approximately RMB3.1 million. With respect to the employees for whom we made contributions to the social insurance plans based on a standard accepted by the local authorities, our PRC Legal Adviser is of the view that (i) Guangzhou Zengcheng District Social Insurance Fund Management Center is the competent authority to issue such letter and to make such confirmations, and (ii) the risk of Guangzhou Zengcheng District Social Insurance Fund Management Center initiating any actions to compel any of Huali College, Huali Vocational College, Huali Technician College and Huali Investment to make supplementary contributions to the social insurance and imposing any fine on any of them for the matter to reach the local social insurance contribution standard is remote.

Our Directors confirm that as of the Latest Practicable Date, none of Huali College, Huali Vocational College, Huali Technician College and Huali Investment had received any written notice from social insurance authorities requiring any of the three schools to make contributions within a stipulated time period or make supplementary contributions. We undertake in the event that competent social insurance authorities require any of the three schools or Huali Investment to make contributions within a stipulated time period or make supplementary contributions and overdue fine, we will ensure that they will duly comply on a timely manner. Since September 2018, we have made full contributions to the social insurance plans for all our eligible employees, except for some foreign teachers. We have made contributions to the social insurance plans for our foreign teachers since May 2019.

Housing Provident Fund

During the Track Record Period, we made contributions to the housing provident fund for employees based on a standard accepted by the local authorities, instead of the actual salary level of the employees as prescribed by relevant PRC laws and regulations.

In May 2017 and October 2018, our PRC Legal Adviser consulted the Guangzhou Housing Provident Fund Management Center (廣州住房公積金管理中心), which confirmed that (i) the basis on which Huali College, Huali Vocational College, Huali Technician College and Huali Investment made contributions to the housing provident fund was in compliance with the relevant local laws and regulations relating to housing provident fund; and (ii) it therefore would not voluntarily require any of the three schools or Huali Investment to make supplementary contributions for not making contributions to the housing provident fund based on the actual salary level of their employees.

Guangzhou Housing Provident Fund Management Center also issued certifying letters confirming that as of the dates indicated in the certifying letter, none of Huali College, Huali Vocational College, Huali Technician College and Huali Investment had been subject to any penalty due to any violation of relevant laws and regulations relating to the housing provident fund.

During the Track Record Period, we did not make contributions to the housing provident fund for some of our employees, mainly for security staff, logistics staff and employees whose housing provident fund had been paid by other employers. For the years ended August 31, 2017, 2018 and 2019, the aggregate amount of unpaid housing provident fund contribution was approximately RMB0.2 million, RMB75,000 and RMB6,400, respectively. With respect to the employees for whom we did not make contributions to the housing provident fund, our PRC Legal Adviser has advised us that pursuant to the Regulations on the Administration of Housing Provident Fund, an employer shall make full contribution to the housing provident fund in a timely manner and shall not make delay contributions or underpay contributions. If an employer does not make such contributions when they are due or underpay contributions to the housing provident fund, the relevant housing provident management center shall order such employer to make supplemental contributions within stipulated period. If such employer does not make such contributions within the stipulated period, an enforcement application can be made to the people's court. As of August 31, 2019, the maximum aggregate amount of penalty with respect to such non-compliance is estimated to be approximately RMB0.6 million. With respect to the employees for whom we did not make contributions to the housing provident fund, our PRC Legal Adviser is of the view that (i) Guangzhou Housing Provident Fund Management Center is the competent authority to issue such letter and to make such confirmations, and (ii) the risk of Guangzhou Housing Provident Fund Management Center initiating any actions to compel any of Huali College, Huali Vocational College, Huali Technician College and Huali Investment to make supplementary contributions to the housing provident fund and imposing any fine on any of them for the matter to reach the local housing provident fund contribution standard is remote.

Our Directors confirm that as of the Latest Practicable Date, none of Huali College, Huali Vocational College, Huali Technician College and Huali Investment had received any written notice from the competent housing provident fund authorities ordering any of the three schools to make any contribution within a stipulated period or make supplementary contributions. We undertake in the event that competent housing provident fund authorities inform any of the three schools or Huali Investment to make contribution within a stipulated time period or make supplementary contributions and pay overdue fine, we will ensure they will duly comply in a timely manner. Since September 2018, we have made full contributions to the housing provident fund for all our eligible employees.

PROPERTIES

As of August 31, 2019, we occupied (i) nine parcels of land with a total gross site area of 1,251,400.8 sq. m.; and (ii) 84 buildings with a total GFA of 663,414.9 sq. m. in the PRC. Except for buildings with a total GFA of 25,617.6 sq. m. we leased to Yunfu Bilingual School, a connected person of our Company, all of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. We also leased two units from Independent Third Parties. The total market value of our property interests as of September 30, 2019 was RMB4,740.0 million, according to the property valuation report prepared by Cushman & Wakefield Limited.

Owned Properties

Land

As of August 31, 2019, we occupied nine parcels of land in the PRC with a total gross site area of 1,251,400.8 sq. m. The following table sets forth a summary of the land use rights we owned as of August 31, 2019:

No.	Land Use Rights Owner	Description/Location	Gross Site Area	Existing Use	Expiry Date	Real Estate Certificate
			(sq. m.)			
1.	Huali College	Located in Zengcheng District, Guangzhou City	400,742.1	Education	March 12, 2050	Obtained
2	Huali Vocational College	Located in Yunfu City	345,924.4	Education	December 4, 2061	Obtained
3.	Huali Vocational College	Located in Zengcheng District, Guangzhou City	116,745.3	Education	March 12, 2050	Obtained
4.	Huali College	Located in Zengcheng District, Guangzhou City	89,218.0	Education	March 12, 2050	Obtained
5.	Huali Vocational College	Located in Zengcheng District, Guangzhou City	73,303.9	Education	March 12, 2050	Obtained
6.	Huali Technician College	Located in Xinhui District, Jiangmen City	61,334.0	Industry	January 13, 2048	Obtained
7.	Huali Technician College	Located in Xinhui District, Jiangmen City	62,333.0	Industry	January 13, 2048	Obtained
8.	Huali Technician College	Located in Xinhui District, Jiangmen City	36,467.0	Industry	January 13, 2048	Obtained
9.	Huali Technician College	Located in Xinhui District, Jiangmen City	65,333.0	Industry	January 13, 2048	Obtained
Total			1,251,400.8			

Buildings

As of August 31, 2019, we occupied buildings located in the PRC with a total GFA of 663,414.9 sq. m., of which, buildings with a total GFA of 207,055.1 sq. m. were occupied by Huali College, buildings with a total GFA of 322,943.5 sq. m. were occupied by Huali Vocational College, buildings with a total GFA of 52,608.5 sq. m. were occupied by Huali Technician College, buildings with a total GFA of 55,125.5 sq. m. were prepared for the planned new junior college in Jiangmen City, Guangdong Province and a building with a total GFA of 64.7 sq. m. were occupied by Huali Shengrong. Huali Shengrong is an indirect wholly owned subsidiary of the Company, which is established in the PRC. For more information, please see "History, Reorganization and Corporate Structure" in this prospectus. The buildings occupied by Huali Technician College were owned by Huali College and Huali Vocational College, respectively, including buildings with a total GFA of 27,517.1 sq. m. from Huali College and buildings with a total GFA of 25,091.3 sq. m. from Huali Vocational College. Pursuant to the agreements entered into between Huali Technician College with Huali College and Huali Vocational College, respectively, Huali Technician College is entitled to use certain properties of Huali College and Huali Vocational College as school premises for free and Huali College and Huali Vocational College will provide campus safety services for such school premises occupied by Huali Technician College. The building occupied by Huali Shengrong was owned by Huali Vocational College. The buildings prepared for the planned new junior college in Jiangmen were owned by Huali Technician College.

We leased buildings with a total GFA of 25,617.6 sq. m. to Yunfu Bilingual School as its school premises. Except for such buildings leased to Yunfu Bilingual School, all of the above buildings are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. Please refer to the section headed "Connected Transactions – Continuing Connected Transactions" in this prospectus for details.

Lack of building ownership certificates

As of the Latest Practicable Date, we had not obtained building ownership certificates for buildings with a total GFA of approximately 142,697.4 sq. m. because (i) we had not completed the required environmental protection inspection and the filing of completion acceptance inspection for four buildings occupied by Huali Vocational College in Zengcheng with a total GFA of 78,715.2 sq. m. (the "**Zengcheng Properties**"), which are currently used as student dormitories. In addition, among the Zengcheng Properties, a dormitory building with a total GFA of 31,117.9 sq. m. had not completed the fire control inspection; (ii) buildings with a total GFA of 4,211.9 sq. m. were temporary buildings, including a medical center, a guest boarding house and a student activity center; (iii) we had not obtained any license or permit required for the planning and construction of a canteen with a total GFA of 5,067.3 sq. m.; (iv) we commenced the construction of five dormitory buildings in Zengcheng with a total GFA of 37,018.0 sq. m. without obtaining the construction work commencement permits, and put the buildings into use before completing the completion acceptance inspection for such buildings; and (v) we put into use a dormitory building in Zengcheng with a total GFA of 17,685.0 sq. m. (the "**2019 Dormitory**") before completing the fire control inspection and the filing of completion acceptance inspection. We commenced construction of or put into use these buildings prior to obtaining the relevant certificates or permits, or completing the requisite inspections, which are in turn relevant to obtaining building ownership certificates, as our management was not familiar with the relevant laws and regulations.

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

(i) with respect to the Zengcheng Properties, as we have put such properties into use before completing the environmental inspection and the filing of completion acceptance inspection, we may be required to rectify the non-compliance within a specified time limit and may be subject to a fine of between RMB200,000 to RMB1,000,000 for not completing the environmental protection inspection and a fine of between RMB200,000 to RMB500,000 for not completing the filing of completion acceptance inspection. As for the dormitory building that has not completed the fire control inspection, we may be ordered to stop using the property and may be subject to a fine of between RMB30,000 to RMB300,000;

(ii) with respect to the temporary buildings, we may be required to demolish the construction within a specified time limit and may be subject to a fine of not more than the construction costs of the project;

(iii) with respect to the canteen, we may be required to demolish the construction within a specified time limit and may be subject to a fine of not more than 10% of the construction costs of the project;

(iv) with respect to the five dormitory buildings, we may be required to rectify the non-compliance within a specified time limit and may be subject to a fine of between 1% and 2% of the contract price of the project for failure to obtain the construction work commencement permit; as we have put such properties into use before completing the completion acceptance inspection, we may be required to rectify the non-compliance within a specified time limit and may be subject to a fine of between 2% and 4% of the contract price of the project; and

(v) with respect to the 2019 Dormitory, we may be ordered to stop the use and may be subject to a fine of between RMB30,000 to RMB300,000 for not completing the fire control inspection, and may be required to rectify the non-compliance within a specified time limit and may be subject to a fine of between RMB200,000 to RMB500,000 for not completing the filing of completion acceptance inspection.

As of the Latest Practicable Date, the maximum aggregate amount of penalty with respect to these buildings is estimated to be approximately RMB11.0 million. As advised by our PRC Legal Adviser, according to the PRC Property Law (《中華人民共和國物權法》), these buildings may not be pledged, disposed or sold as building properties due to the lack of building ownership certificates. In addition, according to the PRC Security Law (《中華人民共和國擔保法》) and the PRC Property Law, mortgages or pledges should not be created on property owned by public welfare entities such as schools and used as educational facilities or public welfare facilities. Accordingly, these properties may not be pledged as collateral when we enter into loan agreements with banks even after we obtain relevant building ownership certificates.

During the Track Record Period, we were required by the relevant government authorities to demolish certain non-compliant constructions (not including the aforesaid temporary buildings and canteen) with a total GFA of approximately 3,324.5 sq. m., and we have demolished such constructions. As advised by our PRC Legal Adviser, as we have rectified and demolished such non-compliant constructions, the risk of the relevant government authorities imposing further punishment on us is low.

Our Directors confirm that there is no material safety issue with the dormitory building among the Zengcheng Properties, the temporary buildings, the canteen, the five dormitory buildings or the 2019 Dormitory. With respect to the dormitory building among the Zengcheng Properties and the 2019 Dormitory, we have conducted the completion acceptance inspection and the next step is to file such acceptance inspection. According to the completion acceptance forms jointly issued by the relevant and qualified construction, supervision, design and survey entities, the project quality of these buildings meets the design requirements and construction specifications, and the project quality is assessed as qualified. We have commissioned qualified fire control inspection companies to inspect these two buildings, and these buildings are deemed qualified in the issued reports. With respect to the temporary buildings, the canteen and the five dormitory buildings, we commissioned Guangzhou Chuangjian House Authenticate Limited Company (廣州市創見房屋鑒定有限公司) to undertake an assessment on the reliability, safety and usability of such buildings. Guangzhou Chuangjian House Authenticate Limited Company was able to issue its assessment reports on the basis of its independent assessments conducted on such buildings. The relevant assessment reports did not identify any material safety issues and (i) assessed the temporary buildings to be Class II, which, according to the Standard for Appraisal of Reliability of Civil Buildings GB50292-2015, indicates that the structure of the temporary buildings does not have any significant impact on the overall loading capacity and basic functions of such buildings; and (ii) assessed the canteen and the five dormitory buildings to be Class Asu, which, according to the Standard for Appraisal of Reliability of Civil Buildings GB50292-2015, indicates that the buildings can be used safely.

Our Directors confirm that we will use our best efforts to promptly complete the requisite inspections and filings and obtain the requisite permits and certificates. With respect to the Zengcheng Properties, we will conduct the environmental inspection and the filing of completion acceptance inspection (as for the dormitory building among the Zengcheng Properties, we will conduct the fire control inspection besides) and apply for the relevant building ownership certificates, which is expected to be completed by June 2020. With respect to the temporary buildings and the canteen, we will demolish them if required by the relevant government authorities. As of the Latest Practicable Date, we have not received any demand from the government authority to demolish the temporary buildings or the canteen. As for the canteen, we are also in the process of applying for the construction planning permit as well as other requisite permits, and will conduct requisite procedures to obtain the building ownership certificate, which is expected to be completed by June

2020. With respect to the five dormitory buildings, we are in the process of applying for the construction work commencement permits and will conduct the completion acceptance inspection and apply for the relevant building ownership certificates, which is expected to be completed by June 2020. With respect to the 2019 Dormitory, we will conduct the fire control inspection and the filing of completion acceptance inspection, and apply for the relevant building ownership certificate, which is expected to be completed by June 2020. We will disclose the process of the above rectifications in our interim/annual reports as appropriate and, where applicable, explanation for any delay in such rectifications. We have been further advised by our PRC Legal Advisers that, there is no legal impediment for us to obtain the relevant building ownership certificates so long as we meet the applicable requirements and conditions, obtain relevant construction licenses and adhere to the procedures set forth in the relevant laws and regulations.

Use of properties inconsistent with the planned or original usage

As of the Latest Practicable Date, three buildings among the Zengcheng Properties, which were originally planned as office, logistics and ancillary and experimental buildings on the relevant permits, were temporarily being used as student dormitories. To avoid wasting resources and to provide flexibility for our use of properties, sometimes we plan our properties for multiple uses. Therefore, although these three buildings were planned as office, logistics support and experimental buildings on the relevant permits, they were also designed in a way to satisfy requirements for dormitory uses. In the 2017/2018 and 2019/2020 school years, as the student enrollment of Huali Vocational College increased and there was not enough dormitory accommodation, we decided to temporally use these three buildings as student dormitories.

We have conducted the completion acceptance inspection for these three buildings and the next step is to file such acceptance inspection. According to the completion acceptance form jointly issued by the relevant and qualified construction, supervision, design and survey entities, the project quality of these buildings meets the design requirements and construction specifications, and the project quality is assessed as qualified. As confirmed by the Aohua Arch Design Co., Ltd. of Guangzhou (廣州奧華建築設計院有限公司), the design contractor of these buildings, the design of these buildings complied with the Code for Design of Dormitory Buildings (《宿舍建築設計規範》) (JGJ 36-2016), which was approved by the Ministry of Housing and Urban-Rural Development and effective on June 1, 2017, and the fire safety requirements for residential use buildings. Therefore, these three buildings meet the safety and occupation requirements for student dormitories.

Our PRC Legal Adviser has advised us that, pursuant to the Measures for the Administration of Student Apartments (Dormitories) of Higher Education Institution in Guangdong Province (Trial) (《廣東省高等學校學生公寓(宿舍)管理辦法(試行)》), the student dormitories of higher education institutions should meet certain basic conditions, including size, equipment, facilities, management and so on. If the student dormitories do not meet such basic conditions, deficiencies will be required to be rectified within a specified time limit by the relevant educational authorities.

Our Directors confirm that these three buildings were constructed according to the requisite construction design and meet the relevant conditions for student dormitories. We will continue to use these three buildings as student dormitories for another two years and actively seek alternative accommodation for our students, including dormitories under construction or to be constructed by us or provided by other Independent Third Parties in proximity to our schools or construct dormitories on our school premises, as appropriate.

Potential impact on our operations and financial condition

Based on the above, our Directors are of the view that, the lack of the relevant permits and building ownership certificates, the failure to complete the relevant requisite inspections and filings and the inconsistent use of properties have no material impact on our business operation or financial condition as a whole, because (i) we are in the process of applying for the outstanding permits and building ownership certificates and completing the requisite inspections and filings; and (ii) we have not been subject to penalties for the lack of the relevant certificates, the failure to complete the relevant inspections and filing or the inconsistent use of properties.

In the event that we are unable to obtain the permits or building ownership certificates or to complete the requisite inspections or filings or are required to discontinue the inconsistent use of the affected properties, we do not believe it will have a materially adverse impact on our operations as we believe that there will be alternative premises available in proximity to the relevant affected properties and/or that our other properties could be reconfigured at minimal cost to accommodate our use, where appropriate. We also consider that, in the event that the government authority requires us to demolish the temporary buildings and the canteen, the impact thereof on our operations and financial condition should not be material as: (i) such properties are not for teaching purpose and not essential to the operations of our schools; (ii) the difficulty of relocation and demolition of such properties is low, which is expected to be completed in approximately one month at minimal cost.

Leased Properties

As of the Latest Practicable Date, we leased one unit from Independent Third Parties. The following table sets forth a summary of the lease agreements under which we lease as the lessee:

No.	Lessee	Leased property	Current Use	Lease Term	Validity of Lease Contract	Registration of Lease Contract
1.	XZ Huali	1 unit	Office	January 12, 2019 to January 11, 2020	Valid and binding	No[1]

Note:

(1) The lease agreement that XZ Huali has entered into with our landlord was not registered with the relevant PRC government authorities. Our PRC Legal Adviser has advised us that the non-registration of such lease agreement would not affect the validity of the leases.

In addition, we entered into a framework properties lease agreement with Hualiyuan Technology on August 28, 2019, pursuant to which Hualiyuan Technology will lease certain residential apartments to us to serve as school dormitories. For more details, please refer to the section headed “Connected Transactions – Continuing Connected Transactions – The Framework Properties Lease Agreement with Hualiyuan Technology” in this prospectus.

Regulatory Guidance Relating to the Ratios between School Site Area and Number of Students

As advised by our PRC Legal Advisors, our Huali College and Huali Vocational College are subject to certain regulatory guidance requirements in relation to the prescribed ratios between school site area and the number of full-time students. The following table sets forth the relevant ratios of our schools as of the dates indicated:

	As of August 31,		
	2017	2018	2019
	(sq. m. per student)		
Ratio between teaching and administrative building area and the number of full-time students[1]			
Huali College	6.7	7.3	6.2
Huali Vocational College	6.3	6.0	16.0
Ratio between the site area and the number of full-time students			
Huali College	34.8	37.7	32.4
Huali Vocational College	41.8	40.2	41.1

Note:

(1) The teaching and administrative building area of our schools used to calculate the ratio consists of the GFA of the teaching and administrative buildings that we put into use. We also plan to construct additional buildings with an estimated aggregate GFA of approximately 270,000 sq. m. for our Huali College and Huali Vocational College. For details of our planned construction projects (including the expected size and completion time), please refer to the description and information table disclosed in the section headed “Business – Planned Expansion” in this prospectus.

Our PRC Legal Advisor advised us that, according to the Basic Conditions for Operating Higher Education Institutions (Trial) (普通高等學校基本辦學條件指標(試行)), the teaching and administrative building area per student for Huali College and Huali Vocational College should not be less than 8 sq. m. for Enrollment Restriction Standard (限制招生標準) and 14 sq. m. for Qualified Standard (合格標準). During the Track Record Period, the teaching and administrative building area per student of Huali College and Huali Vocational College calculated was below the stated guidelines (except for Huali Vocational College for the year ended August 31, 2019). This was primarily caused by our administrative staff being unfamiliar with the practical implementation of relevant regulations.

According to the Basic Conditions for Operating Higher Education Institutions (Trial), the teaching and administrative building area per student belongs to the Basic School Operating Condition Indicators (“Indicators”) (基本辦學條件指標). In the event that any of the Indicators of a school does not meet the Enrollment Restriction Standard, the school may receive a yellow card issued by the competent authority and its student admission will be subject to the restriction that the enrollment scale shall not exceed the number of graduates in the same year; and in the event that a school receives a yellow card for three consecutive years, it may receive a red card issued by the competent authority, in which case its student admission will be suspended. We, with the assistance of our PRC Legal Advisors, consulted the Department of Education of Guangdong Province in January 2019 to clarify what effect relevant Indicators being below the stated guidelines could have on our operations. Based on the consultation, we were advised that, (i) due to the differences of development and conditions in different regions, there are situations that private higher education institutions could not fully meet the Indicators for a period of time, (ii) the Department of Education of Guangdong Province encouraged us to making efforts to improve our teaching conditions to meet such Indicators, and (iii) each of Huali College and Huali Vocational College passed the annual inspections conducted by the Department of Education of Guangdong Province during the Track Record Period and Huali College and Huali Vocational College were not be penalized for their failure to maintain such Indicators. Based on the forgoing, our PRC Legal Advisors are of the view that the risk that Huali College and Huali Vocational College being penalized by the Department of Education of Guangdong Province is low.

According to the Basic Conditions for Operating Higher Education Institutions (Trial), the site area per student belongs to the Monitoring School Operating Condition Indicators (監測辦學條件指標), which is supplementary to the Basic School Operating Condition Indicators to primarily reflect improvements to the operation conditions of such higher education institution. During the Track Record Period, the site area per student of Huali College and Huali Vocational College calculated was below the stated guidelines. This was primarily caused by our administrative staff being unfamiliar with the practical implementation of relevant regulations. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, the relevant legislation does not state any legal consequences for a breach of the Monitoring School Operating Condition Indicators.

We endeavor to continuously improve the quality of our education and the ratio between teaching and administrative building area and the number of full-time students and the ratio between the site area and the number of full-time students are among the many indicators under consideration. We will monitor and adjust these ratios as necessary and where practicable based on the needs of our increasing student enrollments and our schools’ education plans and activities without compromising the quality of our existing education or profitability. Where appropriate, we will allocate greater proportion of GFA to teaching and administrative buildings and prioritize such construction. We seek to maximize the use of our current premises and identify whether it is feasible to reconfigure existing non-teaching and administrative spaces for the purpose of making available additional teaching and academic facilities to the students, thereby improving such ratios for the benefit of the students. We have also taken these ratios into account when formulating our expansion plans as set out in "– Planned Expansion", which are expected to result in certain improvements to these ratios going forward.

As advised by our PRC Legal Advisor, the Basic Conditions for Operating Higher Education Institutions (Trial) is not applicable to Huali Technician College.

INSURANCE

We maintain various insurance policies to safeguard against risks and unexpected events, such as school liability insurance and student, teacher and staff comprehensive insurance. 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. Please refer to the section headed "Risk Factors – Risks Relating to Our Business and Our Industry – We have limited insurance coverage" in this prospectus for more details.

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 with relevant laws or regulations, which taken as a whole, in the opinion of the Directors, would likely have a material and adverse effect on our business, financial condition or results of operations. During the same period, we also did not experience any non-compliance with relevant laws or regulations, which taken as a whole, in the opinion of the Directors, would reflect 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 is of the opinion that, other than disclosed in the sections headed "– Our Schools – Huali Technician College – Historical limitation on the new student enrollment for the 2016/2017 school year", "– Campus Logistics Arrangements – Medical Care Services", "– Employees" and "– Properties – Owned Properties" in this prospectus, 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 materially 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 proceedings.

Please refer to the sections headed "– Our Schools – Huali Technician College – Historical limitation on the new student enrollment for the 2016/2017 school year", "– Campus Logistics Arrangements – Medical Care Services", "– Employees" and "– Properties – Owned Properties" in this prospectus for a description of certain legal matters relating to our compliance with relevant laws and regulations which, for the reasons described in those paragraphs, our Directors consider to be immaterial in nature or do not have a material adverse impact on our operations or financial condition.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

In preparation for the Listing, the Group has engaged an Independent Third Party consultant (the "**Internal Control Consultant**") to perform a review over selected areas of our internal controls over financial reporting in October 2016 and September 2018 (the "**Internal Control Review**"). The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity-level controls (including corporate governance) and business process level controls, including revenue and receivables, purchases and payables, fixed assets, treasury, financial reporting, payroll and general controls of information technology.

The Internal Control Consultant performed the follow-up reviews in April 2017 and November 2018 to review the status of the management actions taken by the Group to address the findings of the Internal Control Review (the "**Follow-up Review**"). The Internal Control Consultant did not have any further recommendation in the Follow up Review except for the findings and recommendations in relation to certain corporate governance matters. We had followed all of the recommendations to address the internal deficiencies and weakness and expect to complete the relevant remedial actions prior to Listing.

The Internal Controls Review and the Follow-up Review were conducted based on information provided by the Group and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.

We have established an internal control department and each of our schools has designated 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 programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identifying any concerns and issues relating to potential non-compliance. Our chief executive officer and executive Director, Mr. Ye Yaming, is responsible for ensuring our overall on-going compliance.

Compliance with the laws, regulations and rules in relation to education

With respect to areas of Huali Technician College's school operation that were not fully in compliance with relevant education-related regulations and requirements revealed in its annual inspection for the 2015/2016 school year, we have implemented the following internal control measures to ensure our future compliance:

- We have amended our plans and policies relating to teaching and practical training, improved our laboratories and experimental equipment and increased our recruitment of school staff;
- We will appoint compliance officers for our schools to be in charge of the on-going compliance of our schools with relevant education-related laws, regulations and rules; and
- Mr. Ye Yaming, our executive Director and chief executive officer, will monitor the implementation of the above measures and continuously pay attention to our on-going compliance with relevant education-related laws, regulations and rules.

Compliance with the property laws and regulations

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

- We will obtain the requisite licenses and permits (including but not limited to land use rights certificates and building ownership certificates) as and when required by relevant laws and regulations and follow the requisite procedures relating to construction and work completion of buildings;
- We will seek our PRC Legal Adviser's opinion on the issues relating to property titles and compliance with property laws and regulations;
- We have established a set of policies and procedures for property purchases and leasing arrangements to enhance our internal approval process; and
- Mr. Ye Yaming, our executive Director and chief executive officer, will monitor the implementation of the above measures and will monitor compliance in future.

Compliance with relevant social security laws and regulations

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

- Our human resources department will review the reporting and contributions to the social insurance and housing provident fund for the employees of our Group regularly;
- Our human resources department will also consult our PRC Legal Adviser, on the requirements under 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 organize 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. Ye Yaming, our executive Director and chief executive 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 sections headed "– Our Schools – Huali Technician College – Historical limitation on the new student enrollment for the 2016/2017 school year, "– Employees" and "– Properties" in this prospectus, 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 Listing Rules 3.08 and 3.09 and our Group is suitable for listing under Listing Rule 8.04. Based on its review of the internal control report and other due diligence documents, discussions and interviews with our Directors, the Internal Control Consultant and our PRC's Legal Adviser 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 enrollment and/or raise tuition fee rates, our potential expansion into other regions in South 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. Please refer to 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, please refer to the section headed "Financial Information – Quantitative and Qualitative Disclosures about Market Risk" in this prospectus for more details.

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. The Board 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 fee rates, and to enter into cooperative business relationships with third parties to establish new schools; and

- We maintain insurance coverage, which we believe is in line with customary practice in the PRC education industry, including school liability insurance and student, teacher and staff comprehensive insurance.

BACKGROUND OF THE STRUCTURED CONTRACTS

We currently conduct our private education business through our PRC Operating Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation, in addition to imposing qualification requirements on the foreign sponsors. We do not hold any school sponsor interest in our PRC Operating Entities. The Structured Contracts, through which we obtain control over and derive the economic benefits from our PRC Operating Entities, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

Higher Education

Pursuant to the Negative List, higher education in the PRC is a "restricted" industry. In particular, the Negative List explicitly restricts higher education institutions to Sino-foreign cooperation, which means that foreign sponsors may only operate higher educational institutions through joint ventures with PRC-incorporated entities that are in compliance with the Sino-Foreign Regulations. In addition, the Negative List also provides that the domestic sponsor shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national (with which we had fully complied); and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "**Foreign Control Restriction**").

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Implementing Rules, if we were to apply for any of our schools to be reorganized as a Sino-foreign joint venture private school offering higher education for PRC students (a "**Sino-Foreign Joint Venture Private Higher Education School**"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and high quality of education (the "**Higher Education 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 school sponsor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Higher Education Qualification Requirement.

As advised by our PRC Legal Adviser, the Guangdong governmental authority has not promulgated any implementing measures or specific guidance pursuant to the Sino-Foreign Regulations as of the Latest Practicable Date. Based on the publicly available information published on the relevant website (教育部中外合作辦學監管工作信息平台) of the MOE, as of the Latest Practicable Date, there are currently nine Sino-Foreign Joint Venture Private Higher Education Schools in Guangdong Province. Amongst these schools, four of them were established as separate legal entities (獨立法人資格) similar to Huali Investment and our PRC Operating Entities, including:

(i) Guangdong Technion – Israel Institute of Technology (廣東以色列理工學院);

(ii) Shenzhen MSU-BIT University (深圳北理莫斯科大學);

(iii) The Chinese University of Hong Kong, Shenzhen (香港中文大學(深圳)); and

(iv) Beijing Normal University – Hong Kong Baptist University United International College (北京師範大學－香港浸會大學聯合國際學院).

The remaining five schools were established as non-separate legal entities (非獨立法人資格) subsumed under another educational institution or public university which itself is a separate legal entity, namely:

(i) Sino-French Institute of Nuclear Engineering and Technology, Sun Yat-sen University (中山大學中法核工程與技術學院);

(ii) Sun Yat-sen University – Carnegie Mellon University Joint Institute of Engineering at Sun Yat-sen University (中山大學-卡內基梅隆大學聯合工程學院);

(iii) Jinan University – University of Birmingham Joint Institute at Jinan University (暨南大學伯明翰大學聯合學院);

(iv) DGUT-CNAM Institute, Dongguan University of Technology (東莞理工學院法國國立工藝學院聯合學院); and

(v) Jackson International Institute of Guangdong Technical College of Water Resources and Electric Engineering (廣東水利電力職業技術學院傑克遜國際學院).

On November 24, 2016, June 14, 2017 and January 3, 2019, with the assistance of our PRC Legal Adviser, we consulted relevant officers of the Department of Education of Guangdong Province (廣東省教育廳) (the "**Education Department**") to confirm the matters relating to the Sino-Foreign Joint Venture Private Higher Education Schools. We were advised by the responsible officers at the Education Department that:

(i) the Foreign Ownership Restriction applies to Sino-Foreign Joint Venture Private Higher Education Schools in their region, i.e., Guangdong Province;

(ii) a foreign investor in a Sino-Foreign Joint Venture Private Higher Education School should be an educational institution that can award diploma and/or certificates of the same or similar education level in the country where the foreign investor is located;

(iii) no implementing measures or specific guidance pursuant to the Sino-Foreign Regulations have been promulgated in Guangdong Province;

(iv) there are already several Sino-foreign cooperative, separate legal entity institutions established across the country and, therefore, no further application for Sino-foreign cooperative, legal entity institutions will be accepted or reviewed, and no such applications had been received or were being processed by the Education Department as at June 14, 2017; and

(v) the execution of the Structured Contracts does not require approval from the education authorities or social security authorities.

As advised by the PRC Legal Adviser, (i) the Education Department is the competent authority in charge of Sino-Foreign Joint Venture Private Higher Education Schools in Guangdong Province; (ii) the respective officers during the interviews with the Education Department are competent persons since the respective interviewees are the senior staff in the relevant offices which regulate the education and/or Sino-foreign Joint Venture Private Higher Education Schools; (iii) the Foreign Control Restriction applies to Sino-Foreign Joint Venture Private Higher Education Schools; (iv) based on the views expressed by the respective officers in the interviews, no application for the conversion into a Sino-Foreign Joint Venture Private Higher Education School by any of our PRC Operating Entities will be approved as a matter of the current policy; and (v) private schools established by enterprises, institutions, public organizations, other social organizations and individuals using non-government funds are highly regulated under the Law for Promoting Private

Education of the PRC (《中華人民共和國民辦教育促進法》), which are not applicable to public schools. Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC" in this prospectus for further details.

Vocational Education

Pursuant to the Negative List, vocational education in the PRC is the "permitted" industry. However, the Administrative Measures for the Sino-Foreign Cooperative Education on Vocational Skills Training (《中外合作職業技能培訓辦學管理辦法》) (the "**Sino-Foreign Vocational Skills Training Measures**") explicitly restrict vocational education to Sino-foreign cooperation, which means that foreign investors similarly may only operate vocational training schools through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulations.

In addition, pursuant to Sino-Foreign Vocational Skills Training Measures, for schools offering vocational education (a "**Sino-Foreign Joint Venture Private Vocational Education School**") (Sino-Foreign Joint Venture Private Higher Education School and Sino-Foreign Joint Venture Private Vocational Education School are collectively referred as "**Sino-Foreign Joint Venture Private Schools**"), similar to the Higher Education Qualification Requirement, the foreign investor in the Sino-Foreign Joint Venture Private Vocational Education School must be a foreign education institution with relevant qualification and high quality of education (the "**Vocational Education Qualification Requirement**") (Higher Education Qualification Requirement and Vocational Education Qualification Requirement are collectively referred as "**Qualification Requirement**").

Furthermore, pursuant to Sino-Foreign Regulations and the Implementation Opinions, Sino-foreign Joint Venture Private Vocational Education School is also subject to the Foreign Ownership Restriction Requirement.

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

On January 20, 2017, August 31, 2017 and January 3, 2019, with the assistance of our PRC Legal Adviser, we consulted the relevant officers at Department of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳) (the "**Human Resources Department**") to confirm the matters relating to the Sino-Foreign Joint Venture Private Vocational Education Schools. We were advised:

(i) the Foreign Ownership Restriction applies to Sino-Foreign Joint Venture Private Vocational Education Schools in their region, i.e., Guangdong Province;

(ii) a foreign investor in a Sino-Foreign Joint Venture Private Vocational Education School should be an educational institution that can award diploma and/or certificates of the same or similar education level in the country where the foreign investor is located;

(iii) no implementing measures or specific guidance pursuant to the Sino-Foreign Regulations have been promulgated in Guangdong Province;

(iv) the authorities are cautious about Sino-foreign cooperative education, the application for the establishment of a Sino-Foreign Joint Venture Private Vocational Education Schools will be strictly reviewed and processed pursuant to the Sino-foreign Regulations, and for the existing domestic technical schools, no application for conversion into a Sino-foreign private school will be approved; and

(v) the execution of the structured contracts pursuant to the Contractual Arrangements or Structured Contracts does not require approval from the education authorities.

As advised by the PRC Legal Adviser, (i) the Human Resources Department is the competent authority in charge of Sino-Foreign Joint Venture Private Vocational Education Schools in Guangdong Province; (ii) the respective officers during the interviews with the Human Resources Department are competent persons since the respective interviewees are the senior staffs in the relevant offices which regulate the education and/or Sino-foreign cooperative education; (iii) no application for the conversion into a Sino-Foreign Joint Venture Private Vocational Education School or a Sino-Foreign private technical school by any of our PRC Operating Entities will be approved as a matter of the current policy based on the views expressed by the respective officers in the interviews; and (iv) private schools established by enterprises, institutions, public organizations, other social organizations and individuals using non-government funds are highly regulated under the Law for Promoting Private Education of the PRC, which are not applicable to public schools. Please refer to the section headed "Regulatory Overview – Regulations on Private Education in the PRC" in this prospectus for further details.

Given that as of the Latest Practicable Date, we do not have experience in operating a school outside of the PRC, it is therefore not practicable for us to seek to apply to reorganize any of our PRC Operating Entities as a Sino-Foreign Joint Venture Private School or convert any of our PRC Operating Entities into 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 efforts and financial resources to do so. We have undertaken to make periodic inquiries of relevant educational authorities following the Listing to understand any regulatory developments, including whether there will be any change in policy for approving Sino-Foreign Joint Venture Private Schools in Guangdong Province, and assess whether we are qualified to meet the Qualification Requirement, with a view to unwinding the Structured Contracts wholly or partially as and when practicable and permissible under prevailing PRC laws and regulations. See "– Background of the Structured Contracts – Circumstances in which We Will Unwind the Structured Contracts" and "– Background of the Structured Contracts – Plan to Comply with the Qualification Requirement" in this section of this prospectus for details.

As a result of the above regulatory restrictions, we do not hold any direct sponsor interest in Huali College or Huali Vocational College, which operates higher education and Huali Technician College, which solely operates vocational education, but exercise control over them through the Structured Contracts.

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Structured Contracts and the consolidated financial results of our PRC Operating Entities, which engage in education services, are consolidated to those of our Group. Our PRC Legal Adviser has opined that each of our PRC Operating Entities has been legally established and save as disclosed in the section headed "– Legality of the Structured Contracts – PRC Legal Opinions" and "Risk Factors – Risks Relating to Our Structured Contracts" in this prospectus, the Structured Contracts in relation to the operation of higher education and vocational education are valid, legal and binding and do not contravene PRC laws and regulations. According to our PRC Legal Adviser, under PRC laws and regulations and based on the interviews with the Education Department and Human Resources Department, the failure to meet the Qualification Requirement and the adoption of the Structured Contracts to operate our higher education and vocational education do not render our higher education business or vocational education as illegal operations in the PRC. As disclosed above, we have obtained confirmation from the Education Department and Human Resources Department that the execution of the Structured Contracts do not require approvals from the Education Department or Human Resources Department. However, no positive regulatory assurance has been obtained from relevant PRC regulatory authorities with respect to the use of the Structured Contracts in the education industry, and it is impracticable to obtain such assurances, no relevant PRC regulatory authorities have ever issued any regulations, rules or notices to prohibit the use of Structured Contracts in the education industry.

Circumstances in which We Will Unwind the Structured Contracts

Sino-Foreign Joint Venture Private Higher Education Schools

Under the Sino-Foreign Regulations, foreign investment in higher education in the PRC is required to be in the form of cooperation between Chinese educational institutions and foreign educational institutions and subject to the Foreign Ownership Restriction and the Foreign Control Restriction, foreign sponsors can only hold less than a 50% interest in a Sino-Foreign Joint Venture Private School and not less than 50% of the governing body of the institute offering higher education must be appointed by the Chinese investors. Huali College and Huali Vocational College are subject to the Foreign Control Restriction and the Foreign Ownership Restriction.

In the event that the Qualification Requirement is removed or we are able to meet the Higher Education Qualification Requirement and there is a change in policy, under which Sino-foreign Joint Venture Private Higher Education School had been approved in Guangdong Province, 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, or (c) the Foreign Ownership Restriction is removed and the Foreign Control Restriction remains, or (d) both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed, as permitted by the applicable PRC laws and regulations at the relevant time:

– in circumstance (a), our Company will partially unwind the Structured Contracts 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 sponsor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private Higher Education School of less than 50%. However, our Company would not be able to control such school without the Structured Contracts in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction and the Foreign Control Restriction remain, regardless of whether the Higher Education Qualification Requirement is removed or met our Company would still rely on contractual arrangements to establish control over our PRC Operating Entities. Our Company would also acquire rights to appoint members to the board of directors who together should constitute less than 50% of the board of directors of the relevant school. We would then control the voting power of the other members to the board of directors appointed by the domestic interest holder(s) by way of Structured Contracts;

– in circumstance (b), we would partially unwind the Structured Contracts and directly hold an interest of less than 50% in the relevant school (such as a 49.99% 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 Higher Education School of less than 50%. However, our Company would not be able to control such school without the Structured Contracts in place with respect to the domestic interests. Our Company would also acquire rights to appoint all members to the board of directors of our PRC Operating Entities;

– in circumstance (c), notwithstanding that we would be able to hold a majority interest in Sino-Foreign Joint Venture Private Higher Education Schools, the Sino-foreign Regulations still dictate that there be a domestic interest in the school and we would be ineligible to operate it by ourselves. Under such circumstances, we would acquire rights to appoint members to the board of directors who together should constitute less than 50% of board of directors of the relevant school. We would then control the voting power of such members appointed by the domestic interest holder(s) through the Structured Contracts. We also plan to hold the maximum percentage of interests permissible by the relevant laws and regulations in the relevant schools directly, subject to the approval of relevant government authorities. As for the remaining minority domestic interests which our Company intends to consolidate, we would then control them pursuant to the Structured Contracts; and

– in circumstance (d), our Company would be allowed to directly hold 100% of the interests in our PRC Operating Entities and our Company would fully unwind the Structured Contracts and directly hold all interests in the PRC Operating Entities. Our Company would also acquire rights to appoint all members to the board of directors of our PRC Operating Entities.

Under the Sino-Foreign Vocational Skills Training Measures, foreign investment in technician schools in the PRC is required to be in the form of cooperation between domestic educational institutions and foreign educational institutions and subject to the Foreign Ownership Requirement. Accordingly, the Huali Technician School is subject to the Foreign Ownership Restriction.

In the event that the Vocational Education Qualification Requirement is removed or we are able to meet the Vocational Education Qualification Requirement and there is a change in policy, such that Sino-Foreign Joint Venture Private Vocational Education Schools are approved in Guangdong Province, but (a) the Foreign Ownership Restriction remains, or (b) the Foreign Ownership Restriction is removed, as permitted by the applicable PRC laws and regulations at the relevant time:

- in circumstance (a), we would partially unwind the Structured Contracts and directly hold an interest of less than 50% in Huali Technician College (such as a 49.99% interest) as we as a foreign investor, can only hold an interest in a Sino-Foreign Joint Venture Private Vocational Education School of less than 50%. However, our Company would not be able to control such school without the Structured Contracts in place with respect to the domestic interests. Our Company would also acquire rights to appoint all members to the board of directors of Huali Technician College; and

- in circumstance (b), our Company would be allowed to directly hold 100% of the interests in Huali Technician College and our Company would fully unwind the Structured Contracts and duly directly hold all interests in Huali Technician College. Our Company would also acquire rights to appoint all members to the board of directors of Huali Technician College.

Plan to Comply with the Qualification Requirement

We have adopted a specific plan and begun to take the following concrete steps which we reasonably believe are meaningful endeavors to demonstrate compliance with the Qualification Requirement. The Education Department and the Human Resources Department had confirmed to us that the foreign investor of a Sino-Foreign Joint Venture Private School should be an education institution that can award diploma certificates in the country where the foreign investor is located and there are no specific requirements as to whether the foreign investor must be a private or public education institution, to qualify for approval as a foreign investor of a Sino-Foreign Joint Venture Private School. Our PRC Legal Adviser also confirmed that it is of the view that, and based on the interviews with the Education Department and Human Resources Department although no application for the conversion into a Sino-Foreign Joint Venture Private Higher Education School by any of our PRC Operating Entities will be approved as a matter of the current policy, the following steps taken by us to demonstrate compliance with the Qualification Requirements are reasonable and appropriate.

On June 1, 2017, Huali College entered into a service agreement with a consultancy agency for our education establishment in the United States (the "**Consultancy Agency**"), pursuant to which we intend to establish a new school in the State of California, the United States (the "**California School**") with the assistance from the Consultancy Agency. On June 22, 2017, we formed an operating entity in the United States, namely USA Huali Educational Services LLC ("**Huali USA**"), which is an indirect wholly-owned subsidiary of our Company and will be responsible for the daily operations and management of the California School. We intend to engage a well-regarded professor who has extensive higher education administration experience in the United States as our consultant (the "**Consultant**") to supervise the operations and administration of the California School. The Consultant worked at more than five universities in the United States with positions including dean, president and CEO, where he supervised all material aspects of higher education administration including academics, accreditation, finance, marketing and admissions prior to acting as the Consultant. The Consultant is also one of the commissioners of the WASC Senior College and University Commission. As of the Latest Practicable Date, we had not entered into any formal service agreement with the Consultant. We intend to enter into the service agreement with the Consultant after we have obtained the approval from BPPE in respect of the California School.

We had submitted a formal application to the BPPE through the non-accredited application process in January 2019. The approval process with the BPPE is expected to complete within approximately 12 months from the date of application and we have engaged legal counsel in California for advice on matters relating to the approval process. We expect the California School to commence operations in or around September 2021. To assist our future operation of the California School, the Consultancy Agency has formulated an accreditation plan regarding the establishment of the California School which we will use to operate the California School, and will provide assistance to initiate and implement the key elements of the plan. In addition, the Consultancy Agency is developing a business plan to further detail each stage of development, including the management and operations, of the California School. With the assistance of the Consultancy Agency, we are in the process of searching for appropriate school premises as well as suitable and experienced management for the operations of the California School. We intend to initially offer majors/degree program of Bachelor of Science in International Accounting and the Bachelor of Science in International Business through the California School. We estimate that the initial student enrolment of the California School will be approximately 20 (10 for each major).

As advised by our legal adviser as to California law, there is no minimum student intake requirement stipulated by the Accrediting Commission of Career Schools and Colleges (ACCSC). In addition, the California School is expected to become an institutionally accredited residential university upon satisfying (i) the accreditation candidacy two years after the date of the provisional approval from the BPPE by demonstrating that the university has two years of operating history and has satisfied relevant operating and financial requirements of the ACCSC; and (ii) achieving full accreditation within five years from date of provisional approval from the BPPE by demonstrating that the university has five years of operating history and has continuously satisfied the relevant operating and financial requirements of the ACCSC. Mr. Zhang Yude, our non-executive Director will be the Chief Executive Officer of the California School. We also plan to employ Chief Academic Officer, Marketing and Admissions Directors and a student services Director in the United States and recruit staff for the daily operations and management of the California School.

We will fund the operations and development of the California School from our internal resources and had expended approximately US$137,255 in connection with our plan for the establishment of the California School as of the Latest Practicable Date. We intend to further invest up to US$2,400,000 for establishing and operating the California School for the four years ending December 31, 2024. As we have no prior experience establishing and/or operating schools in the United States, we may encounter difficulties in the establishment of the California School and barriers and challenges upon entering into the market in the United States. Please see section headed "Risk Factors – Risks relating to our business and our industry – We may not be able to successfully establish new schools overseas pursuant to our proposed timeline or at all." Please refer to the section headed "Regulatory Overview – Statutes and Regulations on Private Post-

Secondary Education in the State of California, U.S." in this prospectus for details of the regulatory environment in California for the operation of a private Post-Secondary school.

Based on the interviews conducted with (i) the Education Department and (ii) the Human Resources Department and the steps that we have taken as mentioned above, our PRC Legal Adviser is of the view that we have taken all reasonable steps towards fulfilling the Qualification Requirement.

In the opinion of our PRC Legal Adviser, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed, but the Qualification Requirement remains and assuming the new school to be operated by Huali USA or another educational institution established by us gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future, we will be able to operate our PRC Operating Entities in the PRC directly through the new school operated by Huali USA or such other educational institution.

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

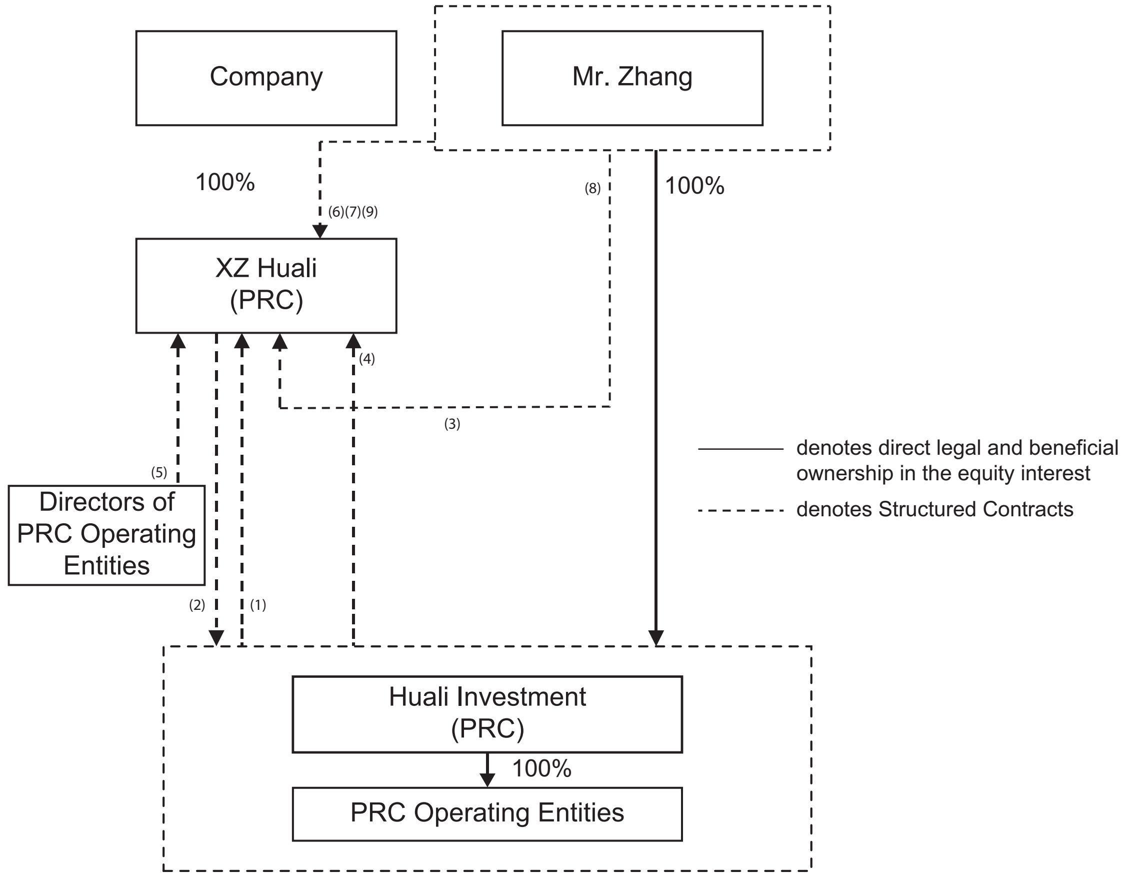
(i) under the guidance of our PRC Legal Adviser, continue to keep ourselves updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirement; and

(ii) provide periodic updates in our annual and interim reports after Listing to inform our Shareholders of our efforts and actions undertaken with respect to the Qualification Requirement.

OPERATION OF THE STRUCTURED CONTRACTS

In order to comply with the PRC laws and regulations as set out above while availing ourselves of international capital markets and maintaining effective control over all of our operations, on March 23, 2017, our wholly-owned subsidiary, XZ Huali and Huali Investment entered into various agreements that constitute the Structured Contracts with, among others, our PRC Operating Entities, under which all economic benefits arising from the business of our PRC Operating Entities and Huali Investment were transferred to XZ Huali to the extent permitted under the PRC laws and regulations by means of service fees payable by our PRC Operating Entities and Huali Investment to XZ Huali. The parties to the Structured Contracts each entered into certain supplemental agreements (collectively, the "**Supplemental Agreements**") dated September 19, 2017, November 27, 2017, August 30, 2018, September 28, 2018, April 23, 2019, July 22, 2019 and October 10, 2019 respectively, to supplement and amend certain terms of the Structured Contracts.

The following simplified diagram illustrates the flow of economic benefits from our PRC Operating Entities and Huali Investment to our Group stipulated under the Structured Contracts:



Notes:

(1) Payment of service fees. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (2) Exclusive Technical Service and Management Consultancy Agreement" in this prospectus for details.

(2) Provision of exclusive technical and management consultancy services. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (2) Exclusive Technical Service and Management Consultancy Agreement" in this prospectus for details.

(3) Exclusive call option to acquire all or part of the school sponsor's interest of Huali Investment in our PRC Operating Entities and equity interest in Huali Investment. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (3) Exclusive Call Option Agreement" in this prospectus for details.

(4) Entrustment of school sponsor's rights in our PRC Operating Entities by Huali Investment, including school sponsor's power of attorney. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (5) School Sponsor's Power of Attorney" in this prospectus for details.

(5) Entrustment of directors' rights in our PRC Operating Entities by School Directors appointed by Huali Investment, including school directors' power of attorney. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (6) School Directors' Power of Attorney" in this prospectus for details.

(6) Spouse undertaking by the spouse of the Registered Shareholder, who is the shareholder of Huali Investment. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (7) Spouse Undertaking" in this prospectus for details.

(7) Pledge of equity interest by the Registered Shareholder of their equity interest in Huali Investment. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (8) Equity Pledge Agreement" in this prospectus for details.

(8) Power of attorney by Mr. Zhang to XZ Huali. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (9) Registered Shareholder's Rights Entrustment Agreement and Registered Shareholder's Power of Attorney" in this prospectus for details.

(9) Entrustment of Registered Shareholder's rights in Huali Investment by Registered Shareholder, including Registered Shareholder's Power of Attorney. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (9) Registered Shareholder's Rights Entrustment Agreement and Registered Shareholder's Power of Attorney" in this prospectus for details.

Summary of the Material Terms of the Structured Contracts

A description of each of the specific agreements that comprise the Structured Contracts (as amended and supplemented from time to time) is set out below.

(1) Business Cooperation Agreement

Pursuant to the Business Cooperation Agreement, XZ Huali shall provide technical services, management support and consulting services, necessary for the private education business, and in return, Huali Investment and our PRC Operating Entities shall make payments pursuant to the Structured Contracts.

To ensure the due performance of the Structured Contracts, each of our PRC Operating Entities and Huali Investment agreed to comply, and procure its subsidiaries to comply, with the obligations as prescribed under the Business Cooperation Agreement set forth as follows in relation to the respective PRC Operating Entity:

(i) to carry out its private education operations and the business of Huali Investment in a prudent and efficient manner in accordance with good financial and business standards while maintaining the asset value of Huali Investment and our PRC Operating Entities and the quality and standard of private education;

(ii) to prepare school development plans and annual working plans in accordance with the instructions of XZ Huali;

(iii) to carry out its private education activities and other relevant business under the assistance of XZ Huali;

(iv) to carry out relevant business and manage its daily operations and financial management in accordance with the recommendations, advice, principles and other instructions of XZ Huali;

(v) to execute and act upon the recommendations of XZ Huali in terms of employment and removal of senior management and staff;

(vi) to adopt the advice, guidance and plans given by XZ Huali in relation to their respective strategic development; and

(vii) to carry out its business operations and renew and maintain its respective necessary licenses for the purpose of development of education business.

In addition, pursuant to the Business Cooperation Agreement,

(a) the Registered Shareholder undertakes to XZ Huali that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of their equity interest in Huali Investment, they shall have made all necessary arrangements and sign all necessary documents such that their respective successor, guardian, spouse, and any other person who may as a result of any of the above events obtain the equity interest or relevant rights shall not prejudice or hinder the enforcement of the Structured Contracts;

(b) Huali Investment and the Registered Shareholder undertakes that, in the event of dissolution or liquidation of our PRC Operating Entities or Huali Investment, (i) XZ Huali and/or its authorized person shall have the rights to exercise all of the school sponsor's rights on behalf of Huali Investment and the shareholders' interest in Huali Investment; (ii) Huali Investment and/or its shareholder shall transfer all assets received or receivable in its capacity as school sponsor of each of our PRC Operating Entities and/or as the shareholder of Huali Investment as a result of the dissolution or liquidation of our PRC Operating Entities and/or Huali Investment to XZ Huali or other persons designated by us at nil consideration, (iii) if consideration is required for such transfer under the then applicable PRC laws, Huali Investment and its shareholder shall compensate XZ Huali and/or the person as designated by us the amount by proper means and guarantee that XZ Huali and/or other persons as designated by us does not suffer any loss; and

(c) Huali Investment and our PRC Operating Entities agreed that, without the prior written consent of XZ Huali, Huali Investment and/or any of our PRC Operating Entities shall not declare or pay to its shareholders any bonus, returns, dividend or other interest or benefit. In the event that the Registered Shareholder as shareholder of Huali Investment or Huali Investment receive any bonus, returns, dividend or other interest or benefit, the Registered Shareholder or Huali Investment shall unconditionally and without compensation, transfer such amount to a specific account designated by XZ Huali as security for the performance of obligations under the Structured Contracts and repayment of debt.

In order to prevent the leakage of assets of, and value from our PRC Operating Entities, the Registered Shareholder, Huali Investment and each of our PRC Operating Entities have undertaken that, without the prior written consent of XZ Huali or its designated party or unless required by law, he and/or Huali Investment and/or our PRC Operating Entities shall not conduct or cause any other person to conduct any activity or transaction which may have an actual impact (i) on the assets, business, staff, obligations, rights or operations of Huali Investment and our PRC Operating Entities or (ii) on the ability of Huali Investment, the Registered Shareholder and each of our PRC Operating Entities to perform their respective obligations under the Structured Contracts. Such activities and transactions include, without limitation:

(a) the establishment of any subsidiary or entity by our PRC Operating Entities or the establishment of any other business or subsidiary by Huali Investment;

(b) carrying out any activity by any of Huali Investment and our PRC Operating Entities or their respective subsidiaries which is outside their ordinary course of business or change the mode of operations of Huali Investment and our PRC Operating Entities or their respective subsidiaries;

(c) the consolidation, subdivision, change of form of corporate organization, dissolution or liquidation of Huali Investment and our PRC Operating Entities and/or their respective subsidiaries;

(d) providing any borrowing, loan or guarantee in respect of any debt to, or inheriting or accepting any debt to, Huali Investment and our PRC Operating Entities or their respective subsidiaries by the Registered Shareholder;

(e) providing any borrowing, loan or guarantee in respect of any debt, or inheriting or accepting any debt from Huali Investment and our PRC Operating Entities or their respective subsidiaries owed to any third party, except in the ordinary course of business and provided that the amount of any such individual debt is less than RMB100,000;

(f) change or remove any director, supervisor or senior management of any of Huali Investment and our PRC Operating Entities or their respective subsidiaries, increase or decrease their remuneration package, or change of their appointment terms and conditions;

(g) the sale, transfer, lending or authorizing the use or disposal of any assets or rights of any of Huali Investment and our PRC Operating Entities or their respective subsidiaries to any third party other than XZ Huali or its designated party, including but not limited to domain names, trademarks, intellectual property rights and know-how registered by Huali Investment and our PRC Operating Entities or their subsidiaries, or purchase of assets or rights from any third party by Huali Investment and our PRC Operating Entities or their subsidiaries, except in the ordinary course of business and provided that the individual transaction amount is less than RMB100,000;

(h) the sale of any equity or school sponsor's interests in any of Huali Investment, the PRC Operating Entities or their respective subsidiaries to any third party other than XZ Huali or its designated party, or any increase or reduction of the registered capital or change of the structure of the equity or school sponsor's interest of any of Huali Investment, our PRC Operating Entities or their subsidiaries;

(i) provide any guarantee secured by the equity interests and/ or school sponsor's interests in or any assets or rights held by Huali Investment and its shareholders, any of our PRC Operating Entities or any of their subsidiaries or entities, or to procure Huali Investment and its shareholders, any of our PRC Operating Entities or any of their subsidiaries or entities to provide any guarantee in any other form, or to create any encumbrances over the equity interests and/ or school sponsor's interests in or any assets held by Huali Investment and its shareholders, any of our PRC Operating Entities or any of their subsidiaries or entities in favor of any third parties other than XZ Huali or the person(s) as it may direct;

(j) change, alter or withdraw any license of Huali Investment and our PRC Operating Entities or any of its subsidiaries or entities;

(k) revise the constitution of any of Huali Investment and our PRC Operating Entities or any of its subsidiaries or entities, or change the scope of operation of Huali Investment and any of our PRC Operating Entities or any of its subsidiaries or entities;

(l) change the internal regular business procedures or revise any internal rules and systems of Huali Investment and our PRC Operating Entities or their respective subsidiaries, including but not limited to the financial management system, rules of procedures of the board of directors/ shareholders' general meetings and terms of reference of managers and other executive officers;

(m) entering into any transaction or execute any business contracts related to Huali Investment and our PRC Operating Entities or their respective subsidiaries with any third party other than in the ordinary course of business, which is beyond the scope of development plan of XZ Huali by Huali Investment and our PRC Operating Entities or their subsidiaries;

(n) the distribution of dividends, returns, profits or other payments to the Registered Shareholder, Huali Investment, any of our PRC Operating Entities or their respective subsidiaries;

(o) carry out any activity which has or may have an adverse effect on the daily operations, business or assets of any of Huali Investment and our PRC Operating Entities or their subsidiaries or its ability to make any payment to XZ Huali;

(p) entering into any transaction which has or may have an adverse effect on the transactions contemplated under the Structured Contracts; and

(q) the transfer of any rights or duties under the Business Cooperation Agreement and any other cooperation agreements or arrangements to any third party other than XZ Huali and it or its designated person, or Registered Shareholder, Huali investment, our PRC Operating Entities or any of their subsidiaries establish or undertake any cooperation or business relationship that is the same as or similar to this cooperation with any third party.

Furthermore, the Registered Shareholder undertakes to XZ Huali that, unless with the prior written consent of XZ Huali, the Registered Shareholder shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with any of Huali Investment and our PRC Operating Entities or their respective subsidiaries ("**Competing Business**"), (ii) use information obtained from any of Huali Investment and our PRC Operating Entities or their respective subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. The Registered Shareholder further consents and agrees that, in the event that the Registered Shareholder directly or indirectly engages, participates in or conduct any Competing Business, XZ Huali and/or other entities as designated by us shall be granted an option to require the entity engaging in the Competing Business to enter into an arrangements comparable to the Structured Contracts. If XZ Huali does not exercise such option, the Registered Shareholder shall cease operation of the Competing Business within a reasonable time afterwards. If there is a material conflict of interests for the directors of XZ Huali and such directors of XZ Huali are unable to consider or perform the contracts or arrangements independently in light of the conflict of interests, such directors shall abstain from voting on the contracts or arrangements concerned, the deliberation of which shall be escalated to our Board.

(2) Exclusive Technical Service and Management Consultancy Agreement

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, XZ Huali has agreed to provide exclusive technical services to Huali Investment and our PRC Operating Entities, including but not limited to, (a) design, development, update and maintenance of educational software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites necessary for the education activities of Huali Investment and our PRC Operating Entities; (c) design, development, update and maintenance of management information systems necessary for the education activities of Huali Investment and our PRC Operating Entities; (d) provision of other technical support necessary for the education activities of Huali Investment and our PRC Operating Entities; (e) provision of technical consulting services; (f) provision of technical training; (g) engaging technical staff to provide on-site technical support; and (h) providing other technical services reasonably requested by Huali Investment and our PRC Operating Entities.

Furthermore, XZ Huali has agreed to provide exclusive management consultancy services to Huali Investment and our PRC Operating Entities, including but not limited to, (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long-term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimization on annual budget; (h) advising on design of internal structures and internal management; (i) provision of management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of education management network and (m) providing other technical services reasonably requested by Huali Investment and our PRC Operating Entities.

In consideration of the technical and management consultancy services provided by XZ Huali, each of Huali Investment and our PRC Operating Entities agreed to pay XZ Huali a service fee equal to all of their respective amount of net profit (after deducting all costs, expenses, taxes, losses from the previous year (if required by law) and the legally compulsory development fund of the respective school/statutory surplus reserve (if required by law)); XZ Huali has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of Huali Investment and our PRC Operating Entities, provided that any adjusted amount shall not exceed the amount mentioned above. Huali Investment and our PRC Operating Entities do not have any right to make any such adjustment.

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

(3) Exclusive Call Option Agreement

Under the Exclusive Call Option Agreement, the Registered Shareholder and Huali Investment have irrevocably granted XZ Huali or its designated purchaser the right to purchase all or part of the investment/school sponsor's interest of Huali Investment in our PRC Operating Entities ("**Call Option**"). The purchase price payable by XZ Huali for the transfer of such investment/school sponsor's interest under the Call Option shall be the lowest price permitted under PRC laws and regulations. XZ Huali or its designated purchaser shall have the right to purchase such proportion of the investment/school sponsor's interest of our PRC Operating Entities as it decides at any time.

In the event that PRC laws and regulations allow XZ Huali or us to directly hold all or part of the interest in Huali Investment and our PRC Operating Entities and operate private education business in the PRC, XZ Huali shall issue a notice of exercise of the Call Option as soon as practicable, and the percentage of interests purchased upon exercise of the Call Option shall not be higher than the maximum percentage then allowed to be held by XZ Huali or us under PRC laws and regulations.

Huali Investment in its capacity as school sponsor of the PRC Operating Entities and the Registered Shareholder on its capacity as the shareholder of Huali Investment have further undertaken to XZ Huali that, without prior written consent of XZ Huali, it:

(a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over its school sponsor's interest in any of our PRC Operating Entities or equity interest in Huali Investment (as the case may be);

(b) shall not increase or reduce or agree to the increase or reduction of capital investment of our PRC Operating Entities and/or Huali Investment (as the case may be);

(c) shall not agree to and procure that none of our PRC Operating Entities and/or Huali Investment (as the case may be) shall, divide into or merge with other entities;

(d) shall not dispose of and procure the management of our PRC Operating Entities and/or Huali Investment (as the case may be) shall nor dispose of, any of the assets of our PRC Operating Entities and/or Huali Investment (as the case may be), except (i) in the ordinary course of business and (ii) where the value of such assets being disposed does not exceed RMB100,000;

(e) shall not terminate, and shall procure the management of our PRC Operating Entities and/or Huali Investment (as the case may be) not to terminate, any material contract (which includes any agreement under which the amount involved exceeds RMB100,000, the Structured Contracts and any agreement of similar nature or content to the Structured Contracts) or enter into any other contracts which may contradict such material contracts;

(f) shall not or shall procure that none of our PRC Operating Entities and/or Huali Investment (as the case may be) shall, declare any actual distribution of reasonable returns/benefit from school operations or in substance make any distribution or agree to such distribution;

(g) shall not agree to and shall procure that none of our PRC Operating Entities and/or Huali Investment (as the case may be) shall, amend its articles of association unless it is required by laws and regulations;

(h) shall not establish any other business, in any form;

(i) Shall develop the business of the PRC Operating Entities and/or Huali Investment on best effort basis and ensure the PRC Operating Entities' and/or Huali Investment regulatory compliance in terms of operation and shall not engage or not engage in any activities which may be prejudice to the asset, goodwill or the effectiveness of the license of the PRC Operating Entities and/or Huali Investment;

(j) shall procure each of our PRC Operating Entities and/or Huali Investment does not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by our PRC Operating Entities and/or Huali Investment exceeds RMB100,000, obligations which restrict or hinder the due performance of obligations under the Structured Contracts by our PRC Operating Entities and/or Huali Investment, obligations which restrict or prohibit the financial or business operations of our PRC Operating Entities and/or Huali Investment, or any obligations which may result in a change of the structure of the school sponsor's interest and/or investment of our PRC Operating Entities) and/or Huali Investment outside its ordinary course of business;

(k) shall, prior to the transfer of its school sponsor's interest and/or equity interest to XZ Huali or its designated purchaser and, without prejudice to the School Sponsor's and Directors' Rights Entrustment Agreement, execute all documents necessary for holding and maintaining the ownership of its school sponsor's interest in our PRC Operating Entities and/or equity interest in Huali Investment;

(l) shall sign all documents and take all necessary actions to facilitate the transfer of its sponsor's interest in our PRC Operating Entities and/or equity interest in Huali Investment to XZ Huali or its designated purchaser when a transfer is triggered under the Structured Contracts;

(m) shall, in its capacity as a school sponsor of our PRC Operating Entities and/or shareholder of Huali Investment and without prejudice to the Structured Contracts, procure directors nominated by it exercise their rights to facilitate our PRC Operating Entities and/or Huali Investment to act in accordance with rights and obligations of the School Sponsor and/or its shareholder under the Exclusive Call Option Agreement, and shall replace any director who fails to do so; and

(n) in the event that the consideration paid by XZ Huali or its designated purchaser for the transfer of all or part of the school sponsor's interest in our PRC Operating Entities, or of equity interest in Huali Investment, exceeds RMB nil, shall pay such excess amount to XZ Huali or its designated entity.

In addition, the PRC Operating Entities and Huali Investment have undertaken to XZ Huali that, they

(a) shall not enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of our PRC Operating Entities or Huali Investment, save for transactions which are in the ordinary course of business of our PRC Operating Entities or Huali Investment with an amount less than RMB100,000, or transactions which have been disclosed to and approved by XZ Huali;

(b) shall not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by any of our PRC Operating Entities or Huali Investment exceeds RMB100,000, obligations which restrict or hinder the due performance of obligations under the Structured Contracts by our PRC Operating Entities or Huali Investment, obligations which restrict or prohibit the financial or business operations of our PRC Operating Entities, or any obligations which may result in a change of the structure of the school sponsor's interest of our PRC Operating Entities) outside its ordinary course of business;

(c) shall use their best endeavors to develop the business of our PRC Operating Entities and Huali Investment and ensure compliance with laws and regulations by our PRC Operating Entities and Huali Investment, and shall not take any action which may prejudice the assets, goodwill or the effectiveness of operational licenses of our PRC Operating Entities and Huali Investment;

(d) shall not agree to and shall procure not to distribute, as the case may be, (whether directly or indirectly) any dividend to the Registered Shareholder or profits from the PRC Operating Entities to Huali Investment (if any);

(e) operate the business of the PRC Operating Entities and Huali Investment in accordance with the terms of the Cooperation Agreements and instructions from XZ Huali;

(f) shall sign all documents as required to safeguard the rights of assets of Huali Investment and the PRC Operating Entities (as the case may be) and the transactions contemplated in the Exclusive Call Option Agreement from time to time;

(g) unless otherwise stipulated in the Structured Contracts or required by applicable laws and regulations, shall not supplement, revise or modify the articles of associations of the PRC Operating Entities or Huali Investment (as the case may be) without the prior written approval of XZ Huali;

(h) shall procure that none of the PRC Operating Entities or Huali Investment passes any resolutions to engage in any business other than its current business, change of school sponsor, liquidate or dissolve the PRC Operating Entities or Huali Investment unless with the prior written notice of XZ Huali;

(i) shall carry out the operations of the PRC Operating Entities and Huali Investment in a prudent and efficient manner in accordance with good financial and business standards;

(j) shall allow XZ Huali, our Company and/or its designated auditors, upon reasonable notice, sufficient access to the its main office, relevant books and records for the purpose of procedures to be carried out by our Company's auditors' on the income during the relevant period;

(k) shall keep the PRC Operating Entities and Huali Investment insured by taking out similar insurance that it would take out for similar type of assets in the same area provided by an insurance service provider approved by XZ Huali;

(l) shall promptly inform XZ Huali of any litigation, arbitration, administrative investigation or any conduct that may have significant impact on the assets, business operations or revenue of the PRC Operating Entities or Huali Investment;

(m) shall sign all documents and take all necessary actions for and in relation to the pledge of assets to XZ Huali, upon the request of XZ Huali or its designated person;

(n) shall not conduct or allow any action to be conducted which may adversely affect the interests of XZ Huali under the Exclusive Call Option Agreement; and

(o) shall not merge with any other entity or company, acquire or invest in any business without the prior written notice of XZ Huali.

(4) School Sponsor's and Directors' Rights Entrustment Agreement

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, Huali Investment has irrevocably authorized and entrusted XZ Huali to exercise all its rights as school sponsor of each of our PRC Operating Entities to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of our PRC Operating Entities; (b) the right to appoint and/or elect supervisors of our PRC Operating Entities; (c) the right to understand the operation and financial situation of our PRC Operating Entities; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the PRC Operating Entities; (e) the right to obtain reasonable return (if existing) or profits as school sponsor of our PRC Operating Entities in accordance with relevant laws; (f) the right to acquire residual assets upon liquidation of the schools in accordance with relevant laws; (g) the right to transfer the school sponsor's interest in accordance with relevant laws; (h) the right to approve the management strategy and investment plan; (i) the right to review and approve the annual budget and profit distribution plan; and (j) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of our PRC Operating Entities as amended from time to time.

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

In addition, each of Huali Investment and the School Directors have irrevocably agreed that (i) XZ Huali may delegate its rights under the School Sponsor's and Directors' Rights Entrustment Agreement to the directors of XZ Huali or its designated person, without prior notice to or approval by Huali Investment and the School Directors; and (ii) any person as successor of civil rights of XZ Huali or liquidator by reason of subdivision, merger, liquidation of XZ Huali or other circumstances shall have authority to replace XZ Huali to exercise all rights under the School Sponsor's and Directors' Rights Entrustment Agreement.

(5) School Sponsor's Power of Attorney

Pursuant to the School Sponsor's Power of Attorney executed by Huali Investment in favor of XZ Huali, Huali Investment authorized and appointed XZ Huali as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of our PRC Operating Entities. For details of the rights granted, see "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsor's and Directors' Rights Entrustment Agreement" of this prospectus.

XZ Huali has the right to further delegate the rights so delegated to directors of XZ Huali or to another designated person. Huali Investment has irrevocably agreed that the authorization and appointment in the School Sponsor's Power of Attorney shall not be invalidated, revoked, prejudiced or otherwise adversely affected by reason of Huali Investment's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part and incorporate terms of the School Sponsor's and Directors' Rights Entrustment Agreement.

(6) School Directors' Power of Attorney

Pursuant to the School Directors' Power of Attorney executed by each of the School Directors in favor of XZ Huali, each of the School Directors, authorized and appointed XZ Huali, as his agent to act on his behalf to exercise or delegate the exercise of all his rights and functions as director of our PRC Operating Entities. For details of the rights granted, please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsor's and Directors' Rights Entrustment Agreement" in this prospectus for more details.

XZ Huali shall have the right to further delegate the rights so delegated to directors of XZ Huali or to another designated person. XZ Huali shall not delegate any of these rights to anyone whose interest would potentially conflict with those of our Group. Each of the School Directors has irrevocably agreed that, unless the Appointee ceases to be a director of XZ Huali, the authorization appointment in the School Directors' Powers of Attorney shall not be invalidated, prejudiced or otherwise adversely affected by reason of his loss of or restriction on capacity, death or other similar events. The School Directors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsor's and Directors' Rights Entrustment Agreement.

(7) Spouse Undertaking

Pursuant to the Spouse Undertaking, the spouse of the Registered Shareholder has irrevocably undertaken that:

(a) she has full knowledge of and has consented to the entering into of the Structured Contracts by the relevant Registered Shareholder, and in particular, the arrangements set out in the Structured Contracts in relation to the restrictions imposed on the equity interest in Huali Investment, the pledge or transfer of the equity interest in Huali Investment, and the disposal of the equity interest in Huali Investment in any other form;

(b) she has not, is not and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to Huali Investment and our PRC Operating Entities;

(c) she authorizes the respective Registered Shareholder and/or his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's equity interest in Huali Investment in order to safeguard the interest of XZ Huali under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(d) any undertaking, confirmation, consent and authorization under the Spouse Undertaking shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the equity interest held by the Registered Shareholder in Huali Investment;

(e) any undertaking, confirmation, consent and authorization under the Spouse Undertaking shall not be revoked, prejudiced, invalidated or otherwise adversely affected by the death, loss of or restriction on capacity of the spouse, divorce or other similar events; and

(f) all undertakings, confirmations, consents and authorizations under the Spouse Undertaking shall continue to be valid and binding until otherwise terminated by both XZ Huali and the spouse by in writing.

The Spouse Undertaking shall have the same term as and incorporate the terms of the Business Cooperation Agreement.

(8) Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement, the Registered Shareholder unconditionally and irrevocably pledged and granted first priority security interests over all of his equity interest in Huali Investment together with all related rights thereto to XZ Huali as security for the performance of obligations of the Registered Shareholder, Huali Investments and our PRC Operating Entities under the Structured Contracts and all direct, indirect, consequential damages and foreseeable loss of interest incurred by XZ Huali as a result of the any event of default (if any) on the part of the Registered Shareholder, Huali Investment or each of our PRC Operating Entities and all expenses incurred by XZ Huali as a result of enforcement of the obligations of the Registered Shareholder, Huali Investment and/or each of our PRC Operating Entities under the Structured Contracts (the "**Secured Indebtedness**").

Pursuant to the Equity Pledge Agreement, without the prior written consent of XZ Huali, the Registered Shareholder shall not transfer its equity interest or create any further pledge or encumbrance over the pledged equity interest. Any unauthorized transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Secured Indebtedness or deposited with such third party as agreed by XZ Huali. The Registered Shareholder also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the equity pledge agreement.

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

(a) any of the Registered Shareholder, Huali Investment or our PRC Operating Entities commits any breach of any obligations under the Structured Contracts;

(b) any representations or warranties or information provided by any of the Registered Shareholder, Huali Investment or our PRC Operating Entities under the Structured Contracts is proved incorrect or misleading in any material aspect; or

(c) any provision in the Structured Contracts becomes invalid or incapable of performance due to a change in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, XZ Huali shall have the right to enforce the Equity Pledge Agreement by written notice to the Registered Shareholder in one or more of the following ways:

(a) to the extent permitted under PRC laws and regulations, XZ Huali may request the relevant Registered Shareholder to transfer all or part of his equity interest in Huali Investment to XZ Huali and/or any entity or individual designated by XZ Huali at the lowest consideration permissible under the PRC laws and regulations. The Registered Shareholder has irrevocably undertaken that, where the consideration by which XZ Huali or any entity or individual designated by XZ Huali paid for all or part of the equity interest in Huali Investment held by Mr. Zhang exceeds RMB nil, Mr. Zhang shall bear the liability and shall fully compensate XZ Huali or any entity or individual designated by XZ Huali;

(b) sell the pledged equity interest by way of auction or at a discount and have priority over the sales proceeds provided that the terms in the Structured Contracts shall not be affected; and

(c) dispose of the pledged equity interest in other manner as agreed by XZ Huali and the Registered Shareholder in accordance with applicable laws and regulations.

The pledge under the Equity Pledge Agreement was registered with the Guangzhou Administration for Industry and Commerce (now known as Guangzhou Market Supervisory Authority) on September 13, 2018 and the Secured Indebtedness became effective on the same date.

As advised by the PRC Legal Adviser, the interests in our PRC Operating Entities held by Huali Investment as school sponsor are per se not equity interests by nature and under the PRC Company Law, a school sponsor's interest in schools cannot be pledged in the way applicable to equity or shareholding interests in ordinary corporate entities and agreements purported create any pledge of a school sponsor's interests in schools are unenforceable under applicable PRC laws and regulation. Under the Structured Contracts, there is no equity pledge arrangement between our Company and Huali Investment over the school sponsor's interest in our PRC Operating Entities held by Huali Investment. As advised by our PRC Legal Adviser, according to applicable laws and regulations as of the Latest Practicable Date, if Huali Investment were to pledge its school sponsor's interest in each of our PRC Operating Entities, which are privately run non-enterprise institutions, to us, such arrangement would be unenforceable under PRC laws and regulations given that school sponsor's interests in schools are not pledgeable under PRC laws.

(9) Registered Shareholder's Rights Entrustment Agreement and Registered Shareholder's Power of Attorney

According to the Registered Shareholder's Rights Entrustment Agreement and Registered Shareholder's Power of Attorney, Mr. Zhang, as the Registered Shareholder has executed a power of attorney irrevocably entrusting and authorizing XZ Huali or its designated person as his agent to act on his behalf to exercise all his rights as a shareholder of Huali Investment in respect of our PRC Operating Entities under the articles of associations of Huali Investment and pursuant to the relevant PRC laws and regulations, including but not limited to the rights to:

(a) determine the business objectives and investment plans of Huali Investment;

(b) elect and change non-staff representative directors and supervisors of Huali Investment who are responsible for the operation of our PRC Operating Entities and to fix their remuneration;

(c) consider and approve the report of directors of Huali Investment;

(d) consider and approve the report of supervisors of Huali Investment;

(e) consider and approve the annual financial budget and final accounts of Huali Investment;

(f) consider and approve plans for profit sharing and loss recovery of Huali Investment;

(g) increase or decrease the registered capital of Huali Investment;

(h) issue bonds of Huali Investment;

(i) merge, subdivide, dissolve, wind-up or change the form of corporate organization of Huali Investment;

(j) amend the articles of association of Huali Investment; and

(k) conduct any other matters that are empowered by the articles of association of Huali Investment.

Although Guangdong University of Technology is named as a school sponsor of Huali College, as advised by our PRC Legal Adviser, pursuant to the articles of association of Huali College, the execution of Structured Contracts is not an issue that required the approval of its board of directors of Huali College, for the reasons that (i) neither the articles of association of Huali College nor Cooperation Agreements explicitly or implicitly require any advance approval requirements on execution of Structured Contracts; (ii) the articles of association of Huali College and Cooperation Agreements are silent on the definition of "material contract"; and (iii) even if the Structured Contracts would be deemed to be "material contracts", the execution of Structured Contracts is not a matter that is required to be approved by Guangdong University of Technology or the board of Huali College.

DISPUTE RESOLUTION

Each of the Structured Contracts provides that:

(a) any dispute, controversy or claim arising out of or in connection with the performance, interpretation, breach, termination or validity of the Structured Contracts shall be resolved through negotiation after one party delivers to the other parties a written negotiation request setting out the specific statements of the disputes or claims;

(b) if the parties are unable to settle the dispute within 30 days of delivery of such written negotiation request, any party shall have the right to refer the dispute to and have the dispute finally resolved by arbitration administered by Guangzhou Arbitration Committee in Guangzhou, the PRC under in prevailing effective arbitration rules. The results of the arbitration shall be final and binding on all relevant parties;

(c) the arbitration commission shall have the right to award remedies over the equity interest and property interest and other assets of Huali Investment and/or each of our PRC Operating Entities, injunctive relief (for the conduct of business or to compel the transfer of assets), or order the winding up of Huali Investment or our PRC Operating Entities; and

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

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

(a) under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order that we might seek for the purpose of protecting assets of or equity interest in our PRC Operating Entities or Huali Investment in case of disputes. As such, these remedies may not be available to our Group under PRC laws;

(b) further, under PRC laws, courts or judicial authorities in the PRC generally would not award remedies over the shares and/or assets of Huali Investment or our PRC Operating Entities, injunctive relief or winding-up of Huali Investment or each of our PRC Operating Entities as interim remedies, before there is any final arbitration award;

(c) however, PRC laws do not disallow the arbitral body from making an award of a transfer of assets of or an equity interest in Huali Investment and each of our PRC Operating Entities at the request of the arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from a competent court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;

(d) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; therefore, in the event we are unable to enforce the Structured Contracts, we may not be able to exert effective control over Huali Investment and each of our PRC Operating Entities, and our ability to conduct our business may be negatively affected; and

(e) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses would remain legal, valid and binding on the parties to the agreement under the Structured Contracts.

As a result of the above, in the event that our PRC Operating Entities, Huali Investment or the Registered Shareholder breaches any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Operating Entities and conduct our business could be materially adversely affected. Please refer to the section headed "Risk Factors – Risks Relating to Our Structured Contracts" in this prospectus for details.

PROTECTION IN THE EVENT OF DEATH, BANKRUPTCY OR DIVORCE OF THE REGISTERED SHAREHOLDER

As disclosed above, pursuant to the Spouse Undertaking, the spouse of Mr. Zhang has irrevocably undertaken that, among others, she authorizes Mr. Zhang and/or his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on her behalf in relation to the spouse's equity interest in Huali Investment in order to safeguard the interests of XZ Huali under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures and any undertaking, confirmation, consent and authorization under the Spouse Undertaking shall not be revoked, prejudiced, invalidated or otherwise adversely affected by the death, loss of or restriction on capacity of the spouse, divorce or other similar events. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (7) Spouse Undertaking" in this prospectus for details.

In addition, as disclosed above, pursuant to the Business Cooperation Agreement, Mr. Zhang has undertaken to XZ Huali that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of his interest in Huali Investment, he shall have made all necessary arrangements and do all things necessary such that his successor, guardian, spouse, and any other person which may as a result of the above events obtain the equity interest or relevant rights shall not prejudice or hinder the enforcement of the Structured Contracts. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement" in this prospectus for details.

PROTECTION IN THE EVENT OF WINDING UP OR LIQUIDATION OF HUALI INVESTMENT

In addition to the protection under the Equity Pledge Agreement, pursuant to the Business Cooperation Agreement, Mr. Zhang and Huali Investment have undertaken to XZ Huali that, in the event of merger or subdivision of Huali Investment, presentation by Huali Investment or Huali Investment with any application for winding up, liquidation, restructuring or reconciliation, dissolution and liquidation of Huali Investment pursuant to an order, application for involuntary dissolution of Huali Investment, or other circumstance which may affect Huali Investment's ability to exercise its school sponsor's interest in our PRC Operating Entities, they shall make all necessary arrangements and sign all necessary documents such that the successor, administrator, liquidation committee and any other person, which may as a result of the above events obtain the school sponsor's interest or relevant rights in our PRC Operating Entities, shall not prejudice or hinder the enforcement of the Structured Contracts.

PROTECTION IN THE EVENT OF DISSOLUTION OR LIQUIDATION OF OUR PRC OPERATING ENTITIES AND HUALI INVESTMENT

Pursuant to the Business Cooperation Agreement, in the event of the dissolution or liquidation of our PRC Operating Entities, Huali Investment and the Registered Shareholder undertake that, among other things, (i) XZ Huali shall have the right to exercise all school sponsor's rights on behalf of Huali Investment and the rights of shareholders of Huali Investment; (ii) Registered Shareholder and Huali Investment shall transfer all assets received or receivable in its capacity as shareholder of Huali Investment or school sponsor of each of our PRC Operating Entities as a result of the dissolution or liquidation of our PRC Operating Entities and Huali Investment to XZ Huali or other persons designated by the Group at nil consideration, and instruct all of our PRC Operating Entities and Huali Investment to transfer assets directly to XZ Huali before such dissolution or liquidation; (iii) if any consideration is required for such transfer under the then applicable PRC laws, Huali Investment and Registered Shareholder shall compensate XZ Huali or the person designated by XZ Huali the amount of consideration and indemnify XZ Huali or the other person designated by XZ Huali against any loss incurred.

Furthermore, XZ Huali has been irrevocably authorized and entrusted to exercise the rights of the Registered Shareholder as the shareholder of Huali Investment, the rights of Huali Investment as the school sponsor of our PRC Operating Entities and the rights of the School Directors as directors of our PRC Operating Entities. Please refer to the section headed "– Operation of the Structured Contracts – Summary of Material Terms of the Structured Contracts – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "– Operation of the Structured Contracts – Summary of Material Terms of the Structured Contracts – (9) Registered Shareholder's Rights Entrustment Agreement and Registered Shareholder's Power of Attorney" in this prospectus for details.

LOSS SHARING

In the event that our PRC Operating Entities or Huali Investment incur any loss or encounter any operational crisis, XZ Huali may, but is not obliged to, provide financial support to our PRC Operating Entities.

None of the agreements constituting the Structured Contracts provide that our Company or its wholly-owned PRC subsidiary, XZ Huali, is obligated to share the losses of our PRC Operating Entities or Huali Investment or provide financial support to our PRC Operating Entities or Huali Investment. Further, each of our PRC Operating Entities and Huali Investment shall be solely liable for its own debts and any losses with recourse limited to the assets owned by it.

Under PRC laws and regulations, our Company or XZ Huali, is not expressly required to share the losses of our PRC Operating Entities and Huali Investment or provide financial support to our PRC Operating Entities and Huali Investment. However, given that our PRC Operating Entities' or Huali Investment's financial condition and results of operations are consolidated into our Group's financial condition and results of operations under applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if our PRC Operating Entities or Huali Investment suffer losses. However, the restrictive provisions contained in the Structured Contracts as disclosed in the respective sections headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement" and "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (3) Exclusive Call Option Agreement" above, are designed so as to limit, as far as possible, the potential adverse effect on XZ Huali and our Company of resulting from any loss suffered by the PRC Operating Entities or Huali Investment, the potential adverse effect on XZ Huali and our Company in the event of any loss suffered by our PRC Operating Entities or Huali Investment can be limited to a certain extent.

TERMINATION OF THE STRUCTURED CONTRACTS

Each of the Structured Contracts provides that: (a) each of the Structured Contracts shall be terminated upon the completion of the purchase of the interest in our PRC Operating Entities and Huali Investment by XZ Huali or any other party designated by XZ Huali from Registered Shareholder or Huali Investment pursuant to the terms of the Exclusive Call Option Agreement, save for the Equity Pledge Agreement which shall continue to be in force until all obligations thereunder have been performed or all Secured Indebtedness has been repaid in full, or all of the Structured Contracts have been terminated whichever is later; (b) XZ Huali shall have the right to terminate the Structured Contracts by serving a 30-day notice; and (c) each of our PRC Operating Entities, Huali Investment and the Registered Shareholder shall not be entitled to unilaterally terminate the Structured Contracts in any situation other than prescribed by the laws.

In the event that PRC laws and regulations allow XZ Huali or us to directly hold all or part of the interest in our PRC Operating Entities and operate private education business in the PRC, XZ Huali shall exercise the Call Option as soon as practicable to purchase the maximum amount of equity interest permissible under relevant PRC laws and regulations, and upon exercise in full of the Call Option and the acquisition of all of the school sponsor's interest of Huali Investment in our PRC Operating Entities and the Shareholder's Interest of Registered Shareholder by XZ Huali or any other party designated by XZ Huali pursuant to the terms of the Exclusive Call Option Agreement, each of the Structured Contracts shall be automatically terminated.

INSURANCE

Our Company does not maintain any insurance policy to cover the risks relating to the Structured Contracts.

ARRANGEMENT TO ADDRESS POTENTIAL CONFLICT OF INTEREST

We have in place arrangements to address the potential conflicts of interest between the Registered Shareholder on the one hand, and our Company on the other hand. Pursuant to the Business Cooperation Agreement, the Registered Shareholder undertakes to XZ Huali that, unless with the prior written consent of XZ Huali, the Registered Shareholder shall not directly or indirectly engage, participate in, conduct, acquire or hold any Competing Business and shall require the entity engaging in the Competing Business to cease operation. Please refer to the section headed "– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement" in this prospectus for details. 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 Huali Investment and the Registered Shareholder on the one hand, and our Company on the other hand.

LEGALITY OF THE STRUCTURED CONTRACTS

PRC Legal Opinions

Our PRC Legal Adviser is of the view that the Structured Contracts are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

(a) each of our PRC Operating Entities and Huali Investment was duly incorporated and is validly existing, and their respective establishment is valid, effective and complies with relevant PRC laws and regulations, the Registered Shareholder is a natural person with full civil and legal capacity. Each of our PRC Operating Entities and Huali Investment has also obtained all material approvals and completed all material registrations required by PRC laws and regulations to conduct its current business and has the capacity to carry out its business operations in accordance with its licenses and approvals;

(b) the Structured Contracts as a whole and each of the agreements comprising the Structured Contracts are legal, valid and binding on the parties thereto, enforceable under PRC laws and regulations. However, whereas the Structured Contracts provide that the arbitral body specified under the Structured Contracts may award remedies over the shares and/or assets of our PRC Operating Entities, injunctive relief and/or winding up of our PRC Operating Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, but under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting the assets of or equity interest in our PRC Operating Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognized or enforceable in China. Our PRC Legal Adviser is also of the view that the Structured Contracts do not, individually or collectively, constitute a breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Structured Contracts do not violate the provisions of the PRC Contract Law including "concealing illegal intentions with a lawful form," the General Principles of the PRC Civil Law or other applicable PRC laws and regulations;

(c) each of the Structured Contracts is not in violation of provisions of the articles of association of our PRC Operating Entities, Huali Investment and XZ Huali;

(d) each of the Structured Contracts, including but not limited to the various undertaking made by Huali Investment in the Structured Contracts is legal, valid and binding under PRC laws and regulations, entering into, and the performance of, the Structured Contracts does not require to obtain any approvals or authorizations from the PRC governmental authorities to be obtained, except that; (i) the pledge of any increased equity interest in Huali Investment by the Registered Shareholder for the benefit of XZ Huali is subject to registration requirements with the relevant Administration of Industry and Commerce; (ii) the transfer of the school sponsor's interests in our PRC Operating Entities contemplated under the Structured Contracts will be subject to whatever applicable approval and/or registration requirements exist under the then applicable PRC laws; (iii) the transfer of equity interest in Huali Investment contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable laws and (iv) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Structured Contracts are subject to applications to competent PRC courts for recognition and enforcement; and

(e) the consummation of the contemplated listing of our Shares on the Stock Exchange does not violate the M&A Rules.

Please refer to the section headed "Risk Factors – Risks Relating to Our Structured Contracts" in this prospectus for details in relation to the risks involved in the Structured Contracts.

Directors' Views on the Structured Contracts

We believe that the Structured Contracts are narrowly tailored because the Structured Contracts are only used to enable our Group to consolidate the financial results of our PRC Operating Entities which engage in the operation of higher education institutions and vocational education institutions, where PRC laws and regulations currently restrict operation of 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.

As of the date of this prospectus, we have not encountered any interference or encumbrance from any governing bodies on our plan to adopt the Structured Contracts to consolidate the financial results of the operations of our PRC Operating Entities with those of our Group, and based on the advice of our PRC Legal Adviser, the Directors are of the view that the Structured Contracts are enforceable under the PRC laws and regulations, except for certain arbitration provisions, as disclosed in the paragraph headed "– Dispute Resolution" in this section.

The transactions contemplated under the Structured Contracts constitute continuing connected transactions of our Company under the Listing Rules upon the Listing and it would be impracticable and unduly burdensome for them to be subject to the relevant requirements under the Listing Rules as our Directors are of the view that the transactions contemplated under the

Structured Contracts are fundamental to our Group's legal structure and business operations, that such transactions have been 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. Please refer to the section headed "Connected Transactions" in this prospectus for further details.

COMBINATION OF FINANCIAL RESULTS OF OUR PRC OPERATING ENTITIES

According to IFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own our PRC Operating Entities, the Structured Contracts as mentioned above enable our Company to exercise control over our PRC Operating Entities. The basis of combining the results of our PRC Operating Entities is disclosed in note 2 of Appendix I to the Accountant's Report. Our Directors consider that the Company can combine the financial results of our PRC Operating Entities as if they were our Group's subsidiaries.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On December 23, 2018, Draft Foreign Investment Law of the PRC (《中華人民共和國外國投資法》(草案)) was submitted to the Standing Committee of the National People's Congress for review. In March 2019, a new draft of Foreign Investment Law was submitted to the National People's Congress for review and was approved on March 15, 2019, which will come into effect from January 1, 2020. The approved Foreign Investment Law does not mention certain concepts, including "actual control" or "controlling PRC companies by contracts or trusts", nor did it specify regulation on controlling through contractual arrangements.

Impact and Potential Consequences of the Foreign Investment Law

Our PRC Legal Advisor is of the view that, when the Foreign Investment Law becomes effective on January 1, 2020, and if there is no other promulgated national laws, administrative regulations or administrative rules restricting the operation of or affecting the legality of contractual arrangements, the validity of our Structured Contracts will not be affected.

However, since the Foreign Investment Law is new, there are substantial uncertainties exist with respect to its implementation and interpretation and it is also possible that variable interest entities will be deemed as foreign invested enterprises and be subject to the restrictions or prohibitions in the future. Such restrictions or prohibitions may cause interruptions to our current corporate structure, corporate governance and business operations, which may in turn materially and adversely affect our business, financial condition and results of operations. Please refer to the section headed "Risk Factors – Risks Relating to Our Structured Contracts – There is substantial uncertainty with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations".

COMPLIANCE WITH THE STRUCTURED CONTRACTS

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

(a) major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as they occur;

(b) our Board will review the overall performance of and compliance with the Structured Contracts at least once a year;

(c) our Company will disclose the overall performance and compliance with the Structured Contracts in its annual reports and interim reports to update Shareholders and potential investors;

(d) our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding the qualification requirement and our status of compliance with the Draft Foreign Investment Law and the accompanying Explanatory Notes as stipulated under the section headed "– Background of the Structured Contracts" and the latest development of the Draft Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "– Development in the PRC Legislation on Foreign Investment", including the latest relevant regulatory developments as well as our plan and progress in acquiring the relevant experience to meet the relevant qualification requirement; and

(e) our Company will engage external legal advisers and other professional advisers, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of XZ Huali, Huali Investment and our PRC Operating Entities to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that our executive Director, Mr. Zhang, is also the Registered Shareholder, we believe that our Directors will be able to perform their roles in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

(a) the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflicts of interest by providing, amongst other things, that in the event of any conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his interest at the earliest meeting of the Board at which it is practicable for him to do so, and if he or she is to be regarded as having a material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

(b) each of our Directors will receive periodic training on director's duties and corporate governance to ensure that each of our Director is aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefits and in the best interests of our Company and our Shareholders as a whole;

(c) upon Listing, we will appoint three independent non-executive Directors, comprising over one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and

(d) we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and the Global Offering, Huali Education will be interested in 75% of our Company's issued share capital. Huali Education is wholly owned by Trust Co under HL-Diamond Trust, a discretionary trust established by Mr. Zhang as the settlor and with Mr. Zhang being the sole discretionary beneficiary. Each of Mr. Zhang and Trust Co is deemed to be interested in the 75% of our Company's issued share capital directly held by Huali Education, and each of Mr. Zhang, Trust Co and Huali Education is regarded as a Controlling Shareholder under the Listing Rules. For further details of our Controlling Shareholders' interest in our Shares, please refer to the section headed "Substantial Shareholders" in this prospectus.

Our Controlling Shareholders and our Directors confirm that as of the Latest Practicable Date, they did not have any interest in a business which competes or is likely to compete with our business, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Delineation of Business and Non-competition

As of the Latest Practicable Date, Mr. Zhang, through Hualiyuan Technology as the school sponsor, controlled Yunfu Bilingual School and Yunfu Kindergarten in Yunfu, Guangdong Province, the PRC. We did not include Yunfu Bilingual School and Yunfu Kindergarten in our Group primarily because (i) being an education group providing higher education programs and vocational programs, we have not engaged in, and have no intention to engage in, the operation of primary schools or kindergartens; and (ii) the operation of primary schools and kindergartens involves resources and personnel substantially different from the operation of our PRC Operating Entities. Our Directors (including the independent non-executive Directors) are of the view that the business activities of Yunfu Bilingual School and Yunfu Kindergarten are clearly delineated from those of our Group and there is no competition between Yunfu Bilingual School and Yunfu Kindergarten on one hand and our Group on the other hand, particularly taking into account the fact that (i) the students at Yunfu Bilingual School, Yunfu Kindergarten and our PRC Operating Entities are in distinct age groups; and (ii) Mr. Zhang and Huali Education, each being a Controlling Shareholder, have executed the Deed of Non-Competition in favor of our Company, the details of which are set out in the paragraph headed "Non-competition Undertakings of our Controlling Shareholders" below.

Accordingly, our Directors (including the independent non-executive Directors) are of the view that the business activities of Yunfu Bilingual School, Yunfu Kindergarten and other companies in which Mr. Zhang has a direct or indirect interest (other than members of our Group) are clearly delineated from and are not directly or indirectly in competition with those carried on by our Group.

As confirmed by Mr. Zhang, other than his interests in our Group, Yunfu Bilingual School and Yunfu Kindergarten, he does not hold any direct or indirect interests in companies which are engaged in any education business activities in the PRC.

Management Independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Zhang, a Controlling Shareholder, is one of our executive Directors.

Save as disclosed above, none of our Controlling Shareholders holds any directorship in our Company. Each of our Directors is aware of his fiduciary duties as a Director which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and are of the view that we are capable of managing our business independently from our Controlling Shareholders upon Listing.

Operational Independence

We have implemented a set of internal control procedures to facilitate the effective operation of our business.

To support our gradual expansion, we will lease certain residential properties as student dormitories in the Huali Vocational College Yunfu Campus from Hualiyuan Technology starting from September 1, 2019. Please refer to the section headed "Connected Transactions – Continuing Connected Transactions – Continuing connected transactions subject to reporting and announcement requirements – The Framework Properties Lease Agreement with Hualiyuan Technology" in this prospectus for details.

Despite the leasing of properties from Hualiyuan Technology under the Framework Properties Lease Agreement with Hualiyuan Technology, we have been operating and will continue to operate independently from our Controlling Shareholders and their associates for the following reasons:

- although we will lease properties as student dormitories from Hualiyuan Technology under the Framework Properties Lease Agreement with Hualiyuan Technology, such services may be sourced from Independent Third Parties at comparable prices;
- the rental fees charged by Hualiyuan Technology under the Framework Properties Lease Agreement with Hualiyuan Technology will be agreed through arm's-length negotiations to ensure that the pricing is fair and reasonable;
- our Directors consider that such continuing connected transactions are entered into in our ordinary and usual course of business after arm's-length negotiations on normal commercial terms, and are fair and reasonable and in the interests of the Shareholders as a whole; and
- we do not share our operational resources, such as marketing, sales and general administration resources, with our Controlling Shareholders and/or their associates. Our Directors and senior management are responsible for the management of our business. We are in possession of all relevant licenses that are material to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently.

Financial Independence

Our Group has its own accounting and finance department and independent financial management system, internal control and accounting systems, as well as independent treasury function for cash receipts and payments, and therefore has the ability to operate independently from our Controlling Shareholders from a financial perspective.

As of August 31, 2019, we recorded payables to Hualiyuan Technology in an aggregate amount of approximately RMB503.4 million (the "**Payables to Hualiyuan Technology**"), the details of which are set out in the section headed "History, Reorganization and Corporate Structure – Acquisition of the Interest in the Planned Huali Vocational College Yunfu Campus" in this prospectus. The outstanding amount of the Payables to Hualiyuan Technology will be retained after the Listing and be paid by April 29, 2020 according to the payment terms in the Acquisition Agreement. Our Directors are of the view that such payables will not affect our financial independence for the following reasons:

- the outstanding amount of the Payables to Hualiyuan Technology is not generated during our ordinary course of business operations. For details of the Payables to Hualiyuan Technology and our other amounts due to or from our related parties, please refer to the section headed "Financial Information – Discussion of Key Balance Sheet Items – Amounts due from/to related parties" in this prospectus;

- for the years ended August 31, 2017, 2018 and 2019, our revenue was approximately RMB578.2 million, RMB608.0 million and RMB674.8 million, respectively, and our gross profit was approximately RMB319.4 million, RMB334.4 million and RMB367.8 million, respectively. As of August 31, 2019, we had cash and cash equivalents of approximately RMB453.6 million; and

- if we were required to repay the Payables to Hualiyuan Technology, we would be able to do by utilizing our undrawn banking facilities, which amounted to approximately RMB1,053.7 million as of the Latest Practicable Date.

Save as disclosed above, we will settle all amounts due to our Controlling Shareholders and release all guarantees provided to us by our Controlling Shareholders prior to the Listing.

NON-COMPETITION UNDERTAKINGS OF OUR CONTROLLING SHAREHOLDERS

Mr. Zhang and Huali Education, both being our Controlling Shareholders (collectively, the "**Covenantors**"), have entered into the Deed of Non-Competition in favor of our Company, pursuant to which each of the Covenantors has irrevocably and unconditionally undertaken to our Company that he or it will not, and that his or its close associates (except any member of our Group) will not, during the restricted period set out below, directly or indirectly, either by body corporate, partnership, joint venture on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or is likely to be in competition with the existing core business engaged in by our Group or the business carried on by our Group from time to time (including but not limited to offering science-focused and practice-oriented formal, higher education programs and vocational programs) (the "**Restricted Business**").

Such non-competition undertaking does not apply in relation to:

(a) any interests in the shares or equity interest of any member of the Group; or

(b) interests in the shares of a company whose shares are listed on the Stock Exchange or other recognized stock exchanges, provided that:

 (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

 (ii) the total number of the shares held by the Covenantors and/or their respective close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and the Covenantors and/or their respective close associates are not entitled to appoint a majority of the directors of that company.

The "restricted period" stated in the Deed of Non-Competition refers to the period commencing on the Listing Date until the earlier of (a) the date on which our Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares on the Stock Exchange for any reason); and (b) the date on which the Covenantors and their respective close associates, individually or collectively, cease to be entitled to exercise or control the exercise of not more than 30% in aggregate of the voting power at general meetings of our Company or otherwise cease to be our Controlling Shareholders.

Under the Structured Contracts, Mr. Zhang has also provided certain non-competition undertakings in favor of our Company. For details of the non-competition undertakings provided by Mr. Zhang, as a Registered Shareholder, under the Structured Contracts, please refer to the section headed "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement" in this prospectus.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to avoid any conflict of interests arising from any competing business and to safeguard the interests of our Shareholders:

(a) our independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertakings given by Mr. Zhang under the Structured Contracts; and

(b) Mr. Zhang undertakes to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertakings under the Structured Contracts.

OVERVIEW

During the Track Record Period, we had entered into various related party transactions, details of which are set out under note 30 to the Accountant's Report in Appendix I to this prospectus.

Upon the Listing, certain on-going transactions will continue between our Group and the relevant connected persons. Such connected transactions shall be conducted in compliance with the applicable provisions of the Listing Rules. In addition, we had entered into certain one-off connected transactions during the Track Record Period, details of such one-off connected transactions and continuing connected transactions are set out below.

ONE-OFF CONNECTED TRANSACTIONS WITH GUANGZHOU GAOBIAO CONSTRUCTION ENGINEERING CO., LTD.

Background of the Connected Person

The equity interests of Guangzhou Gaobiao Construction Engineering Co., Ltd. (廣州高標建築工程有限公司) ("**Guangzhou Gaobiao**") were held by Independent Third Parties as of the Latest Practicable Date. Its equity interests were held as to 50% by Mr. Zhang Weiyao (張偉耀) from November 14, 2017 to March 4, 2019, as to 51% by Mr. Liang Xidun (梁錫敦) from June 12, 2009 to November 13, 2017 and as to 49% by Mr. Liao Xihai (廖錫海) from June 12, 2009 to November 13, 2017, respectively. Owing to the fact that (i) Mr. Zhang Weiyao (張偉耀) was a director and the legal representative of one of our subsidiaries, namely Lhasa Economic Technology Development Zone Suili Network Services Company Limited (拉薩經濟技術開發區穗立網絡服務有限公司) prior to its dissolution in April 2019; (ii) Mr. Liang Xidun (梁錫敦) is the cousin of Mr. Zhang, our chairman, executive Director and one of our Controlling Shareholders; and (iii) Mr. Liao Xihai (廖錫海) has been one of the directors of Huali College since September 2018, Guangzhou Gaobiao is a connected person of our Company under Rule 14A.07 of the Listing Rules.

The Construction Contract with Guangzhou Gaobiao

On December 7, 2018, we entered into a construction contract with Guangzhou Gaobiao, which was procured by tendering as processed by an Independent Third Party tendering agent engaged by our Group, as supplemented by a supplemental agreement dated December 10, 2018 (collectively, the "**Construction Contract**"). Pursuant to the Construction Contract, Guangzhou Gaobiao agreed to undertake the construction works in respect of our five new school buildings in Zengcheng with a total construction area of approximately 71,650 sq. m. (the "**Construction Works**"). The total construction fee payable under the Construction Contract is approximately RMB179.1 million (the "**Construction Fee**"). The Construction Works shall be completed on or before December 15, 2020 pursuant to the Construction Contract.

Pursuant to the Construction Contract, we have made an advance payment in the sum of approximately RMB44.8 million to Guangzhou Gaobiao on December 18, 2018, being 25% of the Construction Fee. The aforesaid advance payment will be applied towards settlement of the Construction Fee. According to the terms of the Construction Contract, we are obliged to settle, on an accumulative basis, 95% of the Construction Fee within 18 months upon the completion of the Construction Works. The remaining 5% of the Construction Fee shall be retained by us as retention money and be released to Guangzhou Gaobiao upon the expiry of the one-year defect liability period after the completion of the Construction Works.

The Decoration Contracts with Guangzhou Gaobiao

On March 1, 2019, we entered into two decoration contracts with Guangzhou Gaobiao, which was procured by tendering as processed by an Independent Third Party tendering agent engaged by our Group (collectively, the "**Decoration Contracts**"). Pursuant to the Decoration Contracts, Guangzhou Gaobiao agreed to undertake the decoration works in respect of our teaching buildings and student dormitories with a total construction area of approximately 58,970 sq. m. in Zengcheng for a total decoration service fee of approximately RMB44.2 million and teaching buildings with a total construction area of approximately 122,105 sq. m. in Yunfu for a total decoration service fee of approximately RMB169.2 million (the "**Decoration Works**"). As of the Latest Practicable Date, the Decoration Works had been completed.

Pursuant to the terms of the Decoration Contracts, we are obliged to settle, on an accumulative basis, 95% of the decoration service fees within 18 months upon the completion of the Decoration Works. As of the Latest Practicable Date, 95% of the decoration service fees, being approximately RMB202.8 million, had been paid to Guangzhou Gaobiao. The remaining 5% of the decoration service fee for the Decoration Works shall be retained by us as retention money and be released to Guangzhou Gaobiao upon the expiry of the one-year defect liability period after the completion of the Decoration Works. As of the Latest Practicable Date, approximately RMB2.2 million shall be payable to Guangzhou Gaobiao in relation to the Decoration Works in Zengcheng and approximately RMB8.5 million shall be payable to Guangzhou Gaobiao in relation to the Decoration Works in Yunfu.

Tendering Process

Guangzhou Gaobiao was awarded as the main contractor under the Construction Contract and the Decoration Contracts through tendering process in accordance with the relevant PRC laws and regulations. During the tendering process, we engaged a qualified Independent Third Party tendering agent which is mainly responsible for drafting tender documents and tender invitations, independently approaching and inviting suitable candidates to submit tenders, and receiving and reviewing bidding documents from candidates. During the selection process, the tendering agent formed an expert committee comprising five experts who are independent from the candidates and our Group. The expert committee assessed the candidates based on criteria including, among others, their management experience, industry expertise, financial capability, equipment, reputation and regulatory compliance records. Such criteria were set by taking reference to the applicable guidelines issued by the regulatory authorities of the PRC. The tendering agent also engaged a qualified cost engineer to evaluate and set the estimated contract price for the Construction Works and Decoration Works by taking reference to the complexity of relevant projects and the government guidance price issued by the relevant price bureaus in the PRC. The candidates shall submit their quotation to the relevant projects based on the estimated contract price set by the qualified cost engineer and candidates who quoted the most favorable contract price and with highest total scores as assessed by the expert committee were recommended to our Group. Based on the recommendation of the expert committee, we selected Guangzhou Gaobiao as the main contractor for the Construction Works and Decoration Works.

Reasons for the transactions

In view of our business plan to expand our operations as detailed in the section headed "Business – Our Business Strategies – Continue to increase student enrollment through expanding our business operations in our existing schools and further expand our school network in China and abroad" in this prospectus, we engaged Guangzhou Gaobiao for the Construction Works and Decoration Works. Taking into account (i) our strategy to focus our resources on private higher education and vocational education businesses; (ii) we do not have the necessary qualifications and resources to manage and carry out the Construction Works and Decoration Works; (iii) Guangzhou Gaobiao was identified by the Independent Third Party tendering agent having been assessed and recommended by its expert committee; and (iv) the qualifications of Guangzhou Gaobiao and its ability to comply with the quality and other requirements of the Construction Contract and Decoration Contracts within the agreed delivery timeframe, we consider Guangzhou Gaobiao the suitable main contractor of the Construction Works and Decoration Works.

Listing Rules implications

As of the Latest Practicable Date, the Construction Works were still on-going and we expect to make further payment to Guangzhou Gaobiao after the Listing pursuant to the terms of the Construction Contract and the Decoration Contracts. Given that the Construction Contract and the Decoration Contracts were entered into prior to the Listing which are one-off in nature, such transactions will not be classified as notifiable transactions under Chapter 14 of the Listing Rules, and will not be subject to any of the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. In the event that there are any material changes to the terms and conditions of the Construction Contract and the Decoration Contracts, we shall comply with Chapters 14 and 14A of the Listing Rules (as the case may be) as and when appropriate.

CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions subject to reporting and announcement requirements

The following continuing connected transaction, on a standalone or aggregate basis, as the case may be, is subject to the reporting, annual review and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules since each of the relevant percentage ratios calculated pursuant to the Listing Rules will be less than 5% on an annual basis.

School Properties Lease Agreement with Yunfu Bilingual School

Background of the connected person

Yunfu Bilingual School is controlled by Mr. Zhang, our Controlling Shareholder, chairman and executive Director through Hualiyuan Technology as the school sponsor. As such, Yunfu Bilingual School is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

*Principal terms of the School Properties Lease Agreement with Yunfu Bilingual School dated September 5, 2017 supplemented by supplemental agreements dated October 9, 2017 and April 26, 2018 (the "**School Properties Lease Agreement with Yunfu Bilingual School**")*

Date:	September 5, 2017 (supplemented on October 9, 2017 and April 26, 2018)
Parties:	(1) Huali Vocational College (Lessor)
	(2) Yunfu Bilingual School (Lessee)
Terms:	September 1, 2016 to August 31, 2036
Properties:	Number 6 teaching building, Number 14 student dormitory building and Number 2 sports ground located at the Planned Huali Vocational College Yunfu Campus

Pursuant to the School Properties Lease Agreement with Yunfu Bilingual School, Huali Vocational College leased the relevant school properties located at the Planned Huali Vocational College Yunfu Campus with a total GFA of approximately 44,936 sq. m. to Yunfu Bilingual School at annual rental fees on a scale specified in the table under the paragraph headed "Proposed annual caps" in this sub-section below. Such rental fees are determined based on the pre-agreed monthly rental price of up to RMB23.05 per sq. m. during the term of the School Properties Lease Agreement with Yunfu Bilingual School, and shall be paid by Yunfu Bilingual School to Huali Vocational College on or before October 31 of each year during the term.

Historical transaction amounts

Yunfu Bilingual School was established in August 2016 and we did not charge Yunfu Bilingual School any rental fees in the first year of the lease arrangement as it was at an early development stage and for the benefits it brought to our PRC Operating Entities as specified under the paragraph headed "Reasons for and benefits of the transactions" in the sub-section below. Under the School Properties Lease Agreement with Yunfu Bilingual School, the rental fees for the school year ended August 31, 2018 was RMB614,823. Pursuant to the payment confirmation entered into among Huali Vocational College, Yunfu Bilingual School and Hualiyuan Technology dated January 20, 2019, such rental fees shall be paid by Hualiyuan Technology, being the school sponsor of Yunfu Bilingual School.

Proposed annual caps

Having considered the annual rental fees payable by Yunfu Bilingual School pursuant to the School Properties Lease Agreement with Yunfu Bilingual School, the proposed annual caps for the continuing connected transactions set out in this sub-section for each of the remaining years ending August 31, 2036 will be as follows:

For the year ending August 31,		For the year ending August 31,	
Year	**RMB**	**Year**	**RMB**
2020	2,459,292	2029	7,922,367
2021	3,934,868	2030	8,239,262
2022	6,020,348	2031	8,568,832
2023	6,261,162	2032	8,911,586
2024	6,511,608	2033	9,268,049
2025	6,772,073	2034	9,638,771
2026	7,042,956	2035	10,024,322
2027	7,324,674	2036	10,425,295
2028	7,617,661		

The annual rental fees payable by Yunfu Bilingual School under the School Properties Lease Agreement with Yunfu Bilingual School have been determined based on the pre-agreed monthly rental unit price and the total area of leased properties under the School Properties Lease Agreement with Yunfu Bilingual School, with reference to prevailing market rental fees of comparable properties in the vicinity as supported by a fair rent letter issued by Cushman & Wakefield Limited, an independent property valuer. In addition, the increase in the annual rental fees payable for each of the remaining years ending August 31, 2036 takes into account factors such as inflation of labor costs and costs of maintenance. Moreover, as the properties underlying the School Properties Lease Agreement with Yunfu Bilingual School will be used for the operation of a school, the parties of the School Properties Lease Agreement with Yunfu Bilingual School took into account the factor that the number of students of such school is expected to increase during the term, particularly for the first few years, which will result in increasing maintenance fees. It is expected that the increase in the number of enrolled students will remain relatively stable after the sharp increase during the first few years of its operation. Accordingly, the increase of rental fees starting from the seventh year of the lease term is relatively stable. Cushman & Wakefield Limited has further confirmed that (i) the terms and conditions of the School Properties Lease Agreement with Yunfu Bilingual School are on normal commercial terms, fair and reasonable and on normal market rates; (ii) the rental fees payable by Yunfu

Bilingual School under the School Properties Lease Agreement with Yunfu Bilingual School are no less favorable than those offered by Independent Third Parties and in line with the general industry practice; and (iii) the term of the School Properties Lease Agreement with Yunfu Bilingual School is consistent with prevailing industry practice for school operators in China that do not own their own premises to enter into long-term leases.

Reasons for and benefits of the transactions

Huali Vocational College plans to offer majors in teaching to its students and as required by the applicable PRC laws, a school which offers majors in teaching is required to provide a suitable internship venue for its students. By leasing the school properties to Yunfu Bilingual School, we can secure a stable and convenient internship venue for our students in Huali Vocational College enrolled in teaching majors.

The Directors (including the independent non-executive Directors) consider that a term of 20 years is required for the School Properties Lease Agreement with Yunfu Bilingual School as (i) the presence of Yunfu Bilingual School on Huali Vocational College's premises is important to Huali Vocational College's qualification in offering teaching majors to its students through the onsite teaching internship opportunities it offers such students; and (ii) due to the large, initial investment required to establish a school, it is the prevailing industry practice for school operators in China that do not own their own premises to enter into long-term leases to prevent unnecessary costs, time and interruption of business caused by relocation arising from short-term leases.

Framework Properties Lease Agreement with Hualiyuan Technology

Background of the connected person

The equity interest of Hualiyuan Technology is held as to 99% by Mr. Zhang and as to 1% by Huali Property. As such, Hualiyuan Technology is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

Principal terms of the Framework Properties Lease Agreement with Hualiyuan Technology

On August 28, 2019, we entered into a framework properties lease agreement with Hualiyuan Technology (the "**Framework Properties Lease Agreement with Hualiyuan Technology**"), pursuant to which Hualiyuan Technology agreed to lease certain residential apartments to us for a term commencing from September 1, 2019 to August 31, 2022. Pursuant to the Framework Properties Lease Agreement with Hualiyuan Technology, the monthly rental fees for the premises shall be RMB16 per sq. m. (exclusive of management fees, value added taxes and local levies) and the total leasable area of the premises shall be 39,289 sq. m. Individual lease agreements stipulating the specific terms and conditions (such as the actual gross floor area to be leased and the lease term) will be entered into for individual leasing transactions. The aggregate rental fees for all the individual lease agreements shall not exceed the annual cap for the relevant year and the term of each of the individual lease agreements shall not exceed the term of the Framework Properties Lease Agreement with Hualiyuan Technology. Hualiyuan Technology has granted us an option to renew the Framework Properties Lease Agreement with Hualiyuan Technology by giving six-month prior written notice before the expiry of its term. In addition, Hualiyuan Technology has undertaken to lease to us premises of at least 39,289 sq. m. during the term of the Framework Properties Lease Agreement with Hualiyuan Technology, and we have undertaken to rent from Hualiyuan Technology premises of at least 7,200 sq. m. during the term of the Framework Properties Lease Agreement with Hualiyuan Technology.

Historical transaction amounts

Historically, we did not have such leasing arrangement and did not incur any transaction amount in relation to such leasing arrangement.

Proposed annual caps

It is expected that the maximum aggregate amount of rental fees payable by us to Hualiyuan Technology under the Framework Properties Lease Agreement with Hualiyuan Technology for each of the three years ending August 31, 2022 will not exceed RMB7,540,000, respectively.

The proposed annual caps set out above are determined with reference to (i) the prevailing market rental fees of properties of comparable size and quality situated in the vicinity of the subject properties under the Framework Properties Lease Agreement with Hualiyuan Technology; and (ii) the expected demand for student dormitories of our Group in light of the potential significant increase of the number of enrolled students in the Huali Vocational College Yunfu Campus in the next three years.

Reasons for and benefits of the transaction

As a result of the commencement of operations of the Huali Vocational College Yunfu Campus in September 2018, we expect that the number of enrolled students in the Huali Vocational College Yunfu Campus will record further steady growth. In addition, during the Track Record Period, all of our student dormitories maintained high utilization rates. In anticipation of the expected significant increase in the number of enrolled students in the Huali Vocational College Yunfu Campus and to support the expansion of the student capacity in our schools, we intend to lease certain residential properties located in the close proximity of our schools to serve as student dormitories. As advised by our PRC Legal Adviser, the use of residential apartments as student dormitories does not violate any laws or regulations in the PRC and the relevant laws and regulations do not prohibit (i) schools from renting residential apartments as student dormitories; or (ii) such properties from being used as student dormitories. As advised by Frost & Sullivan, it is not uncommon for school operators in China to lease residential properties to serve as student dormitories.

Waiver from the Stock Exchange

In respect of each of the transactions contemplated under the School Properties Lease Agreement with Yunfu Bilingual School and the Framework Properties Lease Agreement with Hualiyuan Technology, as the highest percentage ratio (other than the profit ratio) under the Listing Rules is, on an annual basis, less than 5%, such transactions are considered non-exempt continuing connected transactions subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.105 of the Listing Rules, the Stock Exchange may grant a waiver from the announcement, circular and independent shareholders' approval requirements in relation to the continuing connected transactions entered into by a new applicant. Since the details of the non-exempt continuing connected transactions contemplated under the School Properties Lease Agreement with Yunfu Bilingual School and the Framework Properties Lease Agreement with Hualiyuan Technology have been included in this section above, our Directors consider that strict compliance with the requirements set out in Rule 14A.35 of the Listing Rules would be unduly burdensome and add additional and unnecessary costs to our Company.

Accordingly, the Sole Sponsor has applied, on behalf of our Company, to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirements of the Listing Rules in respect of the non-exempt continuing connected transactions contemplated under the School Properties Lease Agreement with Yunfu Bilingual School and the Framework Properties Lease Agreement with Hualiyuan Technology to the extent applicable.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section above, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Confirmation from Valuer

In relation to the School Properties Lease Agreement with Yunfu Bilingual School, Cushman & Wakefield Limited, an independent property valuer, has confirmed that (i) the fees and rental fees payable under the School Properties Lease Agreement with Yunfu Bilingual School are in line with the prevailing market prices of comparable services, or properties in the vicinity and the current prevailing market rates; (ii) the School Properties Lease Agreement with Yunfu Bilingual School is on normal commercial terms after arm's-length negotiations among the parties with reference to the prevailing market terms and conditions; (iii) the term of the School Properties Lease Agreement with Yunfu Bilingual School is consistent with the prevailing industry practice for school operators in China that do not own their own premises to enter into long-term leases; and (iv) the School Properties Lease Agreement with Yunfu Bilingual School is on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In relation to the Framework Properties Lease Agreement with Hualiyuan Technology, Cushman & Wakefield Limited, an independent property valuer, has confirmed that (i) the fees and rental fees payable by us under the Framework Properties Lease Agreement with Hualiyuan Technology are in line with the prevailing market prices of comparable services, or properties in the vicinity and the current prevailing market rates; and (ii) the Framework Properties Lease Agreement with Hualiyuan Technology is on normal commercial terms after arm's-length negotiations among the parties with reference to the prevailing market terms and conditions.

Confirmation from our Directors

Our Directors (including our independent non-executive Directors) confirm that (i) the continuing connected transactions contemplated under (a) the School Properties Lease Agreement with Yunfu Bilingual School; and (b) the Framework Properties Lease Agreement with Hualiyuan Technology have been and are entered into in the ordinary and usual course of business of our Group after arm's-length negotiations and are on normal commercial terms that are fair and reasonable to our Group and in the interests of our Shareholders as a whole; and (ii) the annual caps set out above are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Confirmation from the Sole Sponsor

The Sole Sponsor has (i) reviewed the relevant documents and information provided by our Group; (ii) participated in the due diligence and discussions with our management and our PRC Legal Adviser; (iii) reviewed the valuation report and fair rent letters issued by Cushman & Wakefield Limited, an independent property valuer as well as the confirmation given by Cushman & Wakefield in relation to the terms of (a) the School Properties Lease Agreement with Yunfu Bilingual School; and (b) the Framework Properties Lease Agreement with Hualiyuan Technology; and (iv) obtained necessary representations and confirmations from our Company and our Directors in respect of the continuing connected transactions contemplated under the aforesaid agreements. On this basis, the Sole Sponsor is of the view that (i) the terms of the aforesaid agreements are entered into in the ordinary and usual course of business of our Company and on normal commercial terms which are fair and reasonable and in the interests of our Company and our Group as a whole; and (ii) the annual caps for the continuing connected transactions contemplated under the aforesaid agreements are fair and reasonable and in the interests of our Group and our Shareholders as a whole. In respect of the term of the School Properties Lease Agreement with Yunfu Bilingual School, the Sole Sponsor concurs with the Directors (including the independent non-executive Directors) that a term of 20 years is justified as (i) continued presence of Yunfu Bilingual School on Huali Vocational College's premises is important to Huali Vocational College's qualification in offering teaching majors to its students through the onsite teaching internship opportunities it offers such students; and (ii) due to the large, initial investment required to establish a school, it is the prevailing industry practice for school operators in China that do not own their own premises to enter into long-term leases to prevent unnecessary costs, time and interruption of business caused by relocation arising from short-term leases.

STRUCTURED CONTRACTS

As disclosed in the paragraph headed "Structured Contracts – Background of the Structured Contracts" in this prospectus, the PRC laws and regulations currently restrict operation of tertiary education to Sino-foreign ownership, in addition to imposing a qualification requirement on the foreign owners. Further, government approval in respect of Sino-foreign ownership is being withheld. As a result, our Group, through our wholly-owned subsidiary, XZ Huali, has entered into the Structured Contracts such that we can conduct our business operations indirectly in the PRC through our PRC Operating Entities and Huali Investment while complying with applicable PRC law and regulations. The Structured Contracts are designed to provide our Group with effective control over the financial and operational policies of our PRC Operating Entities and Huali Investment and, to the extent permitted by PRC law and regulations, the right to acquire the equity interest in and/or the assets of our PRC Operating Entities and Huali Investment after the Listing through XZ Huali. As we operate our education business through our PRC Operating Entities and Huali Investment, which are controlled by Huali Investment and the Registered Shareholder respectively and we do not hold any direct equity interest in our PRC Operating Entities, the Structured Contracts were entered into on March 23, 2017, pursuant to which all material business activities of our PRC Operating Entities are directed and supervised by our Group, through XZ Huali, and all economic benefits arising from such business of our PRC Operating Entities and Huali Investment are transferred to our Group.

Our wholly-owned subsidiary, XZ Huali, entered into a series of agreements with our PRC Operating Entities and Huali Investment, including the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the School Sponsor's and Directors' Rights Entrustment Agreement, the School Sponsor's Power of Attorney, the School Directors' Power of Attorney, the Spouse Undertaking, the Registered Shareholder's Rights Entrustment Agreement and the Registered Shareholder's Power of Attorney, which form part of the Structured Contracts and the content of which was supplemented from time to time. Please refer to the section headed "Structured Contracts" in this prospectus for details of these agreements.

Listing Rules Implications

Our Directors (including the independent non-executive Directors) are of the view that the Structured Contracts and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations, that such transactions have been and shall 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 Structured Contracts and any new transactions, contracts and agreements or renewal of existing agreements to be entered into between any of our PRC Operating Entities and any member of our Group 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 Structured Contracts, 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 other things, the announcement and independent shareholders' approval requirements.

Waiver from the Stock Exchange

In respect of the Structured Contracts, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Structured Contracts pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Structured Contracts under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Structured Contracts 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 Structured Contracts 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 Structured Contracts will be made without the approval of our Company's independent Shareholders.

Once independent shareholders' 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 Structured Contracts 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 Structured Contracts will continue to enable our Group to receive the economic benefits derived by our PRC Operating Entities through (i) our Group's option, to the extent permitted under PRC laws and regulations, to acquire all or part of the school sponsor's interest held by Huali Investment at the lowest possible amount permissible under the applicable PRC laws and regulations, (ii) the business structure under which the net profit generated by our PRC Operating Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to XZ Huali by our PRC Operating Entities under the Exclusive Technical Service and Management Consultancy Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our PRC Operating Entities as appointed by Huali Investment in our PRC Operating Entities.

(d) Renewal and reproduction

On the basis that the Structured Contracts provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and our PRC Operating 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 Structured Contracts. 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 Structured Contracts, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar Structured Contracts 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 of the Structured Contracts on an ongoing basis as follows:

- The Structured Contracts in place during each financial period will be disclosed in our Company's annual report in accordance with relevant provisions of the Listing Rules.

- Our independent non-executive Directors will review the Structured Contracts annually and confirm in our Company's annual report 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 Structured Contracts, have been operated so that the profit generated by our PRC Operating Entities has been substantially retained by our Group, (ii) no dividends or other distributions have been made by our PRC Operating Entities to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to our Group, and (iii) the Structured Contracts and, if any, any new contracts entered into, renewed or reproduced between our Group and our PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.

- Our Company's auditors will carry out procedures annually on the transactions carried out pursuant to the Structured Contracts 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 into in accordance with the relevant Structured Contracts and that no dividends or other distributions have been made by our PRC Operating Entities to the holders of its school sponsor's interest 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", each of our PRC Operating Entities will be treated as our Company's wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of our PRC Operating Entities and their respective associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Structured Contracts, will be subject to requirements under Chapter 14A of the Listing Rules.

- Each of our PRC Operating Entities will undertake that, for so long as our Shares are listed on the Stock Exchange, each of our PRC Operating Entities will provide our Group's management and our Company's auditor's full access to its relevant records for the purpose of our Company's auditors' review of the continuing connected transactions.

New Transactions Amongst Our PRC Operating Entities and Our Company

Given that the financial results of our PRC Operating Entities and Huali Investment will be consolidated into our financial results and the relationship between our PRC Operating Entities, Huali Investment and our Company under the Structured Contracts, all agreements other than the Structured Contracts that may be entered into between each of our PRC Operating Entities and our Company in the future will also be exempted from the "continuing connected transactions" provisions of the Listing Rules.

Views of the Sole Sponsor and Directors

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, has participated in the due diligence and discussions with our management and our PRC Legal Adviser and has obtained necessary representations and confirmations from our Company and our Directors. Based on the above, the Sole Sponsor is of the view that the Structured Contracts are fundamental to our Group's legal structure and business operations.

The Sole Sponsor and our Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Structured Contracts as described above, and for which waivers have been sought, have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms, are fair and reasonable and in the interests of our Company and our Shareholders as a whole. With respect to the term of the relevant agreements underlying the Structured Contracts which is of a duration of 20 years, it is a justifiable and normal business practice to ensure that (i) the financials and operation of our PRC Operating Entities can be effectively controlled by XZ Huali, (ii) XZ Huali can obtain the economic benefits derived from our PRC Operating Entities, and (iii) any possible leakages of assets and values of our PRC Operating Entities can be prevented, on an uninterrupted basis.

DIRECTORS

Our Board consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information of our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Responsibilities (note)	Relationship with other Directors, senior management and/or Controlling Shareholders
ZHANG Zhifeng (張智峰)	53	Chairman of the Board, executive Director and chairman of the Nomination Committee	June 1999	May 24, 2016	Primarily responsible for the overall management and strategic development of our Group	Father of Mr. Zhang Yude Brother of Mr. Zhang Zhijian
YE Yaming (葉雅明)	60	Executive Director, chief executive officer and member of the Remuneration Committee	May 2000	December 18, 2017	Primarily responsible for the overall operation and management of our Group	N/A
DONG Xiaolin (董小麟)	68	Executive Director and vice-president	November 2014	December 18, 2017	Primarily responsible for the overall and daily management of our PRC Operating Entities and the overseas education business	N/A
ZHANG Yude (張裕德)	28	Non-executive Director	December 2017	December 18, 2017	Primarily responsible for giving strategic advice and guidance on the overseas education business and strategic development of our Group	Son of Mr. Zhang Nephew of Mr. Zhang Zhijian
CHOW Kwong Fai, Edward, J.P. (周光暉)	67	Independent non-executive Director and chairman of the Audit Committee	August 16, 2019	August 16, 2019	Supervising the compliance and corporate governance matters of our Group and providing independent opinion and advice to the Board	N/A
YANG Ying (楊英)	61	Independent non-executive Director, chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee	August 16, 2019	August 16, 2019	Supervising the compliance and corporate governance matters of our Group and providing independent opinion and advice to the Board	N/A
DING Yi (丁義)	56	Independent non-executive Director and member of the Audit Committee, the Remuneration Committee and the Nomination Committee	August 16, 2019	August 16, 2019	Supervising the compliance and corporate governance matters of our Group and providing independent opinion and advice to the Board	N/A

Note: Other than serving on the Audit Committee, the Remuneration Committee and/or the Nomination Committee, the independent non-executive Directors do not have specific operational responsibilities.

Save as disclosed below and in the section headed ''Statutory and General Information'' in Appendix V to this prospectus, as of the Latest Practicable Date, none of our Directors had any interest in the Shares within the meaning of Part XV of the SFO and was independent from and was not related to any other Directors, senior management, the Substantial Shareholders or the Controlling Shareholders of our Company. Save as disclosed below, each of our Directors has not held any directorship in any other public company the securities of which are listed on any securities market in Hong Kong or overseas (apart from our Company) in the three years immediately preceding the date of this prospectus, and has not been involved in any of the events described under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules. Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needed to be brought to the attention of our Shareholders and there was no information relating to our Directors that was required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules as of the Latest Practicable Date.

Executive Directors

Mr. ZHANG Zhifeng (張智峰), aged 53, was first appointed as the first Director on May 24, 2016 and was redesignated as the chairman of the Board and an executive Director on December 18, 2017. Mr. Zhang was also appointed as the chairman of the Nomination Committee on August 16, 2019. He is primarily responsible for the overall management and strategic development of our Group.

Mr. Zhang founded and has been acting as the chairman of the board of (i) Huali Technician College and its predecessor Guangdong Huali Technician School (廣東省華立技工學校) since May 2000, (ii) Huali College as a secondary college affiliated with Guangdong University of Technology (廣東工業大學) at the time of its establishment in April 2001, and an independent college since April 2004 and (iii) Huali Vocational College and its predecessor Guangzhou Huali Technology Institution (廣州華立科技專修學院) since April 2005, and is responsible for the overall management and strategic development of our PRC Operating Entities. Mr. Zhang is also the founder of Huali Investment and has been acting as the chairman of the board and general manager since June 1999, and is responsible for overall management and strategic development of Huali Investment and our PRC Operating Entities.

Mr. Zhang was the manager and the controlling shareholder of the following companies, which were established in the PRC and of which the business license was previously revoked:

Name of the Company	Position held in the company before license revocation	Principal business of the company prior to license revocation	Date of license revocation	Reasons of license revocation	Current status
Hainan Lingmei Investment Co. Ltd. (海南領美投資有限公司)	Manager	property investment	June 29, 2016	The company had not engaged in any business activities for more than six months	Business license revoked
Hainan Lingmei Travel Co. Ltd. (海南領美旅遊服務有限公司)	Manager	development of tourism/program	June 29, 2016	The company had not engaged in any business activities for more than six months	Business license revoked
Hainan Lingmei Property Co. Ltd. (海南領美物業管理有限公司)	Manager	property management	June 29, 2016	The company had not engaged in any business activities for more than six months	Business license revoked

Mr. Zhang confirmed that at the time of the revocation of the business license of the above companies, he was not involved in the daily operation of the above companies as he had been focusing on the business operations of our Group. Mr. Zhang confirmed that the above license revocation did not result from any wrongful act on his part and he is not aware of any actual or potential claim having been or will be made against him as a result of such license revocation, and that no misconduct or misfeasance was involved in the license revocation of the above companies.

Mr. Zhang was the legal representative or director of the following companies, which were established in the PRC and were previously dissolved as of the Latest Practicable Date:

Name of the Company	Principal business of the company prior to dissolution	Position held in the company prior to dissolution	Date of dissolution	Reasons of dissolution
Guangzhou Ruizi Co. Ltd. (廣州蕊姿有限公司)	wholesale	Legal representative	January 6, 2014	The company applied for dissolution voluntarily
Guangzhou Baiyun District Jinye Advertisement Co. Ltd. (廣州市白雲區金葉廣告公司)	the company did not engage in any business activities prior to dissolution	Legal representative	October 9, 2001	The company had no actual operation and had not conducted the annual inspection
Guangzhou Huali Park Real Estate Development Co., Ltd. (廣州華立園房地產開發有限公司)(1)	the company did not engage in any business activities prior to dissolution	Legal representative and executive director	December 4, 2009	The company had no actual operation and had not conducted the annual inspection

Note:

(1) The company was held as to 90% by Mr. Zhang.

Mr. Zhang confirms that there was no wrongful act on his part leading to the dissolution of the above companies and as far as he is aware, the dissolution has not resulted in any liability or obligation being imposed against him. Given that the revocation and dissolution of the above companies did not involve any dishonesty or fraudulent act on the part of Mr. Zhang, and did not raise any questions as to the integrity of Mr. Zhang, our Directors are of the view that Mr. Zhang is suitable to act as Director under Rule 3.08 and 3.09 of the Listing Rules.

Mr. Zhang completed a professional program in motor vehicle lacquering and graduated from Guangdong Province Technical School (廣東省技工學校) in October 1985. In addition to his contribution to our Group, Mr. Zhang is affiliated with certain governmental organizations and the following table sets out the civic positions held by Mr. Zhang:

Period	Institution / Organization	Position
From June 2005 to May 2009	The 1st Nationwide Outstanding Persons Council of Private Education (首屆全國民辦教育傑出人物理事會)	Director
From November 2006 to November 2016	The 8th and 9th Zengcheng City Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議增城市第八屆、第九屆委員會)	Member
From May 2008 to January 2013	The 10th Science, Education, Sanitation and Sport Special Committee under Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十屆廣東省委員會科教衛體委員會)	Special committee member
From January 2013 to Present	The 11th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆廣東省委員會)	Special committee member

Mr. Zhang's dedication to education has been well recognized. The following sets out the awards received by him:

Date	Awards	Awarding authority
July 2005	"2005 Outstanding Persons of Education Innovation in China" ("2005全國傑出教育創新人物")	Jointly presented by Chinese Academy of Management Science (中國管理科學研究院), China Society for Futures Studies (中國未來研究會) and School of Education, Peking University (北京大學教育學院)
September 2005	"Outstanding Contribution Award" presented by Innovation and Development of Private Education in China and Educational, Scientific and Cultural Award of Anna Chan Chennault Campaign (中國民辦教育創新與發展、陳香梅教科文獎表彰活動"特殊貢獻獎")	Jointly presented by Office for Educational, Scientific and Cultural Award of Anna Chan Chennault (陳香梅教科文獎辦公室) and China Adult Education Association (中國成人教育協會)
April 2019	"Special Contribution Award for Private Education of the 70th Anniversary of the Founding of the People's Republic of China" (建國70週年民辦教育特殊貢獻獎)	Jointly presented by Institute of Educational Chinese Academy of Management Science (中國管理科學研究院教育科學研究所) and China Academy of Management Science Advisory Department (中國管理科學研究院諮詢部)

Mr. YE Yaming (葉雅明), aged 60, was appointed as an executive Director and chief executive officer of our Company on December 18, 2017. Mr. Ye was also appointed a member of the Remuneration Committee on August 16, 2019. He is primarily responsible for the overall operation and management of our Group.

Mr. Ye first joined our Group in May 2000 and successively took the role of principal, standing vice-principal and vice-principal at Huali Technician College and its predecessor Guangdong Huali Technician School (廣東省華立技工學校) from May 2000 to June 2005, and was responsible for the overall management of the education, personnel administration, student management, recruitment and career guidance-related matters. Mr. Ye also acted as the associate dean of Huali Vocational College from July 2005 to January 2006, where he was responsible for the overall management of the education, personnel administration, finance and other units of the college. Mr. Ye was also the director of (i) Guangzhou Huali Technology Institution (廣州華立科技專修學院), the predecessor of Huali Vocational College, from August 2004 to June 2005, (ii) Huali Vocational College from July 2005 to January 2008 and (iii) Huali Technician College from July 2007 to May 2009. He was redesignated and has been acting as the director of Huali Vocational College and Huali Technician College since November 2009 respectively.

Mr. Ye completed obtained a college diploma in physics and graduated from ShaoGuan Normal Institute (韶關師範專科學校) in June 1981.

Mr. Ye's dedication to education has been well recognized. The following sets out the awards received by him:

Date	Awards	Awarding authority
September 1994	"Outstanding Educator of Vocational Training in Guangdong Province" ("廣東省就業培訓優秀教師")	Guangdong Provincial Labor Department (廣東省勞動廳) (currently known as the Department of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳))
March 1998	Advanced Worker of the Labor System in the City (全市勞動系統先進工作者)	Qingyuan Labor Bureau (清遠市勞動局) (currently known as Qingyuan Municipal Human Resources and Social Security Bureau (清遠市人力資源和社會保障局))
September 2004	"Guangzhou Outstanding Educator" ("廣州市優秀教師(教育工作者)")	Jointly presented by Guangzhou Education Bureau (廣州市教育局) and Guangzhou Education Foundation (廣州市教育基金會)

Mr. DONG Xiaolin (董小麟), aged 68, was appointed as an executive Director and vice-president of our Company on December 18, 2017. He is primarily responsible for the overall and daily management of our PRC Operating Entities and the overseas education business.

Mr. Dong was the executive dean of Huali College from November 2014 to May 2019 and he was responsible for directing overall and daily management of our PRC Operating Entities. Prior to joining our Group, Mr. Dong was previously the vice-principal of Guangdong University of Foreign Studies (廣東外語外貿大學) from December 2003 to June 2011.

Mr. Dong has been an independent non-executive director of Guangdong Wanlima Industry Co., Ltd. (廣東萬里馬實業股份有限公司), a public company listed on the Shenzhen Stock Exchange (stock code: 300591) since August 2014 which is principally engaged in leather production, industrial investment, garment bags production and processing. He is responsible for supervising compliance and corporate governance issues of the company and providing independent opinions and advice to the board of the company.

Mr. Dong obtained a Bachelor Degree in Economics and a Master Degree in Economics from Sun Yat-sen University (中山大學) in October 1982 and December 1988 respectively. Subsequently, he was conferred with the professorial qualification by Sun Yat-sen University (中山大學) in June 1997. Mr. Dong also obtained second-level professional qualifications (專業技術二級崗位) from Guangdong University of Foreign Studies (廣東外語外貿大學) in August 2011.

In addition to his contribution to our Group, Mr. Dong is affiliated with certain governmental institutions in which he has been the major administrative decision-making and advising consultant of economics of the Development Research Center under the People's Government of Guangdong Province (廣東省人民政府發展研究中心) since December 2016 and has been an expert consultant to the 3rd decision-making board of Guangzhou Municipal People's Government (廣州市人民政府) since October 2015.

Mr. Dong's dedication in education has been well recognized. The following sets out the awards received by him:

Date	Awards	Awarding authority
December 2001	National Achievement Award for Teaching (Second Prize) (國家級教學成果獎（二等獎）)#	Ministry of Education of the People's Republic of China (中華人民共和國教育部)
June 2009	Guangdong Province Excellent Achievement Award for Philosophy and Social Science (Third Prize) (廣東省哲學社會科學優秀成果獎勵（三等獎）)#	People's Government of Guangdong Province (廣東省人民政府)
December 2015	Guangdong Province Excellent Achievement Award for Philosophy and Social Science (Third Prize) (廣東省哲學社會科學優秀成果獎勵（三等獎）)#	Jointly awarded by the CPC Guangdong Provincial Publicity Department (中共廣東省委宣傳部) and Leading Group of Guangdong Province Philosophy and Social Science Planning (廣東省哲學社會科學規劃領導小組)

Note: "#", as one of the awardees.

Non-executive Director

Mr. ZHANG Yude (張裕德), aged 28, was appointed as a non-executive Director of our Company on December 18, 2017. He is primarily responsible for giving strategic advice and guidance on the overseas education business and the strategic development of our Group.

Mr. Zhang has been the assistant to the chairman of Huali Investment since December 2015. He is responsible for work related to profit forecasting, debt reorganization, foreign investment and financing matters.

Prior to joining our Group, Mr. Zhang served as a financial analyst at Mandarin Investment Group in California from May 2014 to December 2015.

Mr. Zhang Yude obtained a Bachelor of Arts in Economics from University of California at Irvine in September 2014.

Independent Non-executive Directors

Mr. CHOW Kwong Fai, Edward, J.P. (周光暉), aged 67, was appointed as an independent non-executive Director and the chairman of the Audit Committee on August 16, 2019. He is primarily responsible for supervising the compliance and corporate governance matters of our Group and providing independent opinions and advice to the Board.

Mr. Chow has been an independent non-executive director of CMB Wing Lung Bank Limited (招商永隆銀行有限公司) since June 30, 2014; an independent non-executive director and the chairman of the audit committee of Redco Properties Group Limited (力高地產集團有限公司) (stock code: 1622), a company which is principally engaged in real estate development, hotel management and property management business, since January 14, 2014; an independent non-executive director, a member of the audit committee and the nomination committee and the chairman of the remuneration committee of Melco International Development Limited (新濠國際發展有限公司) (stock code: 200), a company which is principally engaged in casino and hospitality business in Asia and Europe, since June 12, 2015; and an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee and the nomination committee of China Aircraft Leasing Group Holdings Limited (中國飛機租賃集團控股有限公司) (stock code: 1848), a company whose business includes aircraft operating leasing, purchase and leaseback, and structured financing, as well as fleet planning, fleet replacement package deals, aircraft disassembling and component sales, since July 19, 2016. The latter three companies are listed on the Stock Exchange.

Mr. Chow was previously the chairman of the board of directors and an executive director of CIG Yangtze Ports PLC (中國基建港口有限公司) (stock code: 8233), a company which is principally engaged in port construction and operation, port and warehouse leasing and the provision of logistics services, from January 30, 2003 to November 21, 2011; an independent non-executive director and the chairman of the audit committee of COSCO Pacific Limited (中遠太平洋有限公司) (currently known as COSCO Shipping Ports Limited (中遠海運港口有限公司)) (stock code: 1199), a company whose principal business includes terminal operations and worldwide integrated shipping, from June 9, 2005 to May 23, 2013; and an independent non-executive director, a member and subsequently the chairman of the related-party transactions control committee and a member of the audit committee of China Merchants Bank Co., Ltd. (招商銀行股份有限公司) (stock code: 3968) from May 16, 2006 to July 9, 2012. All of the aforementioned companies are listed on the Stock Exchange.

Mr. Chow obtained an honors Bachelor Degree in Business Studies from Middlesex Polytechnic (now known as Middlesex University) in the United Kingdom in July 1975.

Mr. Chow has been a fellow of The Institute of Chartered Accountants in England and Wales ("**ICAEW**") since July 1991 and was admitted as an associate of the institute in December 1978. He is also a Council Member of ICAEW. Mr. Chow was the president of the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for 2005. He is also a certified public accountant recognized by the Hong Kong Institute of Certified Public Accountants. He also served as an expert adviser of the Accounting Standards Committee of the MOF (財政部會計準則委員會) of the PRC from February 2008 to February 2010.

Mr. Chow was a special information officer of the Hong Kong, Macau and Taiwan Overseas Chinese and Foreign Affairs Committee* (港澳台僑和外事委員會) of the 11th Zhejiang Province Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆浙江省常務委員會), and has been a non-executive director of the Urban Renewal Authority since May 1, 2013 and the chairman of its finance committee.

Mr. Chow is a member of the Council and of the Court of the University of Hong Kong and is the chairman of its audit committee.

Mr. Chow was appointed a Justice of Peace by the Chief Executive of Hong Kong in July 2008 and was an awardee of the Directors of the Year Award 2010 in the non-executive director of listed companies (SEHK – Hang Seng Index Constituents category) in 2010 by the Hong Kong Institute of Directors.

Mr. YANG Ying (楊英), aged 61, was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee on August 16, 2019. He is primarily responsible for supervising the compliance and corporate governance matters of our Group and providing independent opinions and advice to the Board.

Mr. Yang is a professor of the School of Economics and the dean of Investment Economics Department at Jinan University (暨南大學). Mr. Yang joined Jinan University in April 1988, at which he was successively a teaching assistant, lecturer and associate professor at the School of Economics before his current position. He engages mainly in regional and investment economics-related teaching and research work. Prior to joining Jinan University, Mr. Yang was a teaching assistant in finance at Guangdong Institute for Nationalities (廣東民族學院財經系) from September 1987 to April 1988.

Mr. Yang obtained a Bachelor of Science in Geography from Guangzhou Normal College (廣州師範學院) in January 1984. He was conferred with a professorial qualification in economics by Jinan University (暨南大學) in December 2003.

Apart from his teaching career, Mr. Yang has played an active role in civic engagements. The following sets out the key roles and positions held by Mr. Yang:

Period	Institution / Organization	Position
From January 2008 to March 2018	The Standing Committee of the 11th and 12th People's Congress of Guangdong Province (第十一屆及第十二屆廣東省人大常委會)	Member
From July 2012 to Present	Council of the 1st Think Tank Association for the Promotion of Economic and Scientific Development of Guangdong Province (第一屆廣東省經濟科學發展智庫促進會理事會)	Vice-president

The following table also sets out Mr. Yang's key publications:

Year of publication	Title	Publisher / Newspaper (as the case maybe)
2002	New Theory of Hong Kong Economy (《香港經濟新論》)	Jinan University Publishing House (暨南大學出版社)
2016	Preliminary Study on the Basic Ideas about Construction of the GPRD Free Trade Area (《廣東自由貿易試驗區基本建設思路研究》)	China Development (《中國發展》)

Mr. DING Yi (丁義), aged 56, was appointed as an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee on August 16, 2019. He is primarily responsible for supervising the compliance and corporate governance matters of our Group and providing independent opinions and advice to the Board.

Mr. Ding has been a teacher at South China Normal University (華南師範大學) since July 2001 and has been serving as the teaching professor at the School of Music of the university since September 2006. Previously, Mr. Ding was a solo artist of Guangdong Song & Dance Ensemble (廣東歌舞劇院) from September 1989 and September 2001.

Mr. Ding obtained a Bachelor Degree of Arts in Folk Music in July 1989 from Shenyang Conservatory of Music (沈陽音樂學院). Mr. Ding also obtained a professional qualification in vocal music awarded by the Department of Personnel of Guangdong Province (廣東省人事廳) (currently known as 廣東省人力資源和社會保障廳) in February 2006.

Mr. Ding has been a standing committee member of the 11th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆廣東省委員會) since January 2013.

SENIOR MANAGEMENT

The following table sets forth certain information regarding our senior management besides our executive Directors:

Name	Age	Position	Date of joining our Group	Appointment Date	Description of Role	Relationship with other Director(s) and/or senior management and/or our Controlling Shareholders
HUNG Manling (洪文靈)	52	Chief Financial Officer and one of the Joint Company Secretaries	November 2017	December 18, 2017	Primarily responsible for the financial management and overall governance of our Group	N/A
ZHANG Zhijian (張智堅)	48	Vice-president	December 2017	December 18, 2017	Primarily responsible for the daily management and information construction of our Group	Brother of Mr. Zhang Uncle of Mr. Zhang Yude
MA Zhixiong (馬志雄)	48	Vice-president	May 2017	December 18, 2017	Primarily responsible for the operation and management of our Group	N/A
ZHANG Zhicheng (張枝成)	36	Vice-president	December 2017	December 18, 2017	Primarily responsible for the investment development and investor relations management of our Group	N/A

Mr. HUNG Manling (洪文靈), aged 52, was appointed as the chief financial officer and one of the joint company secretaries of our Company on December 18, 2017. He is primarily responsible for the financial management and overall governance of our Group.

The following table sets out other prior working experience of Mr. Hung:

Period	Company / Organization	Position	Role and responsibility
From September 1993 to November 1995	BDO Kwan Wong Tan & Fong Certified Public Accountants (關黃陳方會計師行)	Auditor of Audit Department	Primarily responsible for due diligence and auditing work
From January 1996 to April 1997	South Asia Knitting Factory Ltd. (南益織造有限公司) (a company which principally engaged in garment manufacturing, textiles and dyeing)	Financial Accountant and Financial Manager (China Division) successively	Primarily responsible for financial reporting and staff supervision in PRC subsidiaries
From April 1997 to March 2007	Hutchison Whampoa (China) Limited (和記黃埔（中國）有限公司) (a company which principally engaged in business investment in the PRC, including real estate, logistics and manufacturing industry)	Successively Finance Manager, Assistant Business Development Deputy Controller and Chief Project Accountant	Primarily responsible for overviewing project accounting work and project development

Period	Company / Organization	Position	Role and responsibility
From August 2007 to October 2008	NCN Group Management Limited (安博集團管理有限公司) (a company which is principally engaged in travel, hotel and outdoor media business)	Vice-president of Business Development	Primarily responsible for business development
From March 2014 to March 2016	Hong Kong Jia Jia Investment Development Limited (香港家家投資發展有限公司) (a company which is principally engaged in the food and beverage industry)	Executive director	Primarily responsible for investment and financing

Mr. Hung obtained a Bachelor Degree of Business Administration in Accounting from Hong Kong Baptist University in December 1993. He further obtained third-level accounting and intermediate book-keeping qualifications awarded by the London Chamber of Commerce and Industry Examinations Board in 1990 and 1987, respectively.

Mr. ZHANG Zhijian (張智堅), aged 48, was appointed as a vice-president of our Company on December 18, 2017. He is primarily responsible for the daily management and information construction of our Group.

Mr. Zhang joined Huali Investment in January 2007 and has been acting as the deputy general manager of the company since December 2009. He is primarily responsible for investment and development, business management, business operation management and integrated property services related matters.

Prior to joining our Group, Mr. Zhang was previously a support manager at Tandberg Telecom AS (挪威泰德通信公司), a company principally engaged in video conferencing systems design, from December 2002 to September 2004 and was responsible for product promotion and sales as well as client relations and expanding the client base.

Mr. Zhang passed and completed the Department of Physics undergraduate program in radio electronics at South China Normal University (華南師範大學) in July 1994.

Mr. MA Zhixiong (馬志雄), aged 48, was appointed as a vice-president of our Company on December 18, 2017. He is primarily responsible for the operation and management of our Group.

Mr. Ma was the assistant to the chairman of the board of directors of Huali Technician College from May 2017 to October 2017 and Huali Vocational College from November 2017 to December 2017 respectively.

Prior to joining our Group, Mr. Ma successively acted as branch general manager of securities business and then vice-president of Lianxun Securities Co., Ltd. (聯訊證券股份有限公司) (formerly known as Huizhou Securities Company Limited (惠州證券有限責任公司)), a company listed on the National Equities Exchange and Quotations (stock code: 830399) from January 2001 to July 2014. Its business includes offering securities brokerage and trading, securities investment funds and financial products consignment, securities investment advice, and securities asset management services. Subsequently, Mr. Ma took the position of vice-president at Shanghai Greencourt Investment Group Co., Ltd. (上海綠庭投資控股集團股份有限公司) (previously known as Shanghai Dajiang Food Group Co., Ltd (上海大江食品集團股份有限公司)), a company listed on Shanghai Stock Exchange (stock code: 600695) and primarily engaged in real estate investment and asset management, from August 2014 to June 2015.

Mr. Ma obtained a Bachelor Degree in Economics, majoring in Securities Investment and Management at Jiangxi University of Finance and Economics (江西財經學院) (currently known as 江西財經大學) in July 1993. He then obtained an Executive Master of Business Administration at Sun Yat-sen University (中山大學) in June 2012.

Mr. ZHANG Zhicheng (張枝成), aged 36, was appointed as a vice-president of our Company on December 18, 2017. He is primarily responsible for the financing, investment development and investor relations management of our Group.

Mr. Zhang was the assistant to the chairman of the board of directors of Huali Investment from July 2015 to September 2016. He has been the deputy general manager since October 2016, primarily responsible for financing, investment and development, government relations as well as cross-border acquisitions.

Prior to joining the Group, Mr. Zhang was the senior manager of the Global Financial Development Department of Huawei Technologies Co., Ltd. (華為技術有限公司) in Shenzhen, a private communications technology company focusing on the production and sales of communications equipment. He then joined the Corporate Business Department of the Hong Kong Representative Office from September 2011 to October 2014, and was primarily responsible for business development and client expansion. He was a member of the accounting staff of Ernst & Young Hua Ming from October 2010 to September 2011, primarily responsible for auditing work. He served successively as a customer service representative and then analyst of Just Energy Corp. in Canada, a company with its principal business as natural gas, electricity and green energy provision, from April 2007 to September 2009.

Mr. Zhang obtained a Bachelor Degree in Management from South China University of Technology (華南理工大學) in September 2005. He then graduated from Brock University in Canada after focusing on financial studies for two years from September 2005 to June 2007 and received his MBA.

Mr. Zhang obtained the Assistant E-Business Specialist Qualification Certificate (助理電子商務師職業證書) in August 2003, Private Equity Fund Certificate (私募股權基金證書) in November 2016 and Fund Practitioners Qualification Certificate (基金從業人員資格證) in April 2017.

Mr. Zhang has not held any directorship in any listed companies in the last three years.

JOINT COMPANY SECRETARIES

Mr. HUNG Manling (洪文靈) is one of the joint company secretaries of our Company. His biographical details are set out under the paragraph headed "Senior Management" above.

Mr. CHEUNG Kai Cheong, Willie (張啟昌), aged 45, is the other joint company secretary of our Company. He is primarily responsible for the company secretarial matters of our Group.

Mr. Cheung has been the manager of company secretarial at SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司) (formerly known as SW Corporate Services Group Limited (信永方圓企業服務集團有限公司)), a company which provides a full range of corporate services, since April 5, 2017 and is responsible for assisting listed companies in professional company secretarial works.

The following table sets out other prior work experience of Mr. Cheung:

Period	Company	Position	Roles and responsibilities
From September 1996 to November 1997	Elina Hung & Co. Certified Public Accountants (洪思微會計師事務所) (a company which provides audit assurance, accounting and taxation services)	Promoted from Audit Assistant to Audit Semi-senior	Responsible for the audits of trading and manufacturing concerns.
From January 1998 to June 2006	Li, Tang, Chen & Co. (李湯陳會計師事務所) (a company which provides audit assurance, accounting, taxation and professional consulting services)	Promoted from Audit Clerk to Audit Group Leader, then to Audit Supervisor successively	Responsible for auditing work and supervision

Period	Company	Position	Roles and responsibilities
From June 2006 to July 2008	BDO McCabe Lo Limited (德豪嘉信會計師事務所有限公司) (a company which provides auditing assurance, accounting, taxation, professional consulting, risk consulting and other services)	Senior Associate of Assurance Department	Responsible for auditing work
From August 2008 to June 2014	CMMB Vision Holdings Limited (中國移動多媒體廣播控股有限公司) (previously known as Global Flex Holdings Limited (佳邦環球控股有限公司), a company listed on Main Board of the Stock Exchange with stock code: 471) (a company which mainly engaged in the transmission and broadcasting of television programs and provision of agency services)	Company Secretary, Financial Manager and Authorized Representative	Responsible for company secretarial work and accounting report for listed companies
From December 2014 to February 2016	Ocean Concept Holdings Limited (富璭集團有限公司) (a holding company of Luk Hing Entertainment Group Holdings Limited (陸慶娛樂集團控股有限公司), a company listed on the GEM board of the Stock Exchange with stock code: 8052) (a company which mainly engaged in the operation of restaurants, bars and nightclubs in Hong Kong and Macau)	Assistant Financial Controller	Responsible for overseeing financial operations and accounting
From April 2016 to June 2016	Finet Holdings Limited (財華控股有限公司) (a company which principally engaged in providing financial information services (including media business), securities and futures business, loan business and property investment business)	Financial Controller	Responsible for overseeing financial operations and accounting

Mr. Cheung was admitted as a fellow of the Association of Chartered Certified Accountants in the United Kingdom in October 2008. Mr. Cheung has been a certified public accountant recognized by the Hong Kong Institute of Certified Public Accountants since January 2009. Mr. Cheung obtained a Bachelor Degree of Arts (Honors) in Accounting and Finance at the University of Glamorgan in the U.K. in June 1996.

BOARD COMMITTEES

Audit Committee

Our Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with paragraph C3.3 of the Corporate Governance Code and Corporate Governance Report as 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, risk management and internal control systems of our Group, oversee the audit process and the audits of the financial statements of our Group.

The Audit Committee consists of Mr. Chow Kwong Fai, Edward. J.P., Mr. Yang Ying and Mr. Ding Yi and is chaired by Mr. Chow Kwong Fai, Edward. J.P. who has the appropriate and extensive professional experience as required under the Listing Rules.

Remuneration Committee

Our Company has established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules with written terms of reference in compliance with paragraph B.1.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review, determine and make recommendations to our Board on the policy and structure of the remuneration payable to our Directors and senior management and making recommendations on employee benefit arrangements.

The Remuneration Committee consists of Mr. Yang Ying, Mr. Ye Yaming and Mr. Ding Yi, and is chaired by Mr. Yang Ying.

Nomination Committee

Our Company has established the Nomination Committee with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code and Corporate Governance Report as 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 candidates to fill vacancies on our Board.

The Nomination Committee consists of Mr. Zhang Zhifeng, Mr. Yang Ying and Mr. Ding Yi, and is chaired by Mr. Zhang Zhifeng.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

For the years ended August 31, 2017, 2018 and 2019, the aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind and such remuneration they received when they acted as our senior management before their appointment as Directors (including contribution to the pension scheme on behalf of our Directors) or any bonuses paid to our Directors by us and our subsidiaries was approximately RMB3.6 million, RMB6.9 million and RMB5.8 million respectively. For additional information on Directors' remuneration during the Track Record Period as well as information on the five highest paid individuals, please see the Accountant's Report set out in Appendix I to this prospectus.

Our Directors and senior management receive compensation in the form of fees, salaries, allowances, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse our Directors and senior management for expenses which are necessarily and reasonably incurred for providing services to us or discharging their duties in relation to our operations. When reviewing and determining the specific remuneration packages for our Directors and senior management, we take into consideration factors such as their individual performance, qualification, experience and seniority, salaries paid by comparable companies, time commitment and responsibilities of our Directors, employment elsewhere in our Group and desirability of performance-based remuneration.

During the Track Record Period, no remuneration was paid by our Group to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by the Group to, or receivable by, our Directors or the five highest paid individuals or past Directors for the years ended August 31, 2017, 2018 and 2019 for the loss of any office in connection with the management of the affairs of any member of the Group. Furthermore, no other payments have been made or are payable, in respect of the Track Record Period, by us or any of our subsidiaries to or on behalf of any of our Directors. There has been no arrangement under which a Director has waived or agreed to waive any emoluments during the Track Record Period.

Going forward, our Remuneration Committee will review and determine the remuneration and compensation of our Directors and senior management with reference to the salaries paid by comparable companies, the time commitment and responsibilities of our Directors and senior management and the performance of our Group. Under the arrangements presently in force, we estimate the aggregate remuneration, excluding discretionary bonuses, of our Directors payable for the year ending August 31, 2020 will be approximately HK$6.7 million.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. The board diversity policy provides that our Company should endeavor to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural and education background, ethnicity and length of service. The decision of the appointment will be based on merit and the contribution that the selected candidates will bring to our Board.

Our Directors have a balanced mix of knowledge and skills, including knowledge and skills in vocational education and higher education, accounting, public policy-making and administration, economics, music and tertiary education. They obtained degrees in various majors including economics, business studies, science in geography and arts in folk music. We have three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of our Board. Furthermore, our Board comprises Directors of a wide range of age, ranging from 28 years old to 68 years old. We will continue to apply the principles of appointments based on merit with reference to our board diversity policy as a whole.

Our Nomination Committee is responsible for ensuring the diversity of our Board members. After the Listing, our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness. In particular, in recognizing the importance of gender diversity, we confirm that our Nomination Committee will use its best efforts, within three years from the Listing Date, to identify and recommend suitable female candidates to our Board for its consideration and we will use our best efforts to appoint one female director in our Board by the end of 2022, subject to our Directors (i) being satisfied with the competence and experience of the relevant candidate after a reasonable review process based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interest of the Company and the Shareholders as a whole when making the relevant appointments. We will disclose in our corporate governance report the implementation of the board diversity policy on an annual basis.

COMPLIANCE ADVISER

We have appointed China Industrial Securities International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us, upon our consultation, on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The terms of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY

So far as our Directors are aware, immediately following completion of the Capitalization Issue and the Global Offering, the following persons will have interests and/or short positions in the Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, 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 our Company and are therefore regarded as substantial Shareholders of our Company under the Listing Rules:

Name	Capacity/Nature of interest	Immediately following completion of the Capitalization Issue and Global Offering	
		Number of Shares	**Shareholding percentage**
Mr. Zhang[(1)]	Settlor of trust	900,000,000	75%
UBS Trustees (B.V.I.) Limited[(1)]	Trustee	900,000,000	75%
UBS Nominees Limited	Interest of controlled corporation	900,000,000	75%
Trust Co[(1)]	Interest of controlled corporation	900,000,000	75%
Huali Education	Beneficial owner	900,000,000	75%
51job.Inc	Beneficial owner	71,974,000[(2)]	6.00%[(2)]

Notes:

(1) The sole shareholder of Huali Education is Trust Co. The entire equity interest in Trust Co is held on trust by UBS Nominees Limited for UBS Trustees (B.V.I.) Limited. UBS Trustees (B.V.I.) Limited is the trustee of HL-Diamond Trust. HL-Diamond Trust is a discretionary trust established by Mr. Zhang as the settlor and with Mr. Zhang being the sole discretionary beneficiary. Therefore, each of Mr. Zhang, Trust Co and UBS Trustees (B.V.I.) Limited is deemed to be interested in the 900,000,000 Shares held by Huali Education.

(2) The number of Shares and the shareholding percentage are calculated based on the mid-point of the indicative Offer Price range.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Capitalization Issue and the Global Offering, have interests and/or short positions in the Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, 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 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.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized share capital and share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the Capitalization Issue and Global Offering:

		Nominal value
		US$
Authorized share capital		
As of the date of this prospectus		
2,000,000,000	Shares	200,000
Issued and to be issued, fully paid or credited as fully paid		
In issue as of the date of this prospectus		
500,000,000	Shares	50,000
To be issued pursuant to the Global Offering		
400,000,000	Shares to be issued under the Capitalization Issue	40,000
300,000,000	Shares to be issued pursuant to the Global Offering	30,000
Total issued share capital upon completion of the Global Offering		
1,200,000,000	Shares	120,000

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and does not take into account any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares currently in issue as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus save for the entitlements under the Capitalization Issue.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to allot and issue Shares. Please refer to the section headed "Statutory and General Information – A. Further Information about our Group – 3. Written Resolutions of the Sole Shareholder Passed on August 16, 2019 and November 5, 2019" in Appendix V to this prospectus for further details.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to repurchase Shares. Please refer to the section headed "Statutory and General Information – A. Further Information about our Group – 3. Written Resolutions of the Sole Shareholder Passed on August 16, 2019 and November 5, 2019" in Appendix V to this prospectus for further details.

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report set out in Appendix I to this prospectus. The Accountant's Report has been prepared in accordance with HKFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis 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 development, 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 sections headed "Risk Factors" and "Forward-Looking Statements" in this prospectus.

OVERVIEW

We are a leading large-scale private higher education and vocational education group in South China, offering applied science-focused and practice-oriented programs. As of October 31, 2019, we had an aggregate of 40,627 students enrolled at our three schools, namely Huali College, Huali Vocational College and Huali Technician College. According to the Frost & Sullivan Report, by the end of 2018, as measured by student enrollment, we ranked second among all private vocational education service providers in South China and ranked fourth among all private higher education service providers in South China.

The quality of our education, our extensive employer network and dedicated job placement services allow us to achieve high Initial Employment Rates. For the 2017/2018 school year, our Initial Employment Rate of Huali College, Huali Vocational College and Huali Technician College was 95.9%, 93.5% and 98.4%, respectively, ranking them in the top tier among similar schools in South China. We believe the quality of our education programs, evidenced by our high Initial Employment Rates, has helped us enhance our reputation and achieve steady growth in our revenue and gross profit over the Track Record Period. Our revenue increased from RMB578.2 million for the year ended August 31, 2017 to RMB608.0 million for the year ended August 31, 2018 and further increased to RMB674.8 million for the year ended August 31, 2019. Our gross profit increased from RMB319.4 million for the year ended August 31, 2017 to RMB334.4 million for the year ended August 31, 2018 and further increased to RMB367.8 million for the year ended August 31, 2019. For the years ended August 31, 2017, 2018 and 2019, our gross profit margin was 55.2%, 55.0% and 54.5%, respectively.

BASIS OF PRESENTATION

Our business activities include tuition service and student accommodation service. Prior to the Reorganization, the tuition service was principally conducted through the PRC Operating Entities and the student accommodation service was conducted by student dormitory departments of Huali Investment. After the Reorganization, the tuition and student accommodation service continues to be conducted by the PRC Operating Entities and Huali Investment, and other businesses previously conducted by Huali Investment were transferred to Lingmei Life Service. Immediately prior to and after the Reorganization, the tuition and student accommodation service was mainly conducted by the PRC Operating Entities and Huali Investment, and was managed and controlled by Mr. Zhang. Pursuant to the Reorganization, the PRC Operating Entities and the tuition and student accommodation service are under the effective control of XZ Huali and ultimately the Company through the Contractual Arrangements. The Company had not been involved in any other business prior to the Reorganization and the Reorganization does not result in any changes in business substance, nor in any management or the owner (Mr. Zhang) of the tuition and student accommodation service. Accordingly, the historical financial information of the entities now comprising the Group is presented using the carrying value of the tuition and student accommodation service for all periods presented.

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 higher education and private vocational education in China

During the Track Record Period, we derived all our revenue from the private higher education and private vocational education services provided through our three schools in China. As a result, our results of operations and financial conditions are significantly affected by the demand for private higher education and the private vocational education in China.

The key factors that drive the demand for private higher education and private vocational education in China primarily include increases in expenditure of urban households on education, growth of the school-age population, favorable Initial Employment Rates, growing demand for technical talents and favorable policies and regulations on private education. Our business has benefited from the growth of China's economy and the increasing expenditure of urban households on education. According to the Frost & Sullivan Report, as China's economy has continued to grow over the past few years, its per capita GDP has also increased at a fast pace from RMB47,005 in 2014 to RMB64,644 in 2018, representing a CAGR of approximately 8.3%, and is expected to reach RMB94,783 in 2023. The overall economic growth and the increase in per capita GDP in China have increased the level of per capita expenditure on education, according to the Frost & Sullivan Report. Furthermore, the growth in the urban population in China will likely affect the demand for private higher education and private vocational education in the country. According to the Frost and Sullivan Report, from 2014 to 2018, China's urban population increased from 749.2 million to 831.4 million, with a CAGR of 2.6%. With the continuous growth of urbanization, the urban population is expected to maintain a CAGR of 2.6% from 2018 to 2023. Therefore, we anticipate that the demand for private higher education and private vocational education in general in China will continue to increase.

In addition, demand for our services and our business, financial condition and results of operations may be materially adversely affected by PRC economic, political and social conditions as well as laws and government policies. The PRC education industry, including the private higher education sector and the private vocational education sector, is highly regulated by, among other authorities, the MOE and other local educational authorities. The PRC government has promulgated a number of policies and regulations since 1999 to encourage the development of private education and vocational education. In particular, in 2015, the MOE announced that higher education focused on applied sciences will be a national focus. In 2017, the State Council further promulgated the National Education Development Thirteenth Five-Year Plan (國家教育事業發展"十三五"規劃), which emphasizes development of local private higher education institutions that focus on cultivation of talent with applied science-focused practical skills and intends to increase recruitment of students in fields of applied sciences. According to the Frost & Sullivan Report, additional favorable policies are likely to be introduced to further drive the development of the PRC private education, and the total student enrollment in private higher education in China is expected to reach approximately 6.7 million in 2023.

Student enrollment levels

Our revenue generally depends on the number of students enrolled at our schools, as we charge tuition fees by person. The total number of students enrolled at our schools amounted to 38,788, 36,686 and 37,220 for the 2016/2017, 2017/2018 and 2018/2019 school years, respectively.

Our student admission levels largely depend on a number of factors, including, but not limited to, (i) our schools' reputation and our ability to successfully compete with other private schools that offer higher education and vocational education services in the geographic market in which we operate our schools; (ii) our admission quota with respect to Huali College and Huali Vocational College, as approved by relevant government authorities from year to year, subject to adjustment by relevant government authorities; and (iii) the capacity for student enrollment at each of our schools. We believe the educational philosophies of our schools and our well-developed curricula and our high Initial Employment Rates help us attract students who seek private higher education and private vocational education as a pathway to satisfactory employment. Moreover, the quality of our teachers is also a major factor that has played in the past, and is expected to continue to play in the future, an important role in the success of our schools. Accordingly, we apply stringent teacher selection criteria and maintain training programs for our newly hired and experienced teachers, as well as regular and on-going teacher evaluation processes to assess and improve their performance.

Tuition fees and boarding fees

Our revenue is affected by the tuition fee rates and boarding fee rates that we are able to charge. We usually require students to pay tuition fees and boarding fees at the beginning of each school year. The tuition fees and boarding fees that we charge are typically based on the demand for our educational programs, the cost of our operations, the geographic markets where we operate our schools, the tuition fee rates and boarding fee rates 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. Historically, we have kept our tuition fee rates and boarding fee rates at levels that we believe are competitive as compared to our competitors in order to attract more students and increase our student enrollment and market share. We generally raise tuition fee rates at some of our schools every one to two school years to reflect our increased operating costs and more widely recognized school reputation. Prior to October 11, 2016, Huali College, Huali Vocational College and Huali Technician College were required to make a filing with the relevant governmental authorities regarding their proposed tuition fee rate and boarding fee rate adjustments. Starting from October 11, 2016, Huali College, Huali Vocational College and Huali Technician College are only required to publish their proposed tuition fee rate and boarding fee rate adjustments to the public but are no longer subject to any statutory filing requirements. If we raise tuition fee rates, the new tuition fee rates will only be applicable to newly admitted students, and the tuition fee rates for the existing students will remain unchanged. While we successfully increased tuition fee rates at our schools during the Track Record Period, there is no guarantee we will be able to continue to raise tuition fee rates in the future. Please refer to the section headed "Risk Factors – Risks Relating to Our Business and Our Industry – Our business depends on our ability to maintain or raise the tuition fee rates and boarding fee rates that we charge at our schools" in this prospectus for details. For those students who withdraw from our schools, we also have refund policies in place. Please refer to the section headed "Business – Our Schools – Overview – Student withdrawals and refunds" in this prospectus for further details.

Moreover, our revenue is also affected by the mix of our tuition fee income. The tuition fees of our schools vary depending on the different academic programs offered at each of our schools. As a result, the changes in the number of students enrolled in different academic majors in each school year may lead to fluctuations in our tuition fee income.

Utilization rate and capacity of our schools

In addition to student enrollment and tuition fees, the utilization rate of our schools may also affect our revenue, gross margin and profit. The utilization rate of our schools is primarily affected by the number of students we can enroll, which is subject to a capacity limit depending on the classroom and dormitory space, teaching and experimental equipment, as well as the number of teachers at each school. The capacity of Zengcheng campuses of our schools increased during the Track Record Period. For the 2016/2017, 2017/2018 and 2018/2019 school years, the utilization rate of Zengcheng campuses of our schools was 95.0%, 91.1% and 91.7%, respectively. Please refer to the section headed "Business – Our Schools – Overview – Student enrollment and capacities" in this prospectus for the calculation methods of our utilization rate.

During the Track Record Period, the Zengcheng campuses of our schools maintained high utilization rates. As part of our strategy, we plan to expand Huali College and Huali Vocational College by constructing additional dormitory buildings in Zengcheng to increase our school capacity. As the Latest Practicable Date, the aforesaid construction projects were in progress. We also plan to establish a new junior college in Jiangmen City, Guangdong Province to provide higher education and vocational education and grant junior college diplomas accredited by the MOE. We believe that it is a key factor for our success that we can identify the proper time to expand the capacity of our schools by expanding campuses and facilities for schools and, following such expansion, quickly increase the student enrollment at such schools. Please refer to the section headed "Business – Planned Expansion" in this prospectus for further details.

Ability to control cost of sales and expenses

Our profitability depends, in part, on our ability to control our cost of sales and expenses. For the years ended August 31, 2017, 2018 and 2019, our cost of sales represented 44.8%, 45.0% and 45.5% of our total revenue, respectively. Our cost of sales primarily consists of teaching and dormitory staff costs, depreciation and amortization, joint tuition support fees, school consumables, property management and maintenance fees, utilities and maintenance, and other expenses.

Our teaching and dormitory staff costs constitute 13.3%, 14.5% and 14.8% of our total revenue for the years ended August 31, 2017, 2018 and 2019, respectively. Our teaching and dormitory staff costs as percentage of our total revenue remained relatively stable during the Track Record Period. However, as we continuously improve our major offerings and curricula to respond to the changing needs of the job markets, our teaching related expenses such as teaching staff costs and other teaching related expenses such as school consumables and equipment maintenance fees may also vary depending on our major offerings and according to the changes in our curricula.

Our operating expenses primarily consist of administrative expenses and selling expenses. For the years ended August 31, 2017, 2018 and 2019, the total amount of administrative expenses and selling expenses as a percentage of our total revenue was 14.0%, 13.9% and 15.9%, respectively. We cannot guarantee they will not increase to a much larger degree as we expand our business operations and become a public company and significantly increase the remuneration of our Directors and senior management after the Listing.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our financial position and operating results. Some of the accounting policies require us to apply estimates and judgments on matters that are inherently uncertain. Set forth below are discussions of the accounting policies applied in preparing our financial information that we believe are most dependent on the application of these estimates and judgments and, in addition, certain other accounting policies that we believe are material to an understanding of our financial information. For details of these critical accounting policies, judgments and estimates, and other significant accounting policies, judgments and estimates we applied in preparing our financial information, see the Accountant's Report of our Group in Appendix I to this prospectus.

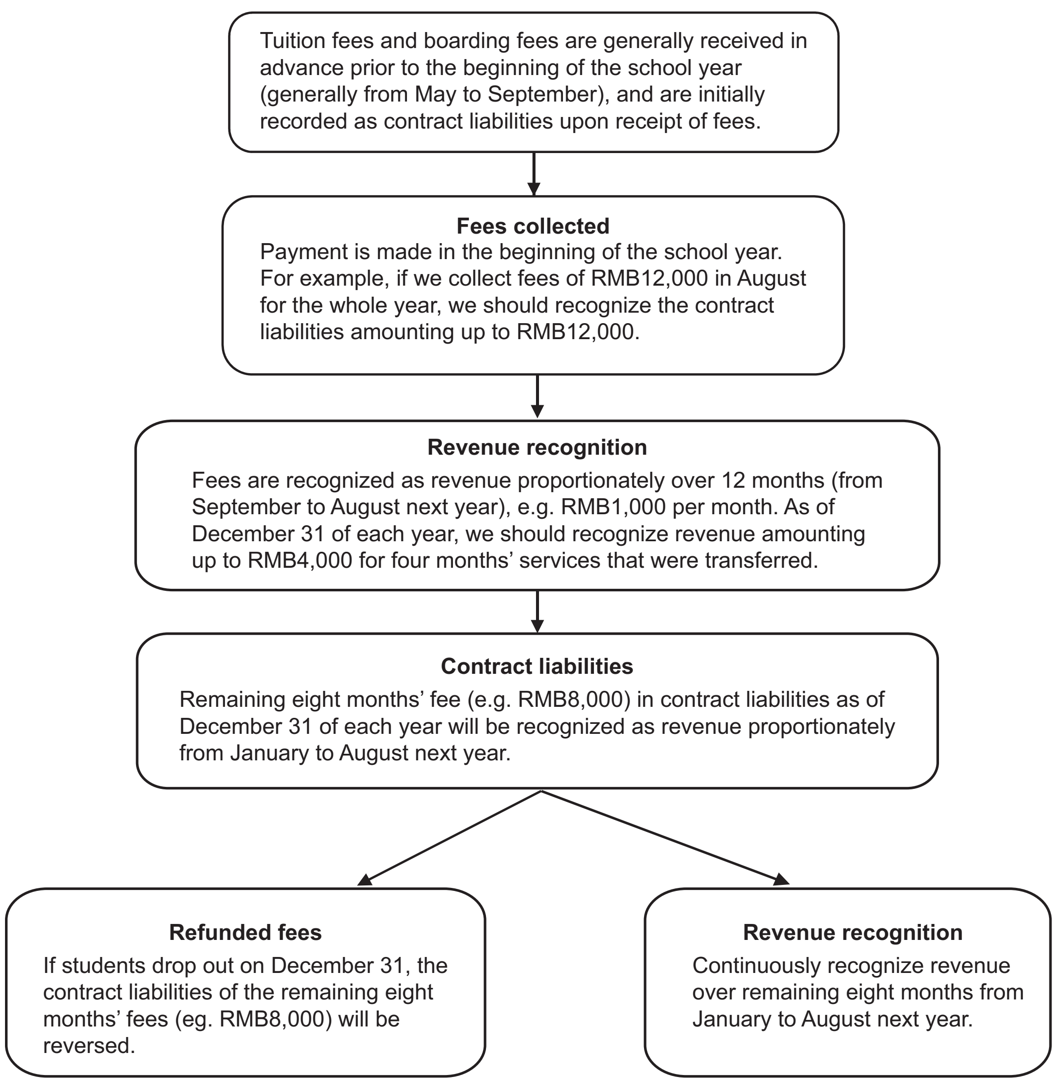
We adopted a full retrospective application of HKFRS 15 "Revenue from Contracts with Customers" (which replaces the previous revenue standards HKAS 18 "Revenue" and HKAS 11 "Construction Contracts," and the related interpretation on revenue recognition) and HKFRS 9 "Financial Instruments" (which replaces the whole of HKAS 39 "Financial Instruments: recognition and measurement"), which have been applied on a consistent basis throughout the Track Record

Period. We believe that the adoption of HKFRS 15 and HKFRS 9 as compared to the requirements of HKAS 18 and HKAS 39 would not have significant impact on our financial position and performance during the Track Record Period.

Revenue Recognition

Revenue represents tuition fees and boarding fees from provision of services by us. The tuition and boarding fees are generally received in advance at the beginning of each school year and are initially recorded as contract liabilities. Control of tuition service and student accommodation service is transferred over time as the students simultaneously receives and consumes the benefits provided by us as we perform. Therefore, tuition and boarding fees are recognized proportionately over each school year. The portion of tuition and boarding payments received from students but not yet earned is recorded as contract liabilities. Amounts which will be earned within one year are reflected as a current liability, and the amounts which will be earned beyond one year are reflected as a non-current liability. Rental income of property leasing under operating leases is recognized on a straight-line basis over the lease terms.

The following diagram illustrates the revenue recognition under HKFRS 15 in respect of the contract liabilities:



Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Historical costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated 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 costs, net of their residual values, over their estimated useful lives, as follows:

Buildings	40 years
Vehicles	5-10 years
Electronic equipment	5-10 years
Furniture and fixtures	5-20 years
Interior decoration	3-5 years

Construction-in-progress represents buildings and plant under construction and is stated at cost less impairment losses. Historical expenditure that is directly attributable to the construction comprises construction costs, the cost of plant and machineries and applicable borrowing costs incurred during the construction year. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When construction-in-progress concerned is brought into use, the costs are transferred to relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

Financial assets

We classify our financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and

- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. We reclassify debt investments when and only when the business model for managing those assets changes.

Current and deferred income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

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 our Company and our Company's subsidiaries operate and generate taxable income.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

RESULTS OF OPERATIONS

The following table presents a summary of our consolidated statements of comprehensive income for the years ended August 31, 2017, 2018 and 2019, which are derived from, and should be read in conjunction with, our consolidated financial statements, including the notes thereto, included in the section headed "Accountant's Report" in Appendix I to this prospectus.

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	578,168	608,008	674,800
Cost of sales	(258,798)	(273,633)	(307,014)
Gross profit	319,370	334,375	367,786
Selling expenses	(7,972)	(8,338)	(13,291)
Administrative expenses	(73,167)	(76,083)	(93,827)
Other income	8,995	10,748	10,701
Other gains – net	4,577	9,523	1,591
Operating profit	251,803	270,225	272,960
Finance income	1,013	1,018	868
Finance costs	(58,128)	(71,131)	(46,815)
Finance expenses – net	(57,115)	(70,113)	(45,947)
Profit before income tax	194,688	200,112	227,013
Income tax expenses	(1,596)	(6,785)	(3,950)
Profit for the year	193,092	193,327	223,063

Non-HKFRS Measure

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Adjusted Net Profit	201,102	213,244	253,379

The Adjusted Net Profit, which is unaudited in nature, represents profit for the year from continuing operations excluding the effects of (i) the listing expenses, (ii) interest expenses on discount of amounts due to a related party and (iii) fair value gains on investment properties. We add back interest expenses on discount of amounts due to a related party in the reconciliation mainly because they are non-recurring in nature and nominal interest expenses, which do not actually generate cash outflow. There will be no such expenses upon completion of payment of amounts due to a related party by April 30, 2020, pursuant to the relevant agreement. The Adjusted Net Profit is not a measure of performance under HKFRSs. We believe Adjusted Net Profit is a more accurate indication of our profitability and operating performance for the year ended August 31, 2017 and beyond. However, Adjusted Net Profit should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with HKFRSs, or as an alternative to cash flow as a measurement of liquidity. 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 period. Please refer to the section headed "– Key Components of Our Results of Operations – Non-HKFRS Measure" in this prospectus for details. Potential investors should be aware that the Adjusted Net Profit measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

The following table reconciles our Adjusted Net Profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRSs, which is profit for the year:

	Year ended August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit for the year	193,092	193,327	223,063
Add:			
Listing expenses	5,133	6,910	10,661
Interest expenses on discount of amounts due to a related party	6,977	21,807	22,855
Less:			
Fair value gains on investment properties	4,100	8,800	3,200
Adjusted Net Profit	201,102	213,244	253,379

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Revenue represents the amount that we charge for the services provided by us in the normal course of business net of cash discounts, financial assistance and refunded tuition fees. We derive revenue from tuition fees and boarding fees that our schools collect from students. For the years ended August 31, 2017, 2018 and 2019, we generated total revenues of RMB578.2 million, RMB608.0 million and RMB674.8 million, respectively.

The table below summarizes the amount of revenue generated from tuition and boarding fees for the years indicated:

	Year ended August 31,					
	2017		2018		2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Tuition fees						
Huali College	244,895	42.4	248,982	41.0	323,333	47.9
Huali Vocational College	179,139	31.0	202,718	33.3	203,166	30.1
Huali Technician College	114,471	19.7	114,038	18.7	103,222	15.3
Total tuition fees	538,505	93.1	565,738	93.0	629,721	93.3
Boarding fees						
Huali College	13,407	2.3	16,302	2.7	21,234	3.2
Huali Vocational College	14,247	2.5	15,655	2.6	15,597	2.3
Huali Technician College	12,009	2.1	10,313	1.7	8,248	1.2
Total boarding fees	39,663	6.9	42,270	7.0	45,079	6.7
Total revenue	578,168	100.0	608,008	100.0	674,800	100.0

The following table sets forth the listed tuition fee rates of our schools for the school years indicated:

School	Tuition Fee Rates(1) 2016/2017 school year	2017/2018 school year	2018/2019 school year
	RMB	RMB	RMB
Huali College			
Four- to five-year undergraduate program(2)	19,000-22,000	19,000-22,000	23,000-29,000
International program	25,000	28,000	32,000
Bilingual program	21,000-22,000	22,000-23,000	26,000-27,000
Huali Vocational College			
Three-year junior college program	13,800-16,800	13,800-16,800	12,800-16,800
-Zengcheng campus	13,800-16,800	13,800-16,800	14,800-16,800
-Yunfu campus(3)	-	-	12,800-14,800
International program	25,000	28,000	28,000
Bilingual program	15,800-16,800	15,800-16,800	15,800-16,800
Huali Technician College			
Three-year vocational program(4)	6,300-10,600	5,700-11,500	6,000-12,800
-Zengcheng campus	9,800-10,600	9,800-11,500	8,800-12,800
-Yunfu campus	6,300-8,100	5,700-7,500	6,000-7,500

Notes:

(1) Tuition fee rates shown above for all of our schools are applicable to students admitted in the relevant school year only.

(2) Generally, Huali College offers four-year undergraduate programs, but also offers a five-year undergraduate program in architecture.

(3) Huali Vocational College Yunfu Campus commenced operation in September 2018.

(4) Generally, Huali Technician College offers three-year vocational programs, but also offers two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College. In addition, we offer students at Huali Technician College a dual-diploma program, in which students are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. During the Track Record Period, we charged students who enrolled in these dual-diploma programs additional tuition fees ranging from RMB1,500 to RMB3,000.

The following table sets forth the information relating to student enrollment and average tuition fees for each of our schools for the school years indicated:

School	Student Enrollment			Average Tuition Fees per student(3)		
	School Year(1)			Year ended August 31,		
	2016/2017	2017/2018	2018/2019	2017	2018	2019
				RMB	RMB	RMB
Huali College	14,092	13,003	15,126	17,378	19,148	21,376
Huali Vocational College	12,822	13,341	13,044	13,971	15,195	15,576
– Zengcheng campus	12,822	13,341	12,404	-	-	-
– Yunfu campus(2)	-	-	640	-	-	-
Huali Technician College	11,874	10,342	9,050	9,640	11,027	11,406
– Zengcheng campus	10,149	9,503	8,304	-	-	-
– Yunfu campus	1,725	839	746	-	-	-
Total	38,788	36,686	37,220	13,883	15,421	16,919

Notes:

(1) Except as specified otherwise in this prospectus, we present our business operating data as of August 31 for each of the school years.

(2) Huali Vocational College Yunfu Campus commenced operation in September 2018.

(3) Average tuition fees equal the revenue from tuition fees for financial year divided by the student enrollment for the corresponding school year.

During the Track Record Period, our boarding fee rates ranged from RMB600 to RMB2,500 per school year, depending on the location, room size and number of students housed in each room.

Cost of sales

Our cost of sales consists primarily of teaching and dormitory staff costs, depreciation and amortization, joint tuition support fee, school consumables, property management and maintenance fees, utilities and maintenance and other expenses.

The following table sets forth the components of our cost of sales for the years indicated:

	Year ended August 31,					
	2017		2018		2019	
	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales
Cost of sales						
Teaching and dormitory staff costs	77,090	29.8	88,182	32.2	99,688	32.5
Depreciation and amortization	84,444	32.6	87,343	31.9	92,265	30.1
Joint tuition support fees	41,741	16.1	42,088	15.4	55,010	17.9
School consumables	12,266	4.7	11,902	4.3	14,218	4.6
Property management and maintenance fees	15,976	6.2	14,887	5.4	16,268	5.3
Utilities and maintenance	18,743	7.2	19,343	7.1	18,944	6.2
Other expenses	8,538	3.4	9,888	3.7	10,621	3.4
Total	258,798	100.0	273,633	100.0	307,014	100.0

Teaching and dormitory staff costs primarily consist of salaries, social insurance and other compensation paid to our teachers and dormitory staff. Depreciation and amortization primarily consists of depreciation of property, plant and equipment and amortization of land use rights and teaching software. Joint tuition support fee represents the fees we pay to Guangdong University of Technology each school year in relation to Huali College according to relevant cooperation agreements with Guangdong University of Technology. Pursuant to the Cooperation Agreements between Guangdong University of Technology and Huali Investment, Huali College agrees to pay Guangdong University of Technology 17% of its total tuition fees income for each school year. Please refer to the section headed "Business – Our Schools – Huali College – Cooperation Agreements with Guangdong University of Technology" in this prospectus for details of the cooperation agreements. School consumables primarily consist of the purchase costs of teaching materials and consumables, classroom consumables, books and other consumables. Property management and maintenance fees primarily consist of fees we paid for maintenance and repair of school buildings and facilities. Utilities and maintenance primarily consist of equipment maintenance fees relating to expenses incurred for the maintenance and repair of our teaching equipment and utilities expenses relating to the operation of our schools. Other expenses primarily consist of post, telecommunications and network expenses, student activity expenses, military training fees, insurance fees, authentication fees and other miscellaneous expenses.

Sensitivity analysis

The following table sets out a sensitivity analysis of: (i) the effect of the fluctuations of tuition and boarding fees during the Track Record Period, and (ii) the effect of the fluctuations of staff costs, which include our teaching and dormitory staff costs, selling and marketing staff costs and administrative staff costs, during the Track Record Period, assuming no change of depreciation and amortization or any other costs. The sensitivity analysis involving tuition and boarding fees 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 and boarding fees income and staff costs. While none of the hypothetical fluctuation ratios applied in the sensitivity analysis equal the historical fluctuations of the tuition and boarding fees and staff costs, we believe that the application of hypothetical fluctuations of 5% and 10% in the tuition and boarding fees income and staff costs presents a meaningful analysis of the potential impact of changes in the tuition and boarding fees and salaries and benefits paid to our school personnel on our revenue and profitability.

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Sensitivity analysis of tuition and boarding fees			
Tuition and boarding fees (decrease)/increase	**Impact on our profit for the year**		
(10%)	(55,510)	(58,206)	(67,480)
(5%)	(27,755)	(29,103)	(33,740)
5%	27,755	29,103	33,740
10%	55,510	58,206	67,480
Sensitivity analysis of staff costs			
Salaries and benefits for school personnel (decrease)/increase	**Impact on our profit for the year**		
(10%)	11,258	12,777	15,343
(5%)	5,629	6,389	7,672
5%	(5,629)	(6,389)	(7,672)
10%	(11,258)	(12,777)	(15,343)

Gross profit and gross profit margin

Gross profit represents revenue less cost of sales. For the years ended August 31, 2017, 2018 and 2019, our gross profit was RMB319.4 million, RMB334.4 million and RMB367.8 million, respectively, and our gross profit margin was 55.2%, 55.0% and 54.5%, respectively.

The following table sets forth the gross profit and gross profit margin of each of our schools for the years indicated:

	Year ended August 31,					
	2017		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Huali College	118,350	48.3	127,845	51.3	179,689	52.1
Huali Vocational College	109,764	61.3	117,231	57.8	106,351	48.6
Huali Technician College	86,384	75.5	83,627	73.3	77,312	69.4
Others[(1)(2)]	4,872	8.3	5,672	9.3	4,434	86.4
Total	319,370	55.2	334,375	55.0	367,786	54.5

Notes:

(1) For the years ended August 31, 2017 and 2018, others mainly include gross profit from the boarding fees and property management fees minus depreciation and related costs in relation to student dormitory buildings held by Huali Investment during the Track Record Period. Huali Investment transferred its self-owned student dormitory buildings to Huali College and Huali Vocational College in September 2018.

(2) For the year ended August 31, 2019, others comprises gross profit from the consulting service fees minus employee benefit and related costs pursuant to the Structured Contracts, which was reconciled to our consolidated financial statements.

Selling expenses

Selling expenses primarily consist of selling and marketing staff costs and promotion expenses relating to our general promotion and marketing activities, such as printing school brochures and publications in various media outlets.

The following table sets forth the components of our selling expenses for the years indicated:

	Year ended August 31,					
	2017		2018		2019	
	RMB'000	% of selling expenses	RMB'000	% of selling expenses	RMB'000	% of selling expenses
Selling expenses						
Selling and marketing staff costs	2,856	35.8	3,044	36.5	3,737	28.1
Promotion expenses	5,067	63.6	5,259	63.1	9,522	71.6
Other expenses	49	0.6	35	0.4	32	0.3
Total	7,972	100.0	8,338	100.0	13,291	100.0

Administrative expenses

Administrative expenses primarily consist of administrative staff costs, traveling and entertainment expenses incurred during social events for business purposes, depreciation of property, plant and equipment relating to office buildings, office expenses relating to general office expenditure, utilities expenses relating to our administrative activities, listing expenses and auditor's remuneration and other miscellaneous expenses including post, telecommunications and network expenses, rental expenses, consulting fees, service charges and others.

The following table sets forth the components of our administrative expenses for the years indicated:

	Year ended August 31,					
	2017		2018		2019	
	RMB'000	% of administrative expenses	RMB'000	% of administrative expenses	RMB'000	% of administrative expenses
Administrative expenses						
Administrative staff costs	32,633	44.6	36,545	48.0	50,007	53.3
Depreciation of property, plant and equipment	7,003	9.6	6,970	9.2	6,326	6.7
Travel and entertainment expenses	14,140	19.3	9,552	12.6	9,456	10.1
Office expenses	8,210	11.2	10,209	13.4	8,903	9.5
Utilities expenses	817	1.1	819	1.1	1,250	1.3
Listing expenses	5,133	7.0	6,910	9.1	10,661	11.4
Auditors' remuneration						
– Audit services	30	0.0	77	0.1	64	0.1
Other expenses	5,201	7.2	5,001	6.5	7,160	7.6
Total	73,167	100.0	76,083	100.0	93,827	100.0

Other income

Other income consists primarily of rental income and government subsidies. The table below summarizes the amount of other income for the years indicated:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Rental income	1,240	7,598	7,550
Government subsidies	7,755	3,150	3,151
	8,995	10,748	10,701

Rental income mainly consists of the rental income generated from leasing of certain space in our campus to signal stations of telecommunication companies and leasing of certain properties to Yunfu Bilingual School, a related party.

Government subsidies mainly represent subsidies from government for our school operation. The type and amount of government grants we receive generally vary from year over year.

Other gains – net

Other gains primarily consist of gains arising from change in fair value of investment properties. We recorded investment loss on put options for the year ended August 31, 2019 as we did not exercise the relevant put options upon the expiration. We recorded losses on disposals of property, plant and equipment for the year ended August 31, 2019 as a result of disposals of the renovation of two training rooms as we terminated the relevant lease agreements. The table below summarizes the amount of other gains – net for the years indicated:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Fair value gains on investment properties	4,100	8,800	3,200
Investment loss on put options	-	-	(1,500)
Losses on disposals of property, plant and equipment.	-	-	(1,746)
Others	477	723	1,637
	4,577	9,523	1,591

Finance expenses – net

Finance expenses primarily consist of interest expenses on discount of amounts due to a related party in relation to the remaining consideration payable to Hualiyuan Technology for our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology, and interest expenses on our bank borrowings. Finance income primarily consists of bank interest income.

The following table sets forth the net finance expenses for the years indicated:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Finance expenses:			
– Interest expenses on discount of amounts due to a related party	6,977	21,807	22,855
– Interest expenses on bank borrowings	51,151	51,674	56,870
Less: borrowing costs capitalized in property, plant and equipment	-	(2,350)	(32,910)
	58,128	71,131	46,815
Finance income:			
– Bank interest income	(1,013)	(1,018)	(868)
Net finance expenses	57,115	70,113	45,947

During the Track Record Period, we recorded a consideration payable to Hualiyuan Technology for our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology at a consideration of RMB732.7 million, of which RMB185.7 million was net off by the amounts due from Hualiyuan Technology. The remaining balance of RMB547.0 million remained as a balance due to Hualiyuan Technology. According to the payment schedule set out in the asset acquisition agreement, RMB27.4 million was payable by the end of October 2017, while the remaining portion was repayable no later than April 30, 2020. The payable is non-interest bearing, unsecured and non-trade in nature. The amount of the payable to Hualiyuan Technology was measured at its fair value at initial recognition, amounting to RMB452.1 million, based on the expected repayments schedule at the time of recognition. The amount of the payable to Hualiyuan Technology was then carried at amortized cost using the effective interest method. As of August 31, 2019, the carrying value of the amount payable to Hualiyuan Technology was RMB503.4 million. Interest expenses on discount of amounts due to a related party of RMB7.0 million, RMB21.8 million and RMB22.9 million were charged to the statements of comprehensive income during the years ended August 31, 2017, 2018 and 2019. However, such interest expenses on discount of amounts due to a related party are only hypothetical expenses under HKFRSs and there was no related cash inflow during the Track Record Period.

Income tax expenses

Each of the Company and its direct subsidiary was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and accordingly is not subject to income tax.

No provision for Hong Kong profit tax was provided as we did not have assessable profits in Hong Kong during the Track Record Period.

For the operations of our PRC subsidiaries and PRC Operating Entities, except for XZ Huali and Huali Shengrong, they are generally subject to the PRC enterprise income tax at 25% on their taxable income. XZ Huali was subject to a PRC enterprise income tax rate of 9% for a period of three years commencing from January 1, 2015 to December 31, 2017, based on the relevant tax regulations of Tibet Autonomous Region of the PRC. For the year ended December 31, 2018, XZ Huali and Huali Shengrong were subject to a PRC enterprise income tax rate of 10% according to the Notice on Further Expanding the Scope of Preferential Income Tax Policies for Small Low-Profit Enterprises (《關於進一步擴大小型微利企業所得稅優惠政策範圍的通知》).

According to 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》) which was promulgated on March 5, 2004 and became effective on April 1, 2004, 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 formal higher education and vocational education are entitled to the same preferential tax treatment as public schools if the school sponsors of such schools do not require reasonable returns. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities. During the Track Record Period and up to the Latest Practicable Date, no separate regulations or policies had been promulgated in this regard, as advised by our PRC Legal Adviser.

Throughout the Track Record Period, the school sponsors of Huali College had elected to not require reasonable returns while Huali Vocational College and Huali Technician College had elected to require reasonable returns. Based on tax compliance confirmations obtained from relevant tax authorities, our schools did not pay EIT in respect of income from rendering higher education and vocational education services during the Track Record Period, and neither were they found to be in violation of the PRC tax laws. The respective board of directors of Huali Vocational College and Huali Technician College passed a resolution approving these two schools to be converted as schools from which the respective school sponsor does not require reasonable returns on July 28, 2017 and July 31, 2017, respectively. On July 28, 2017, Huali Technician College updated its private school operating license issued by the Department of Human Resources and Social Security of Guangdong Province to reflect its status as a school from which the school sponsor does not require reasonable returns, and on October 25, 2017, obtained approval of the Department of Civil Affairs of Guangdong Province with respect to its corresponding application to become such a school. On October 16, 2018, Huali Vocational College updated its private school operating license issued by the People's Government of Guangdong Province to reflect its status as a school from which the school sponsor does not require reasonable returns, and on October 20, 2017, obtained approval of the Department of Civil Affairs of Guangdong Province with respect to its corresponding application to become such a school.

Based on the interview conducted by our PRC Legal Adviser with the relevant tax authorities in October 2017, the competent authority advised that, for Huali Vocational College and Huali Technician College, they were not aware of any situations where either of the schools was required to make any tax adjustment or to pay any unpaid tax for which they could be liable before changing its status to a school the school sponsor of which does not require reasonable returns. Therefore, our Directors are of the view that our tax filings and the fact that we did not pay income tax for our schools in respect of income from rendering higher education and vocational education services during the Track Record Period are not in violation of PRC tax laws.

Other income and gains are subject to income tax. During the Track Record Period, our income tax expenses primarily consist of deferred income tax for gains arising from a change in fair value of investment properties that varies from year to year based on the valuation of such investment properties during the financial year and will not be payable until disposal. The following table sets forth the breakdown of our income tax expenses for the years indicated:

	Year ended August 31,		
	2017 **RMB'000**	**2018** **RMB'000**	**2019** **RMB'000**
Current tax on profits for the year	571	3,051	1,770
Deferred income tax	1,025	3,734	2,180
	1,596	6,785	3,950

For the years ended August 31, 2017, 2018 and 2019, our income tax expenses for the year was RMB1.6 million, RMB6.8 million and RMB4.0 million, respectively, representing effective tax rates (calculated as income tax expenses divided by profit before income tax) of 0.8%, 3.4% and 1.7%, respectively.

Profit for the year

For the years ended August 31, 2017, 2018 and 2019, our profit for the year was RMB193.1 million, RMB193.3 million and RMB223.1 million, respectively.

Non-HKFRS Measure

To supplement our consolidated financial statements, which are presented in accordance with HKFRSs, 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-HKFRS measure provides additional information to investors and others in understanding and evaluating our consolidated 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

The Adjusted Net Profit eliminates the effect of (i) the listing expenses, (ii) the interest expenses on discount of amounts due to a related party and (iii) the fair value gains on investment properties. We add back interest expenses on discount of amounts due to a related party in the reconciliation mainly because they are non-recurring in nature and nominal interest expenses, which do not actually generate cash outflow. There will be no such expenses upon completion of payment of amounts due to a related party by April 30, 2020, pursuant to the relevant agreement. The term Adjusted Net Profit is not defined under HKFRSs. As a non-HKFRS measure, Adjusted Net Profit is presented because our management believes such information will be helpful for investors in assessing the effect of listing expenses, interest expenses on discount of amounts due to a related party and the fair value gains on investment properties on our net profit. 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 period. The effects of listing expenses, interest expenses on discount of amounts due to a related party and the fair value gains on investment properties that are eliminated from Adjusted Net Profit are significant components 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 the 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 HKFRSs. In addition, because this non-HKFRS 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 periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRSs, which is profit for the year:

	Year ended August 31,		
	2017	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**
Profit for the year	193,092	193,327	223,063
Add:			
Listing expenses	5,133	6,910	10,661
Interest expenses on discount of amounts due to a related party	6,977	21,807	22,855
Less:			
Fair value gains on investment properties	4,100	8,800	3,200
Adjusted Net Profit	201,102	213,244	253,379

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended August 31, 2019 compared to year ended August 31, 2018

Revenue

Our revenue increased by 11.0% from RMB608.0 million for the year ended August 31, 2018 to RMB674.8 million for the year ended August 31, 2019, primarily due to an increase in revenue from tuition fees.

Revenue from tuition fees increased by 11.3% from RMB565.7 million for the year ended August 31, 2018 to RMB629.7 million for the year ended August 31, 2019, primarily reflecting an increase in our tuition fees generated from Huali College, partially offset by a decrease in tuition fees generated from Huali Technician College. The increase in tuition fees generated from Huali College was primarily attributable to increased student enrollment and increased tuition fee rates with respect to certain major offerings for newly admitted students at Huali College for the 2018/2019 school year. The decrease in tuition fees generated from Huali Technician College was primarily due to a decrease in the number of students enrolled at Huali Technician College for the 2018/2019 school year compared to the 2017/2018 school year. We strategically reduced new student enrollment at Huali Technician College in the 2018/2019 school year in order to increase student enrollment at Huali College. As we generally require our students to reside in dormitories in Zengcheng campuses during their study (except for the last school year when they engage in off-campus internships), the student capacity of each of our schools in Zengcheng is limited by the number of beds available in the dormitories. Since the dormitories in our Zengcheng campuses are shared by all our three schools, an increase in student capacity of one school will affect student capacity of the other schools. The decrease in the number of students enrolled at Huali Technician College for the 2018/2019 school year compared to the 2017/2018 school year was also a result of the decreased demand in the technical school market in South China, which intensified the competition in the industry. Revenue from boarding fees increased by 6.6% from RMB42.3 million for the year ended August 31, 2018 to RMB45.1 million for the year ended August 31, 2019, primarily due to an increase in the number of students residing in our dormitories as a result of the increases in the newly admitted students at Huali College.

Cost of sales

Our cost of sales increased by 12.2% from RMB273.6 million for the year ended August 31, 2018 to RMB307.0 million for the year ended August 31, 2019, primarily due to the increases in our joint tuition support fees and teaching staff costs. The increase in joint tuition support fees was in line with the growth of our revenue from Huali College according to relevant cooperation agreements with Guangdong University of Technology. The increase in teaching staff costs was primarily due to (i) an increase in the number of teaching staff, and (ii) an increase in compensation levels of our teaching staff to retain our current teachers and attract more qualified teachers.

Gross profit and gross profit margin

Our gross profit increased by 10.0% from RMB334.4 million for the year ended August 31, 2018 to RMB367.8 million for the year ended August 31, 2019, which was in line with the growth of our revenue. Our gross profit margin remained relatively stable at 54.5% for the year ended August 31, 2019 compared with 55.0% for the year ended August 31, 2018.

Selling expenses

Our selling expenses increased by 59.4% from RMB8.3 million for the year ended August 31, 2018 to RMB13.3 million for the year ended August 31, 2019, primarily due to an increase in our promotion expenses as a result of our enhanced marketing efforts in advertising the five-year programs of Huali Technician College and the new campus of Huali Vocational College in Yunfu.

Administrative expenses

Our administrative expenses increased by 23.3% from RMB76.1 million for the year ended August 31, 2018 to RMB93.8 million for the year ended August 31, 2019, primarily due to (i) an increase in our administrative staff costs as a result of the increased number of administrative staff and the increased compensation level for our management and administrative staff, and (ii) the increased listing expenses incurred during the year ended August 31, 2019.

Other income

Our other income remained relatively stable at RMB10.7 million for the year ended August 31, 2019 compared with RMB10.7 million for the year ended August 31, 2018.

Other gains – net

Our net other gains decreased by 83.3% from RMB9.5 million for the year ended August 31, 2018 to RMB1.6 million for the year ended August 31, 2019, primarily due to (i) a decrease in our fair value gains on investment properties, (ii) the disposals of the renovation of two training studios as we terminated the relevant lease agreements, and (iii) investment loss on put options as we did not exercise the relevant put options upon the expiration.

Finance expenses – net

Our net finance expenses decreased by 34.5% from RMB70.1 million for the year ended August 31, 2018 to RMB45.9 million for the year ended August 31, 2019, primarily attributable to the increase in borrowing costs capitalized in property, plant and equipment resulting from the borrowings for construction in progress during the period.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 13.4% from RMB200.1 million for the year ended August 31, 2018 to RMB227.0 million for the year ended August 31, 2019. Our profit before income tax as a percentage of revenue increased from 32.9% for the year ended August 31, 2018 to 33.6% for the year ended August 31, 2019.

Income tax expense

Our income tax expense decreased by 41.8% from RMB6.8 million for the year ended August 31, 2018 to RMB4.0 million for the year ended August 31, 2019, primarily due to a decrease in our taxable income, which was primarily attributable to (i) decreased current tax on profit for the period as Huali Investment transferred its self-owned student dormitories to Huali College and Huali Vocational College in September 2018, and (ii) decreased deferred income tax related to the revaluation gains of investment properties.

Profit for the period

As a result of the above factors, our profit for the period increased by 15.4% from RMB193.3 million for the year ended August 31, 2018 to RMB223.1 million for the year ended August 31, 2019.

Year ended August 31, 2018 compared to year ended August 31, 2017

Revenue

Our revenue increased by 5.2% from RMB578.2 million for the year ended August 31, 2017 to RMB608.0 million for the year ended August 31, 2018, primarily due to an increase in revenue from tuition fees.

Revenue from tuition fees increased by 5.1% from RMB538.5 million for the year ended August 31, 2017 to RMB565.7 million for the year ended August 31, 2018, primarily reflecting an increase in our tuition fees generated from Huali College and Huali Vocational College, partially offset by a decrease in tuition fees generated from Huali Technician College. The increase in tuition fees generated from Huali College and Huali Vocational College was primarily attributable to increased student enrollment at Huali Vocational College and increased tuition fee rates with respect to certain major offerings for newly admitted students at Huali College for the 2017/2018 school year. The decrease in tuition fees generated from Huali Technician College was primarily due to a decrease in the number of students enrolled at Huali Technician College for the 2017/2018 school year compared to the 2016/2017 school year. We strategically reduced new student enrollment at Huali Technician College in the 2017/2018 school year in order to increase student enrollment at Huali College and Huali Vocational College. As we generally require our students to reside in dormitories in Zengcheng campuses during their study (except for the last school year when they engage in off-campus internships), the student capacity of each of our schools in Zengcheng is limited by the number of beds available in the dormitories. Since our dormitories in Zengcheng campuses are shared by all our three schools, an increase in student capacity of one school will affect student capacity of the other schools. The decrease in the number of students enrolled at Huali Technician College for the 2017/2018 school year compared to the 2016/2017 school year was also a result of the decrease trend of demand in technical school market in South China in recent years, which intensified the competition in the industry.

Revenue from boarding fees increased by 6.6% from RMB39.7 million for the year ended August 31, 2017 to RMB42.3 million for the year ended August 31, 2018, primarily due to an increase in the number of students residing in our dormitories as a result of the increases in the newly admitted students at Huali College and Huali Vocational College.

Cost of sales

Our cost of sales increased by 5.7% from RMB258.8 million for the year ended August 31, 2017 to RMB273.6 million for the year ended August 31, 2018, primarily due to increases in our teaching staff costs and depreciation and amortization. The increase in teaching staff costs was primarily due to (i) an increase in the number of teaching staff in line with our plan to upgrade Huali Vocational College from a school providing three-year junior college education to a school providing four-year undergraduate education, and (ii) an increase in compensation levels of our teaching staff to retain and attract more qualified teachers. The increase in depreciation and amortization was primarily due to the additions of property, plant and equipment as a result of the completion of construction and deployment of new school buildings.

Gross profit and gross profit margin

Our gross profit increased by 4.7% from RMB319.4 million for the year ended August 31, 2017 to RMB334.4 million for the year ended August 31, 2018, which was in line with the growth of our revenue. Our gross profit margin remained stable at 55.0% for the year ended August 31, 2018 compared with 55.2% for the year ended August 31, 2017.

Selling expenses

Our selling expenses increased by 4.6% from RMB8.0 million for the year ended August 31, 2017 to RMB8.3 million for the year ended August 31, 2018, primarily due to (i) an increase in our promotion expenses as a result of our enhanced marketing efforts in promoting the student enrollment of Huali Technician College and advertising the new campus of Huali Vocational College in Yunfu, and (ii) an increase in our selling and marketing staff costs as a result of the increased compensation level for our selling and marketing staff.

Administrative expenses

Our administrative expenses increased by 4.0% from RMB73.2 million for the year ended August 31, 2017 to RMB76.1 million for the year ended August 31, 2018, primarily due to (i) an increase in our administrative staff costs as a result of increased compensation for our executive Directors, senior management and administrative staff, (ii) an increase in our office expenses as a result of an increase in the number of staff, and (iii) the increased listing expenses incurred in the year ended August 31, 2018, partially offset by a decrease in travel and entertainment expenses primarily due to a decrease in our business trips.

Other income

Our other income increased by 19.5% from RMB9.0 million for the year ended August 31, 2017 to RMB10.7 million for the year ended August 31, 2018, primarily due to an increase in rental income because we started to charge rent on the properties leased to Yunfu Bilingual School during the year ended August 31, 2018.

Other gains – net

Our net other gains increased by 108.1% from RMB4.6 million for the year ended August 31, 2017 to RMB9.5 million for the year ended August 31, 2018, primarily due to an increase in our fair value gains on investment properties.

Finance expenses – net

Our net finance expenses increased by 22.8% from RMB57.1 million for the year ended August 31, 2017 to RMB70.1 million for the year ended August 31, 2018. The increase was primarily because we incurred interest expenses on discount of amounts due to a related party in relation to the remaining consideration payable to Hualiyuan Technology for our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology.

Profit before income tax

As a result of the foregoing, our profit before income tax increased by 2.8% from RMB194.7 million for the year ended August 31, 2017 to RMB200.1 million for the year ended August 31, 2018. Our profit before income tax as a percentage of revenue decreased from 33.7% for the year ended August 31, 2017 to 32.9% for the year ended August 31, 2018.

Income tax expense

Our income tax expense increased by 325.1% from RMB1.6 million for the year ended August 31, 2017 to RMB6.8 million for the year ended August 31, 2018, primarily due to an increase in our taxable income, which was primarily attributable to increased deferred income tax related to the rental income generated from properties leased to Yunfu Bilingual School.

Profit for the year

As a result of the above factors, our profit for the year remained stable at RMB193.3 million for the year ended August 31, 2018 compared with RMB193.1 million for the year ended August 31, 2017.

CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets forth details of our current assets and current liabilities as of the dates indicated:

	As of August 31,			As of September 30,
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)
Current assets				
Trade and other receivables	14,116	13,417	12,472	15,856
Amounts due from related parties	71,950	60	6,779	7,344
Prepayments	3,118	4,542	6,728	7,037
Cash and cash equivalents	648,342	623,661	453,576	484,983
Total current assets	737,526	641,680	479,555	515,220
Current liabilities				
Accruals and other payables	226,296	124,604	164,069	168,849
Amounts due to related parties	310,419	119,633	600,788	603,523
Contract liabilities	484,032	555,926	666,033	667,692
Current income tax liabilities	659	3,238	4,404	4,404
Borrowings	143,800	89,800	396	396
Lease liabilities	-	-	-	6,714
Total current liabilities	1,165,206	893,201	1,435,690	1,451,578
Net current liabilities	(427,680)	(251,521)	(956,135)	(936,358)

As of August 31, 2017, 2018 and 2019 and September 30, 2019, we had net current liabilities of RMB427.7 million, RMB251.5 million, RMB956.1 million and RMB936.4 million, respectively. We had net current liabilities as of each of these dates primarily because (i) we recorded large amounts of contract liabilities, which primarily consisted of advance payments of tuition fees and boarding fees received from students that we recognize as revenue proportionately over the relevant period of the applicable programs; (ii) we recorded substantial amounts due to related parties, which primarily consisted of payables to related parties in relation to the construction of our schools; (iii) we recorded substantial amounts of accruals and other payables, which primarily consisted of payables for the purchase of property, plant and equipment, payables for joint tuition support fees to Guangdong University of Technology, miscellaneous fees received from students, payables for property management services and government subsidies payable to students; and (iv) we had substantial amounts of outstanding bank loans which were primarily incurred to support our business expansion and fund our working capital. In addition, the net current liabilities position as of August 31, 2019 is also attributable to: (i) an increase in the current liabilities portion of amounts due to Hualiyuan Technology, which was transferred from non-current liabilities; and (ii) the drop in cash and cash equivalents mainly due to payment for the purchase of property, plant and equipment and intangible assets for the expansion of Huali College and Huali Vocational College and for the acquisition of land use rights and property, plant and equipment for establishing a new junior college in Jiangmen City, Guangdong Province. Our current liabilities as of August 31, 2017, 2018 and 2019 included contract liabilities of RMB484.0 million, RMB555.9 million and RMB666.0 million, respectively, which will not result in any cash outflow but will be credited as our revenue in the next 12 months. We utilized a portion of the cash received in relation to contract liabilities to support our daily operations and finance the construction of our school buildings and facilities during the Track Record Period. Without taking into account such contract liabilities, we would have recorded a net current liability position (equal to the total current assets minus total current liabilities net of contract liabilities) of RMB290.1 million as of August 31, 2019, and a net current asset position (equal to the total current assets minus total current liabilities net of contract liabilities) of RMB56.3 million and RMB304.4 million as of August 31, 2017 and 2018, respectively.

We have also put in place a number of measures to improve our financial position and alleviate liquidity pressures. As of the Latest Practicable Date, we had approximately RMB1,053.7 million of banking facilities, which were unutilized and unrestricted. In addition, we believe we have sufficient resources to repay the outstanding amount due to Hualiyuan Technology. As of August 31, 2019, we had an amount due to Hualiyuan Technology of RMB503.4 million in connection with our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus. In December 2017, Hualiyuan Technology has agreed and committed that it will not demand repayment of the outstanding amounts before April 30, 2020. We entered into a banking facilities agreement with Guangzhou Rural Commercial Bank in December 2017 to repay Hualiyuan Technology, which would mature in December 2026 without specific renewal schedule. Pursuant to the agreement, such banking facilities are specifically to be used to repay Hualiyuan Technology in connection with our acquisition of the Planned Huali Vocational College Yunfu Campus. The unutilized amount of such banking facilities as of the Latest Practicable Date was approximately RMB547.0 million.

We expect to further improve our net current liabilities position by (i) receiving funds generated from our business operations; and (ii) receiving the net proceeds from the Global Offering. In view of these circumstances, our Directors have considered our future liquidity and performance and our available sources of finance in assessing whether we will have sufficient financial resources to continue as a going concern. Our Directors confirm that we will have sufficient financial resources to support our operations and to meet our financial obligations as and when they fall due in the coming 12 months from August 31, 2019 by taking into account our future operational performance, the expected future operating cash inflows and the continuous availability of banking facilities. Please refer to the section headed “Risk Factors – Risks Relating to Our Business and Our Industry – We had net current liabilities as of August 31, 2017, 2018 and 2019. 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 for more information.

NET ASSETS

The table below sets forth our net assets as of the dates indicated:

	As of August 31,		
	2017	2018	2019
	RMB’000	RMB’000	RMB’000
Net assets	864,510	1,357,837	1,580,900

The fluctuations of our net assets during the Track Record Period were mainly attributable to: (i) the effect of profit for the respective year; and (ii) a deemed distribution to the owner of the Company of RMB665.2 million recorded in April 2017. During the Track Record Period, the Planned Huali Vocational College Yunfu Campus, which was formerly owned by Hualiyuan Technology, was used and operated by us as an integral part of our business. Therefore, the Planned Huali Vocational College Yunfu Campus was included in our consolidated financial statements as if it had been consolidated from the earliest period presented. On April 30, 2017, we entered into an agreement with Hualiyuan Technology, pursuant to which we acquired the entire interest of the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology. Both the acquisition and the repayment for such acquisition constitute related party transactions. The consideration for such acquisition was determined at RMB732.7 million. However, the Planned Huali Vocational College Yunfu Campus has been used and accounted for since the earliest period presented. Therefore, the asset acquisition afterwards was in substance a deemed distribution to the owner of RMB665.2 million after discounting impact; and (iii) a capital injection from the owner of the Company of RMB300.0 million recorded in August 2018. Please refer to Notes 22(d) and 22(e) to the Accountant’s Report in Appendix I to this prospectus.

DISCUSSION OF KEY BALANCE SHEET ITEMS

Investment properties

Our investment properties primarily consist of a primary school with ancillary facilities within our Planned Huali Vocational College Yunfu Campus, which were wholly-owned by us after our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology. Please refer to the section headed "History, Reorganization and Corporate Structure – Acquisition of the Interest in the Planned Huali Vocational College Yunfu Campus" in this prospectus for further details. As of August 31, 2016, the investment properties within the Planned Huali Vocational College Yunfu Campus with fair value of RMB116.1 million were legally owned by Hualiyuan Technology. The beneficial interests in such investment properties were acquired by the Group in April 2017. The Directors consider that such investment properties actually formed part of our business as they were in possession of our Group during the Track Record Period. As a result, their value has been included in the financial information throughout the Track Record Period. Our investment properties increased from RMB120.2 million as of August 31, 2017 to RMB129.0 million as of August 31, 2018, and further to RMB132.2 million as of August 31, 2019, primarily due to an increase in the fair value of these investment properties as a result of appreciation.

Prepayments

Prepayments consist of prepayments for the purchase of property, plant and equipment, prepaid listing expenses and prepayments for insurance and others. The table below sets forth the breakdown of our prepayment as of the dates indicated:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Prepayments for purchase and construction of property, plant and equipment	16,464	10,404	14,087
Prepaid listing expenses	2,921	4,271	6,480
Others	197	271	248
	19,582	14,946	20,815
Less: non-current portion of prepayments	(16,464)	(10,404)	(14,087)
	3,118	4,542	6,728

Prepayments for the purchase and construction of property, plant and equipment primarily consist of prepayments we made for the purchase of teaching equipment and teaching facilities as well as the expansion and construction of Huali College and Huali Vocational College. Prepayments for the purchase and construction of property, plant and equipment decreased from RMB16.5 million as of August 31, 2017 to RMB10.4 million as of August 31, 2018, primarily because we purchased less decoration and construction materials in 2018. Prepayments for the purchase and construction of property, plant and equipment increased from RMB10.4 million as of August 31, 2018 to RMB14.1 million as of August 31, 2019, primarily because we made more prepayments for purchasing teaching facilities and equipment for our daily operations.

Prepaid listing expenses primarily consist of prepayment of fees to professional parties for our Global Offering. We recorded prepaid listing expenses of RMB2.9 million, RMB4.3 million and RMB6.5 million as of August 31, 2017, 2018 and 2019, respectively. These amounts are expected to be capitalized upon the Listing.

Our other prepayments primarily consist of prepaid school liability insurance fees, printing fees, gas fees and other fees. Prepayments for insurance and other expenses accounted to

RMB0.2 million, RMB0.3 million and RMB0.2 million as of August 31, 2017, 2018 and 2019, respectively.

Trade and other receivables

The table below sets forth the breakdown of our trade and other receivables as of the dates indicated:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Trade receivables			
– Tuition fees receivables from students	4,771	2,745	1,303
– Boarding fees receivables from students	104	28	18
Other receivables			
– Deposits	651	6,612	7,139
– Tuition fees receivables from financial institutions	5,521	3,043	1,406
– Staff advance	290	284	154
– Others	2,779	705	2,452
	14,116	13,417	12,472

Trade receivables

Trade receivables primarily consist of trade receivables due from students, who have applied to delay payment of tuition and boarding fees. We usually require our students to pay tuition and boarding fees for each school year at the beginning of the school year, which normally commences in September. Our trade receivables decreased from RMB4.9 million as of August 31, 2017 to RMB2.8 million as of August 31, 2018, and further to RMB1.3 million as of August 31, 2019 primarily due to our increased efforts to collect tuition and boarding fees.

As of August 31, 2017, 2018 and 2019, the aging analysis of the trade receivables based on the recognition date is set as followings:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	3,785	1,338	1,202
1 to 2 years	1,081	1,319	119
2 to 3 years	9	116	-
	4,875	2,773	1,321

As of September 30, 2019, approximately RMB0.3 million, or 24.0% of our trade receivables as of August 31, 2019 had been settled.

Other receivables

Other receivables primarily consist of deposits, tuition fees receivable from financial institutions, staff advances and others.

Deposits primarily consist of deposits placed with our suppliers. Deposits increased from RMB0.7 million as of August 31, 2017 to RMB6.6 million as of August 31, 2018, primarily due to the deposits placed for the construction of additional school buildings in Zengcheng during the year ended August 31, 2018. Deposits increased from RMB6.6 million as of August 31, 2018 to RMB7.1 million as of August 31, 2019, mainly due to the increase in deposits placed for the construction of our expansion projects.

Tuition fees receivables from financial institutions primarily consist of tuition fees in transit due to the time lag (usually one to two days) between the bank transfer of tuition fees by the students and our receipt of the relevant fees. The amount and timing of our receipt of tuition fees receivables from financial institutions generally vary from year over year. We recorded tuition fees receivables from financial institutions of RMB5.5 million, RMB3.0 million and RMB1.4 million as of August 31, 2017 and 2018 and 2019, respectively.

Staff advance primarily consists of advances to staff as petty cash for payment of daily operating expenses, advances for expenditures in relation to social events for business purposes and advances for procurement expenditures. Staff advances remained relatively stable at RMB0.3 million, RMB0.3 million and RMB0.2 million as of August 31, 2017, 2018 and August 31, 2019, respectively.

Others primarily consist of the employees' portion of social insurance and housing provident fund contributions withheld by us, examination fee receivables and dormitory deposit receivables. Others decreased from RMB2.8 million as of August 31, 2017 to RMB0.7 million as of August 31, 2018, and then increased to RMB2.5 million as of August 31, 2019, primarily due to changes in the employees' portion of social insurance contributions withheld by us, dormitory deposit receivables and examination fee receivables.

Accruals and other payables

Our accruals and other payables consist primarily of (i) payables for property management and maintenance services, (ii) payables for joint tuition support fees, (iii) government subsidies payable to students, (iv) miscellaneous fees received from students, (v) payables for purchases of property, plant and equipment, (vi) employee benefits payable, (vii) other taxes payable, (viii) listing expenses payable, (ix) network and telecommunication fees payable, and (x) interest payable.

The following table sets forth the components of accruals and other payables as of the dates indicated:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Payables for property management and maintenance services	30,883	-	5,930
Payables for joint tuition support fees	41,741	42,088	55,010
Government subsidies payable to students	13,770	12,589	15,555
Miscellaneous fees received from students	20,736	22,816	26,148
Payables for purchases of property, plant and equipment	97,797	120,259	192,180
Employee benefits payable	7,512	8,898	9,943
Other taxes payable	1,527	1,105	1,379
Listing expenses payable	6,966	3,487	1,739
Network and telecommunication fee payable	1,830	1,830	3,098
Interest payable	1,741	1,491	1,773
Others	1,793	2,735	3,480
	226,296	217,298	316,235

Payables for property management and maintenance service

Payables for property management and maintenance services primarily consist of fees payable by us to property management and maintenance service providers. Payables for property management and maintenance service amounted to RMB30.9 million as of August 31, 2017, primarily because of a delay in settling certain payables resulting from a delay in providing invoices by certain suppliers. We had settled all payables for property management and maintenance services as of August 31, 2018. As of August 31, 2019, we recorded payables for property management and maintenance services of RMB5.9 million based on our payment schedule with relevant service providers.

Payables for joint tuition support fees

Payables for joint tuition support fees primarily consist of joint tuition support fees due and payable to Guangdong University of Technology pursuant to the Cooperation Agreements between Guangdong University of Technology and the school sponsor of Huali College. Under the 2017 Cooperation Agreements that the school sponsor of Huali College entered into with Guangdong University of Technology in June 2017, it is agreed that every year before October 31, Huali College will pay 60% of the total joint tuition support fees of the previous school year to Guangdong University of Technology, with the remaining 40% to be paid before March 31 of the next year. Prior to the signing of the 2017 Cooperation Agreements in June 2017, the payment schedule for joint tuition support fees was once a year within one month after the beginning of each school year for the 2015/2016 school year. Payables for joint tuition support fees remained relatively stable at RMB41.7 million and RMB42.1 million as of August 31, 2017 and 2018, respectively. Payables for joint tuition support fees then increased to RMB55.0 million as of August 31, 2019 in line with the growth of revenue from Huali College.

Government subsidies payable to students

Government subsidies payable to students primarily consist of scholarships, grants, recruitment subsidies, employment subsidies and other subsidies granted to students by the government, which have not yet been distributed to the students. Government subsidies payable to students decreased from RMB13.8 million as of August 31, 2017 to RMB12.6 million as of August 31, 2018, primarily due to a decrease in the number of students qualifying for government subsidies. Government subsidies payable to students then increased to RMB15.6 million as of August 31, 2019, primarily due to an increase in the number of students qualifying for government subsidies.

Miscellaneous fees received from students

Miscellaneous fees received from students represent miscellaneous fees received from students that will be paid out to the relevant vendors on behalf of students, primarily including textbook fees and medical insurance fees. Miscellaneous fees received from students increased from RMB20.7 million as of August 31, 2017 to RMB22.8 million as of August 31, 2018, primarily due to an increase in the medical insurance fees that we received from the students. Miscellaneous fees received from students then increased to RMB26.1 million as of August 31, 2019 in line with the increase in student enrollment.

Payables for purchases of property, plant and equipment

Payables for purchases of property, plant and equipment primarily consist of payables for school facilities and equipment at our schools. The balance of our payables for purchases of property, plant and equipment increased from RMB97.8 million as of August 31, 2017 to RMB120.3 million as of August 31, 2018, primarily due to our increased construction in progress in relation to the expansion of Huali Vocational College Zengcheng Campus and the establishment of a new campus for Huali Vocational College in Yunfu. Payables for purchases of property, plant and equipment further increased to RMB192.2 million as of August 31, 2019, primarily due to our increased construction in progress in relation to the expansion of Huali College and Huali Vocational College.

Employee benefits payable

Employee benefits payable primarily consist of wages and bonuses that were accrued but have not been paid to our employees. Employee benefits payable increased from RMB7.5 million as of August 31, 2017 to RMB8.9 million as of August 31, 2018, primarily because we recruited more employees in line with our plan to upgrade Huali Vocational College from a school providing three-year junior college education to a school providing four-year undergraduate education. Employee benefits payable further increased to RMB9.9 million as of August 31, 2019, primarily due to the increased compensation level for our teaching staff, management and administrative staff as well as the increased staff number.

Other taxes payable

Other taxes payable primarily consist of urban construction tax, education surcharge, individual income tax and others. Other taxes payable decreased from RMB1.5 million as of August 31, 2017 to RMB1.1 million as of August 31, 2018, primarily due to decreased accumulated but unpaid turnover tax. Other taxes payable remained relatively stable at RMB1.4 million as of August 31, 2019.

Listing expenses payable

Listing expenses payable represents listing expenses payable by us for the Listing. We recorded listing expenses of RMB7.0 million, RMB3.5 million and RMB1.7 million as of August 31, 2017, 2018 and 2019, respectively.

Network and telecommunication fees payable

Network and telecommunication fees payable primarily consists of fees payable for network and telecommunication services. Network and telecommunication fees payable remained stable at RMB1.8 million as of August 31, 2017 and 2018. Network and telecommunication fees payable increased from RMB1.8 million to RMB3.1 million mainly because of a delay in providing invoices by certain service supplier.

Interest payable

Interest payable primarily consists of interest payable for our bank borrowings. Interest payable decreased from RMB1.7 million as of August 31, 2017 to RMB1.5 million as of August 31, 2018, primarily due to our repayment of certain bank loans. Interest payable then increased to RMB1.8 million as of August 31, 2019, mainly due to the increased bank loans.

Others

Others primarily consist of payables relating to miscellaneous payables to suppliers. Others increased from RMB1.8 million as of August 31, 2017 to RMB2.7 million as of August 31, 2018, and further increased to RMB3.5 million as of August 31, 2019, primarily due to the different payment schedule with relevant suppliers as of these dates.

The Directors confirm that we did not have any material defaults in any payables during the Track Record Period.

Contract liabilities

Contract liabilities mainly consists of tuition fees and boarding fees that we typically collect from our students prior to the commencement of the upcoming school year (generally from May to September) that we received in advance. As a school year typically commences in September each year, amounts of contract liabilities as of a balance sheet date generally represent the amount of tuition fees and boarding fees received but not yet recognized as revenue for the applicable school year. We record receipt of tuition fees and boarding fees initially as a liability under contract liabilities and recognize such amounts as revenue proportionately over the relevant period of the applicable program. For more information, please see "– Critical Accounting Policies, Judgments and Estimates – Revenue Recognition" in this prospectus.

The following tables set forth the movement of our contract liabilities for the periods indicated:

	As of August 31, 2016 RMB'000	Fees collected RMB'000	Revenue recognized RMB'000	Fees refunded RMB'000	As of August 31, 2017 RMB'000
Contract liabilities related to tuition fees	(456,179)	(535,450)	538,505	1,284	(451,840)
Contract liabilities related to boarding fees	(34,124)	(37,376)	39,663	268	(31,569)
Others	(336)	(1,527)	1,240	-	(623)
Total	(490,639)	(574,353)	579,408	1,552	(484,032)

	As of August 31, 2017 RMB'000	Fees collected RMB'000	Revenue recognized RMB'000	Fees refunded RMB'000	As of August 31, 2018 RMB'000
Contract liabilities related to tuition fees	(451,840)	(634,103)	565,738	1,297	(518,908)
Contract liabilities related to boarding fees	(31,569)	(47,793)	42,270	342	(36,750)
Others	(623)	(460)	815	-	(268)
Total	(484,032)	(682,356)	608,823	1,639	(555,926)

	As of August 31, 2018 RMB'000	Fees collected RMB'000	Revenue recognized RMB'000	Fees refunded RMB'000	As of August 31, 2019 RMB'000
Contract liabilities related to tuition fees	(518,908)	(730,717)	629,721	1,472	(618,432)
Contract liabilities related to boarding fees	(36,750)	(55,763)	45,079	258	(47,176)
Others	268	(960)	803	-	(425)
Total	(555,926)	(787,440)	675,603	1,730	(666,033)

	As of August 31, 2019 RMB'000	Fees collected RMB'000	Revenue recognized RMB'000	Fees refunded RMB'000	As of the Latest Practical Date RMB'000
Contract liabilities related to tuition fees	(618,432)	(64,673)	121,853	840	(560,412)
Contract liabilities related to boarding fees	(47,176)	(6,618)	9,680	112	(44,002)
Others	(425)	-	77	-	(348)
Total	(666,033)	(71,291)	131,610	952	(604,762)

The following table sets forth the breakdown of our contract liabilities as of the dates indicated:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Contract liabilities related to tuition fees	451,840	518,908	618,432
Contract liabilities related to boarding fees	31,569	36,750	47,176
Others	623	268	425
	484,032	555,926	666,033

Contract liabilities increased from RMB484.0 million as of August 31, 2017 to RMB555.9 million as of August 31, 2018, which was in line with our increased tuition fees, mainly attributable to increased student enrollment at Huali Vocational College and increased tuition fee rates with respect to certain major offerings for newly admitted students at Huali College for the 2017/2018 school year. Contract liabilities increased from RMB555.9 million as of August 31, 2018 to RMB666.0 million as of August 31, 2019, which was in line with our increased tuition fees, mainly attributable to increased student enrollment at Huali College and increased tuition fee rates with respect to certain major offerings for newly admitted students at Huali College for the 2018/2019 school year.

Amounts due from/to related parties

During the Track Record Period, we also had certain balances with certain related parties. The table below sets out the amounts due from/to related parties as of the dates indicated:

	As of August 31,		
	2017	**2018**	**2019**
	RMB'000	**RMB'000**	**RMB'000**
Amounts due from related parties			
- Lingmei Life Service	71,623	-	-
- Mr. Zhang	327	-	-
- Yunfu Bilingual School	-	-	6,779
- Huali Property	-	60	-
	71,950	60	6,779
Amounts due to related parties			
- Hualiyuan Technology	486,442	473,725	496,580
- Mr. Zhang	279,167	-	-
- Lingmei Life Service	-	126,412	93,405
- Guangzhou Huali Property Management Co., Ltd. (廣州華立物業管理有限公司) ("Huali Property Management")	3,880	-	-
- Huali Property	22	-	-
- Guangzhou Gaobiao Construction Engineering Co., Ltd. (廣州高標建築工程有限公司) ("Guangzhou Gaobiao")	-	-	55,280
	769,511	600,137	645,265

Amounts due from related parties primarily consist of (i) amounts due from Lingmei Life Service in connection with the corporate division of Huali Investment; (ii) new shares that we issued to Mr. Zhang upon incorporation of the Company; (iii) amounts due from Yunfu Bilingual School in relation to the leasing of certain properties; and (iv) amounts due from Huali Property, representing the rental receivables in relation to an office unit that we lease to Huali Property.

Amounts due to related parties primarily consist of (i) consideration payable to Hualiyuan Technology mainly in relation to our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology; (ii) advance payments on construction costs that Mr. Zhang made to our Group in relation to the construction of school campus and the maintenance, renovation and upgrade of the school facilities; (iii) amounts due to Lingmei Life Service in connection with the corporate division of Huali Investment; (iv) property maintenance service fees payable to Huali Property Management for the landscape maintenance services that it provided to our schools; (v) rental deposits paid by Huali Property; and (vi) amounts due to Guangzhou Gaobiao in connection with construction of our expansion projects.

Amounts due from/to related parties are non-interest bearing, unsecured and have no fixed terms of repayment, except for the amount due to Hualiyuan Technology amounting to RMB547.0 million, of which RMB27.4 million was repayable by the end of October 2017 and the remaining portion was repayable not later than April 30, 2020.

The balance of amounts due from Hualiyuan Technology substantially decreased as of August 31, 2017 because the advance payments on construction costs that we made on behalf of Hualiyuan Technology amounting to RMB185.7 million were used to offset part of the consideration payable to Hualiyuan Technology for our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, our principal uses of cash were for the funding of required working capital and other recurring expenses to support the expansion of our business. During the Track Record Period and up to the Latest Practicable Date, we funded our operations principally with cash generated from our operations and external borrowings. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank borrowings, net proceeds from this Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in our student enrollment or our tuition fees or a significant decrease in the availability of bank borrowings or other financings may adversely impact our liquidity. As of August 31, 2017, 2018 and 2019, we had cash and cash equivalents of RMB648.3 million, RMB623.7 million and RMB453.6 million, respectively.

Cash flow

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

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019
Operating cash flows before changes in working capital	340,190	356,767	370,976
Net cash generated from operating activities	216,548	334,939	444,874
Net cash used in investing activities	(48,928)	(333,770)	(803,247)
Net cash generated from/(used in) financing activities	83,267	(25,850)	188,288
Net increase/(decrease) in cash and cash equivalents	250,887	(24,681)	(170,085)
Cash and cash equivalents at beginning of the year	397,455	648,342	623,661
Cash and cash equivalents at end of the year	648,342	623,661	453,576

Cash flows from operating activities

We generate cash from operating activities primarily from tuition and boarding fees, which are typically paid in advance at the beginning of each school year. Tuition and boarding fees are initially recorded under contract liabilities. We recognize such amounts received as revenue proportionately over the 12-month period. Cash flows from operating activities reflect (i) profit before income tax adjusted for non-cash and non-operating items, such as fair value gains on investment properties, depreciation of property and equipment, amortization of land use rights and intangible assets, interest expense on bank borrowings less borrowing costs capitalized in property, plant and equipment and interest expenses on discount of amounts due to a related party; (ii) movements in working capital, such as increase or decrease in amounts due from related parties, increase or decrease in amounts due to related parties, increase or decrease in contract liabilities, increase or decrease in accruals and other payables, increase or decrease in trade and other receivables and increase or decrease in prepayments; and (iii) other cash items including interest paid and income tax paid.

Net cash generated from operating activities amounted to RMB444.9 million for the year ended August 31, 2019, primarily reflecting (i) profit before income tax of RMB227.0 million; (ii) positive total adjustments before changes in working capital of RMB144.0 million, which in turn primarily reflected RMB65.3 million of positive adjustment for depreciation of property and equipment, RMB33.3 million of positive adjustment for amortization of land use rights and intangible assets, RMB24.0 million of positive adjustment for interest expense on bank borrowings less borrowing costs capitalized in property, plant and equipment, and RMB22.9 million of positive adjustment for interest expenses on discount of amounts due to a related party, as partially offset by RMB3.2 million of negative adjustment for fair value gains on investment properties; and (iii) the net increase in working capital of RMB131.1 million. Such increase in working capital was primarily due to (a) an increase of RMB110.1 million in contract liabilities, and (b) an increase of RMB26.7 million in accruals and other payables, as partially offset by an increase of RMB6.7 million in amounts due from related parties.

Net cash generated from operating activities amounted to RMB334.9 million for the year ended August 31, 2018, primarily reflecting (i) profit before income tax of RMB200.1 million; (ii) positive total adjustments before changes in working capital of RMB156.6 million, which in turn primarily reflected RMB63.1 million of positive adjustment for depreciation of property and equipment, RMB49.3 million of positive adjustment for interest expense on bank borrowings less borrowing costs capitalized in property, plant and equipment, RMB31.2 million of positive adjustment for amortization of land use rights and intangible assets and RMB21.8 million of positive adjustment for interest expenses on discount of amounts due to a related party, as partially offset by RMB8.8 million of negative adjustment for fair value gains on investment properties; and (iii) the net increase in working capital of RMB30.0 million. Such increase in working capital was primarily due to an increase of RMB71.9 million in contract liabilities, as partially offset by (a) a decrease of RMB31.2 million in accruals and other payables, and (b) a decrease of RMB10.7 million in amounts due to related parties.

Net cash generated from operating activities amounted to RMB216.5 million for the year ended August 31, 2017, primarily reflecting (i) profit before income tax of RMB194.7 million; (ii) positive total adjustments before changes in working capital of RMB145.5 million, which in turn primarily reflected RMB60.4 million of positive adjustment for depreciation of property and equipment, RMB51.2 million of positive adjustment for interest expense on bank borrowings less borrowing costs capitalized in property, plant and equipment, RMB31.0 million of positive adjustment for amortization of land use rights and intangible assets and RMB7.0 million of positive adjustment for interest expenses on discount of amounts due to a related party, as partially offset by RMB4.1 million of negative adjustment for fair value gains on investment properties; and (iii) the net decrease in working capital of RMB72.9 million. Such decrease in working capital was primarily due to (a) a decrease of RMB48.0 million in accruals and other payables, (b) a decrease of RMB9.7 million in amounts due to related parties, (c) a decrease of RMB8.6 million in trade and other receivables, and (d) a decrease of RMB6.6 million in contract liabilities.

Cash flows used in investing activities

Our cash flows used in investing activities were primarily related to purchases of property, plant and equipment and intangible assets, prepayment for the acquisition of land use rights and property, plant and equipment and increase or decrease in amounts due from related parties.

Net cash used in investing activities amounted to RMB803.2 million for the year ended August 31, 2019, reflecting purchase of property, plant and equipment and intangible assets of RMB803.2 million.

Net cash used in investing activities amounted to RMB333.8 million for the year ended August 31, 2018, primarily reflecting purchase of property, plant and equipment and intangible assets of RMB405.7 million, partially offset by a decrease in amounts due from related parties of RMB72.0 million.

Net cash used in investing activities amounted to RMB48.9 million for the year ended August 31, 2017, primarily reflecting (i) purchase of property, plant and equipment and intangible assets of RMB43.2 million; and (ii) an increase in amounts due from related parties of RMB5.8 million.

Cash flows from/(used in) financing activities

Our cash flows from/(used in) financing activities were primarily related to proceeds from borrowings, repayments of borrowings, capital injections from the owner of the Company, payment for listing expenses and increase or decrease in amounts due to related parties.

Net cash generated from financing activities amounted to RMB188.3 million for the year ended August 31, 2019, primarily reflecting proceeds from borrowings of RMB487.9 million, partially offset by (i) repayments of borrowings of RMB264.4 million; and (ii) a decrease in amounts due to related parties of RMB33.0 million.

Net cash used in financing activities amounted to RMB25.9 million for the year ended August 31, 2018, primarily reflecting (i) repayments of borrowings of RMB144.0 million; and (ii) a decrease in amounts due to related parties of RMB180.5 million, partially offset by capital injections from the owner of the Company of RMB300.0 million.

Net cash generated from financing activities amounted to RMB83.3 million for the year ended August 31, 2017, primarily reflecting proceeds from borrowings of RMB1,000.0 million, partially offset by (i) repayments of borrowings of RMB743.2 million; and (ii) a decrease in amounts due to related parties of RMB171.8 million.

Working capital

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, the cost of acquiring schools and 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.

We recorded a net current liabilities position of RMB956.1 million as of August 31, 2019, primarily because (i) we recorded large amounts of contract liabilities, which primarily consisted of advance payments of tuition fees and boarding fees received from students that we recognize as revenue proportionately over the relevant period of the applicable programs; (ii) we recorded substantial amounts due to related parties, which primarily consisted of payables to related parties in relation to the construction of our schools; (iii) we recorded substantial amounts of accruals and other payables, which primarily consisted of payables for the purchase of property, plant and equipment, payables for joint tuition support fees to Guangdong University of Technology, miscellaneous fees received from students, payables for property management services and government subsidies payable to students; and (iv) we had substantial amounts of outstanding bank loans which were primarily incurred to support our business expansion and fund our working capital. As of August 31, 2019, we had bank borrowings of RMB1,079.3 million, primarily consisting of (a) short-term borrowings of RMB0.4 million, which are repayable within one year, (b) long-term borrowings of RMB805.0 million, which are repayable within one to five years, and (c) long-term borrowings of RMB273.9 million, which are repayable after more than five years. As of August 31, 2019, we also had amount due to Hualiyuan Technology of RMB503.4 million in connection with our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus, which is repayable no later than April 30, 2020 (i.e. three years after the relevant agreement date).

As of August 31, 2019, the Group had cash and cash equivalent of RMB453.6 million. We intend to continue to finance our working capital with cash flows generated from our operating activities, bank borrowings, net proceeds from this Global Offering and other funds raised from the capital markets from time to time. As of the Latest Practicable Date, our unutilized and unrestricted banking facilities amounted to approximately RMB1,053.7 million.

After taking into consideration the financial resources available to our Group, including existing borrowings, the available banking facilities, our internally generated cash and the estimated net proceeds of the Global Offering, and in the absence of unforeseeable circumstances, our Directors are of the opinion that we will have sufficient working capital for our operations, including our contractual commitments and obligations for at least the next 12 months from the date of this prospectus.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of maintenance and construction expenditure on new school facilities at our existing school premises in Zengcheng and Yunfu and expenditure on acquisition of land use rights and property, plant and equipment for establishing a new junior college in Jiangmen City, Guangdong Province. For the years ended August 31, 2017, 2018 and 2019, our capital expenditures were RMB43.2 million, RMB405.7 million and RMB803.2 million, respectively. We funded these capital expenditures primarily with cash generated from operations and bank borrowings. The following table sets forth the breakdown of our cash-based capital expenditures for the years indicated:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Property, plant and equipment and intangible assets	43,171	405,720	803,247

Our future capital expenditures are mainly related to the expansion of our schools and construction, maintenance, renovation and upgrade of our existing schools. We expect our capital expenditure for the year ending August 31, 2020 to be approximately RMB113.7 million. We expect to fund these capital expenditures with cash generated from our operations, bank borrowings and the net proceeds from the Global Offering.

CONTRACTUAL COMMITMENTS

Capital commitments

Our capital commitments primarily relate to the acquisition of property, plant and equipment and investment properties. The following table sets forth a summary of our capital commitments contracted but not provided for as of the dates indicated:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Property, plant and equipment	189,269	202,933	500,587
Total	189,269	202,933	500,587

As of August 31, 2019, we also had capital expenditure authorized but not contracted for in the amount of RMB168.4 million.

Operating lease commitments

As lessor

We leased out our investment properties and certain space to signal stations of telecommunication companies under operating lease arrangements, with leases negotiated for terms ranging from one to 20 years. As of the dates indicated, we had total future minimum lease receivables under non-cancellable operating leases with our tenants falling due as follows:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	716	1,681	2,597
1 to 5 years	13,938	18,704	22,728
Over 5 years	114,392	108,267	101,756
	129,046	128,652	127,081

As lessee

As of the dates indicated, we had future aggregate minimum lease payments under non-cancellable operating leases falling due as follows:

	As of August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	19	16	-
1 to 5 years	2	2	-
	21	18	-

INDEBTEDNESS

Our indebtedness primarily consists of bank borrowings, amounts due to related parties, and lease liabilities.

Borrowings

The following table sets out the breakdown of our borrowings as of the dates indicated:

	As of August 31,			As of September 30,
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)
Current:				
– Bank borrowings	143,800	89,800	396	396
Non-current:				
– Bank borrowings	856,000	766,000	1,078,908	1,078,908
Total borrowings	999,800	855,800	1,079,304	1,079,304

We primarily borrow loans from banks to supplement our working capital and finance our capital expenditure. The bank borrowings as of August 31, 2017, 2018 and 2019 were all denominated in Renminbi. As of the Latest Practicable Date, our unutilized and unrestricted banking facilities amounted to approximately RMB1,053.7 million.

As of August 31, 2017, 2018, 2019 and September 30, 2019, bank borrowings of RMB999.8 million, RMB855.8 million, RMB1,079.3 million and RMB1,079.3 million, respectively, were secured by the pledge of equity interests of XZ Huali and the charging right of the service fees owned by XZ Huali under the Structured Contracts.

The weighted average effective interest rates (per annum) that we bore for our bank borrowings are as follows:

	As of August 31,			As of September 30,
	2017	2018	2019	2019 (unaudited)
Bank borrowings	6.43%	5.89%	5.65%	5.65%

The maturity date of our borrowings is analyzed as follows:

	As of August 31,			As of September 30,
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (unaudited)
Less than 1 year	143,800	89,800	396	396
1 to 2 years	90,000	90,000	145,060	145,060
2 to 5 years	280,000	330,000	659,918	659,918
Over 5 years	486,000	346,000	273,930	273,930
	999,800	855,800	1,079,304	1,079,304

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 we 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.

Amounts due to related parties

During the Track Record Period and as of September 30, 2019, we incurred indebtedness from amounts due to related parties that are non-interest bearing, unsecured and have no fixed terms of repayment (except for the amount due to Hualiyuan Technology in relation to the acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus, of which RMB27.4 million is repayable by the end of October 2017 and the remaining portion was repayable no later than April 30, 2020). Please refer to the section headed "– Discussion of Key Balance Sheet Items – Amounts due from/to related parties" in this prospectus for further details.

As of September 30, 2019, we had unsecured amounts due to related parties (non-trade) of RMB598.9 million.

Lease liabilities

Our Group has adopted HKFRS 16 *Leases* for the accounting periods beginning on or after September 1, 2019 as stated in Note 2.1 of the Accountant's Report in Appendix I to this prospectus. As such, leases have been recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in our consolidated balance sheets for the accounting periods beginning on or after September 1, 2019. As of September 30, 2019, our current and non-current lease liabilities amounted to RMB6.7 million and RMB13.8 million, respectively.

Except as disclosed above, as of September 30, 2019, being the indebtedness date for the purpose of this statement, we did not have any debt securities or loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since September 30, 2019.

CONTINGENT LIABILITIES

As of August 31, 2019, we did not have any material contingent liabilities, guarantees or any litigation or claims of material importance, pending or, so far as the Directors are aware, threatened against any member of our Group. The Directors have confirmed that there has not been any material change in our contingent liabilities since August 31, 2019.

LISTING EXPENSES

Listing expenses consist primarily of underwriting commission and professional fees, and are estimated to be approximately RMB74.9 million. Listing expenses of RMB32.8 million were incurred on or before August 31, 2019, of which RMB26.3 million was charged to our consolidated statements of comprehensive income, while the remaining amount of RMB6.5 million was recorded as prepayment and will be deducted from equity upon the completion of Global Offering. We estimate we will further incur underwriting commission and other listing expenses of approximately RMB42.1 million after August 31, 2019, of which RMB15.9 million will be charged to our consolidated statements of comprehensive income, and RMB26.2 million will be deducted from equity upon the completion of Global Offering.

KEY FINANCIAL RATIOS

	As of/for the year ended August 31,		
	2017	2018	2019
Gross profit margin(1)	55.2%	55.0%	54.5%
Net profit margin(2)	33.4%	31.8%	33.1%
Adjusted net profit margin(3)	34.8%	35.1%	37.5%
Return on assets(4)	5.8%	5.5%	5.6%
Return on equity(5)	17.6%	17.4%	15.2%
Current ratio(6)	0.6	0.7	0.3
Liabilities to assets ratio(7)	74.4%	62.5%	63.5%
Debt to equity ratio(8)	129.7%	61.3%	80.4%
Gearing ratio(9)	204.7%	107.2%	109.1%

Notes:

(1) Gross profit margin equals gross profit for the year divided by revenue for the year.

(2) Net profit margin equals our net profit for the year divided by revenue for the year.

(3) Adjusted net profit margin equals Adjusted Net Profit for the year divided by revenue for the year. For more information on our Adjusted Net Profit, please refer to the section headed "– Key Components of Our Results of Operations – Non-HKFRS Measure" in this prospectus.

(4) Return on assets equals net profit for the year divided by average of the opening and closing balances of total assets in the year.

(5) Return on equity equals net profit for the year divided by average of the opening and closing balances of total equity in the year.

(6) Current ratio equals our current assets divided by current liabilities as of the end of the year.

(7) Liabilities to assets ratio equals total liabilities divided by total assets as of the end of the year.

(8) Debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year.

(9) Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt includes total interest-bearing bank loans and other borrowings.

Analysis of key financial ratios

Gross profit margin

Our gross profit margin remained relatively stable at 55.2%, 55.0% and 54.5% for the years ended August 31, 2017, 2018 and 2019, respectively.

Net profit margin

Our net profit margin decreased from 33.4% for the year ended August 31, 2017 to 31.8% for the year ended August 31, 2018, primarily due to (i) interest expenses on discount of amounts due to a related party that we incurred in relation to the remaining consideration payable to Hualiyuan Technology for our acquisition of 95% interest in the Planned Huali Vocational College Yunfu Campus from Hualiyuan Technology, and (ii) an increase in our administrative expenses, mainly attributable to an increase in our administrative staff costs, an increase in our office expenses and the increased listing expenses.

Our net profit margin increased from 31.8% for the year ended August 31, 2018 to 33.1% for the year ended August 31, 2019, primarily due to the decrease in net finance expenses, mainly attributable to the increase in borrowing costs capitalized in property, plant and equipment resulting from the borrowings for construction in progress during the period.

Adjusted net profit margin

Our adjusted net profit margin remained relatively stable at 34.8% for the year ended August 31, 2017 compared with 35.1% for the year ended August 31, 2018.

Our adjusted net profit margin increased from 35.1% for the year ended August 31, 2018 to 37.5% for the year ended August 31, 2019 primarily due to the decrease in net finance expenses for reasons explained above.

Return on assets

Our return on assets ratio decreased from 5.8% for the year ended August 31, 2017 to 5.5% for the year ended August 31, 2018, primarily due to an increase in property, plant and equipment as a result of the expansion and construction of our school campuses in order to expand our school capacities.

Our return on assets ratio increased from 5.5% for the year ended August 31, 2018 to 5.6% for the year ended August 31, 2019, primarily due to higher net profit.

Return on equity

Our return on equity ratio decreased from 17.6% for the year ended August 31, 2017 to 17.4% for the year ended August 31, 2018, primarily due to an increase in our total equity due to the capital injection from the owner of the Company.

Our return on equity ratio decreased from 17.4% for the year ended August 31, 2018 to 15.2% for the year ended August 31, 2019, primarily due to an increase in our total equity resulting from the increased accumulation of retained earnings.

Current ratio

Our current ratio increased from 0.6 as of August 31, 2017 to 0.7 as of August 31, 2018, primarily due to a decrease in our current liabilities primarily resulting from (i) a decrease in amounts due to related parties, and (ii) a decrease in accruals and other payables, partially offset by a decrease in our current assets primarily resulting from decreases in amounts due from related parties and cash and cash equivalents.

Our current ratio decreased from 0.7 as of August 31, 2018 to 0.3 as of August 31, 2019, primarily due to (i) an increase in current liabilities portion of amounts due to Hualiyuan Technology, which was transferred from non-current liabilities, and (ii) a decrease in cash and cash equivalents mainly due to payment for the purchase of property, plant and equipment and intangible assets for the expansion of Huali College and Huali Vocational College and for the acquisition of land use rights and property, plant and equipment for establishing a new junior college in Jiangmen City, Guangdong Province.

Liabilities to assets ratio

Our liabilities to assets ratio decreased from 74.4% as of August 31, 2017 to 62.5% as of August 31, 2018, primarily due to (i) a decrease in our total liabilities resulting from decreases in borrowings and amounts due to related parties, and (ii) an increase in our total assets resulting primarily from an increase in property, plant and equipment as a result of the expansion and construction of our school campuses in order to expand our school capacities.

Our liabilities to assets ratio remained relatively stable at 63.5% as of August 31, 2019 compared to 62.5% as of August 31, 2018.

Debt to equity ratio

Our debt to equity ratio decreased from 129.7% as of August 31, 2017 to 61.3% as of August 31, 2018, primarily due to (i) a decrease in amounts due to related parties resulting from settlement of advance payments on construction costs that Mr. Zhang made to our Group in relation to the construction of school campus and the maintenance, renovation and upgrade of the school facilities, (ii) a decrease in our bank borrowings, and (iii) an increase in our total equity due to the capital injection from the owner of the Company.

Our debt to equity ratio increased from 61.3% as of August 31, 2018 to 80.4% as of August 31, 2019, primarily due to (i) an increase in our bank borrowings, and (ii) an increase in amounts due to related parties mainly resulting from amounts due to Guangzhou Gaobiao in relation to construction of our expansion projects, and (iii) a decrease in cash and cash equivalents for reasons explained above.

Gearing ratio

Our gearing ratio decreased significantly from 204.7% as of August 31, 2017 to 107.2% as of August 31, 2018, primarily due to (i) a decrease in amounts due to related parties resulting from settlement of advanced payments on construction costs that Mr. Zhang made to our Group in relation to the construction of school campus and the maintenance, renovation and upgrade of the school facilities, (ii) a decrease in our bank borrowings, and (iii) an increase in our total equity due to the capital injection from the owner of the Company.

Our gearing ratio increased from 107.2% as of August 31, 2018 to 109.1% as of August 31, 2019, primarily due to an increase in our bank borrowings.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we had certain advances to and from related parties. Please refer to the section headed "– Discussion of Key Balance Sheet Items – Amounts due from/to related parties" in this prospectus for details. We have settled all balances with related parties prior to the Listing, except for the payables to Hualiyuan Technology amounting to RMB547.0 million, RMB27.4 million of which is repayable by the end of October 2017 and the remaining portion is payable not later than April 30, 2020. These balances are unsecured, interest-free and had no fixed term of repayment (except for the payables to Hualiyuan Technology).

According to our PRC Legal Adviser, these advances with related parties did not comply with the Lending General Provisions (《貸款通則》) (the "**Lending General Provisions**") promulgated by the People's Bank of China ("**PBOC**") in 1996, which prohibited any financing arrangements or lending transactions between non-financial institutions and the PBOC may impose on the offending lender, a fine of one to five times the income the lender receives from such non-compliant loans. Our PRC Legal Adviser further advised that, notwithstanding the Lending General Provisions, the Supreme People's Court has made new interpretations concerning financing arrangements or lending transactions between non-financial institutions in the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) ("**Judicial Interpretations on Private Lending Cases**") which came into effect on September 1, 2015. According to the Judicial Interpretations on Private Lending Cases, the Supreme People's Court recognizes the validity and legality of financing arrangements or lending transactions between non-financial institutions so long as certain requirements, such as the interest rates charged, are satisfied. The Judicial Interpretations on Private Lending Cases prevail over the relevant prohibitive rules of the Lending General Provisions, which are regulations formulated by the PBOC. On this basis, our PRC Legal Adviser is of the opinion that these advances with related parties which are non-financial institutions have become legal, valid and enforceable since the implementation of the Judicial Interpretations on Private Lending Cases in September 2015, and considering that these advances have been waived entirely, the likelihood of the PBOC imposing administrative fines on us in relation to these advances is remote.

Our Directors believe that each of the related party transactions set out in note 30 to the Accountant's Report of the Group in Appendix I to this prospectus was conducted in the ordinary course of business on an arm's-length basis. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our Track Record Period results or make our historical results not reflective of our future performance.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Group's activities expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. The overall risk management program of our Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance of our Group.

Interest Rate Risk

Our Group's interest rate risk arises from bank deposits and borrowings. Borrowings obtained at floating rates expose our Group to cash flow interest rate risk, which is partially offset by cash at bank with floating interest rates. Borrowings obtained at fixed rates expose our Group to fair value interest rate risk. During the Track Record Period, all of our Group's borrowings bore interest at floating rates.

Bank deposits carried at prevailing market interest rate expose our Group to cash flow interest rate risk. We closely monitor trend of interest rate and its impact on our interest rate risk exposure. We currently have not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

We monitor interest rate fluctuations to ensure that exposure to interest rate risk is within an acceptable level.

Credit Risk

Our maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, trade and other receivables and amounts due from related parties.

As of August 31, 2017, 2018 and 2019, substantially all of our bank deposits were deposited with major financial institutions incorporated in the PRC, which management believes are of high credit quality without significant credit risk.

We have no significant concentrations of credit risk. We assessed the credit quality of the counter parties by taking into account their financial position, credit history and other factors. Our management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. Our Directors are of the opinion that the risk of default by counter parties is low.

Liquidity risk

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the 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 borrowings from financial institutions.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DISTRIBUTABLE RESERVES

The Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation. Accordingly, the Company had nil reserve available for distribution to the Shareholders as of August 31, 2019.

DIVIDENDS

Our Group currently does not have a pre-determined dividend policy. 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 that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the 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.

As the Company is holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our subsidiaries established in the PRC. Our PRC subsidiaries must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and paying dividends to us.

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies established in the PRC now comprising the Group, 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 PRC Foreign Investment Enterprises, Huali Shengrong that is a foreign invested 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 Huali Shengrong. Appropriations to the other two reserve funds are at the respective companies' discretion.

According to the relevant PRC laws and regulations, for a private school, the school sponsor of which requires reasonable returns, it is required to appropriate to a development fund not less than 25% of the net profits or 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.

No (nil) dividend has been paid by our Company during the Track Record Period, nor has any dividend been proposed during the Track Record Period.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances in which, had they been required to comply with Rules 13.13 to 13.19 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

Cushman & Wakefield Limited, an independent property valuer, has valued the properties held by us as of September 30, 2019. The letter text, summary of values and valuation certificate are set out in the property valuation report as set forth in Appendix III to this prospectus.

The following table presents the reconciliation of the net book value of the relevant property interests as of August 31, 2019 to their market value as of September 30, 2019 attributed by Cushman & Wakefield Limited as stated in the valuation certificate in the property valuation report as set forth in Appendix III to this prospectus:

	RMB'000
Net book value of buildings, construction in progress and land use right and fair value of investment properties as of August 31, 2019	3,675,333
Net valuation surplus	1,064,667
Valuation as of September 30, 2019 as set out in the property valuation report in Appendix III to this prospectus	4,740,000

NO MATERIALLY ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no materially adverse change in our financial or trading position since August 31, 2019 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there has been no event since August 31, 2019 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the owner of the Company as of August 31, 2019 as if the Global Offering had taken place on August 31, 2019.

This unaudited pro forma statement of adjusted 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 consolidated net tangible assets of the Group as of August 31, 2019 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as of August 31, 2019 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owner of the Company as of August 31, 2019 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to owner of the Company as of August 31, 2019	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.93 per Share	1,574,425	741,700	2,316,125	1.93	2.15
Based on an Offer Price of HK$3.26 per Share	1,574,425	828,360	2,402,785	2.00	2.23

Notes:

(1) The audited consolidated net tangible assets attributable to owner of the Company as of August 31, 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owner of the Company as of August 31, 2019 of RMB1,580,900,000 with an adjustment for the intangible assets as of August 31, 2019 of RMB6,475,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$2.93 and HK$3.26 per Share after deduction of the underwriting fees and other related expenses payable by the Company (excluding those listing expenses of approximately RMB26,335,000 which were accounted for in the consolidated statements of comprehensive income prior to August 31, 2019) and takes no account of any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,200,000,000 Shares were in issue assuming that the Capitalization Issue and the Global Offering were completed on August 31, 2019 but takes no account of any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate.

(4) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to August 31, 2019.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.8978 prevailing on November 4, 2019.

FUTURE PLANS

Please refer to 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$845.1 million after deducting underwriting commission and other estimated expenses payable by us in the Global Offering (of which RMB32.8 million has been incurred on or before August 31, 2019) and without taking into account any additional discretionary incentive fee, assuming an Offer Price of HK$3.095 per Share, being the mid-point of the indicative Offer Price range of HK$2.93 to HK$3.26 per Share. We intend to use such net proceeds for the following purposes:

- approximately 53% (approximately HK$451.4 million) to be applied towards expansion for our existing schools by constructing additional buildings for Huali College and Huali Vocational College. For details, please refer to the section headed "Business – Planned Expansion" in this prospectus;

- approximately 37% (approximately HK$309.2 million) to be applied towards establishment of a new junior college in Jiangmen City, Guangdong Province to provide higher education and vocational education and grant junior college diplomas accredited by the MOE. For details, please refer to the section headed "Business – Planned Expansion" in this prospectus;

- approximately 10% (approximately HK$84.5 million) to fund our working capital and general corporate purposes.

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$48.2 million, respectively. If the Offer Price is set at the low point of the indicative Offer Price range, we will decrease the allocation of the net proceeds to the above purposes on a pro-rata basis. If the Offer Price is set at the high point of the indicative Offer Price range, we will use such additional net proceeds for: (i) approximately HK$43.4 million for establishment of the new junior college in Jiangmen City, Guangdong Province as stated above; and (ii) approximately HK$4.8 million to fund our working capital and general corporate purpose.

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. 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.

THE CORNERSTONE PLACING

We have entered into separate cornerstone investment agreements (the "**Cornerstone Investment Agreements**", and each a "**Cornerstone Investment Agreement**") with the cornerstone investors set out below (the "**Cornerstone Investors**", and each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe for a certain number of the Offer Shares (the "**Cornerstone Placing**").

Assuming an Offer Price of HK$2.93 per Offer Share (being the low-end of the indicative Offer Price range), the total number of Shares to be subscribed for by the Cornerstone Investors would be 142,732,000 Shares, representing approximately 47.58% of the Offer Shares and approximately 11.90% of the Shares in issue immediately upon completion of the Global Offering.

Assuming an Offer Price of HK$3.095 per Offer Share (being the mid-point of the indicative Offer Price range), the total number of Shares to be subscribed for by the Cornerstone Investors would be 138,316,000 Shares, representing approximately 46.10% of the Offer Shares and approximately 11.53% of the Shares in issue immediately upon completion of the Global Offering.

Assuming an Offer Price of HK$3.26 per Offer Share (being the high-end of the indicative Offer Price range), the total number of Shares to be subscribed for by the Cornerstone Investors would be 134,345,000 Shares, representing approximately 44.78% of the Offer Shares and approximately 11.19% of the Shares in issue immediately upon completion of the Global Offering.

The Directors believe that introducing the Cornerstone Investors to the Global Offering and securing the subscription of a significant number of Offer Shares will set a solid platform for the launch of the Global Offering by demonstrating the Cornerstone Investors' confidence in the Global Offering. The Directors also believe that introducing the Cornerstone Investors, which are mainly investors in the same or downstream industry in which we operate, can foster and strengthen our Group's business relationship with such investors, which is expected to be beneficial to the business development of our Group.

The Cornerstone Placing will form part of the International Offering, and the Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreements. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules. There will be no deferred settlement, delivery or payment in respect of the Offer Shares to be subscribed for by the Cornerstone Investors under the Cornerstone Placing. Immediately upon completion of the Global Offering, none of the Cornerstone Investors will have any representation on our Board or become a substantial shareholder of our Company. To the best knowledge of our Company after making reasonable enquiries, each of the Cornerstone Investors is an Independent Third Party and is not a connected person of our Company.

To the best knowledge of our Company after making reasonable enquiries, each of the Cornerstone Investors and their respective ultimate beneficial owners is independent of each other, independent of our Company, its connected persons and their respective associates, and not an existing Shareholder or a close associate of our Company. In addition, we confirm that (i) there is no side agreements or arrangements between our Group and each of the Cornerstone Investors for the purpose of the Cornerstone Placing; (ii) we became acquainted with each of the Cornerstone Investors through the introduction by the relevant Underwriters of the opportunity to participate in the Cornerstone Placing; (iii) none of the Cornerstone Investors is accustomed to take instructions from our Company, the Directors, the chief executive of our Company, the Controlling Shareholders, the substantial shareholders of our Company, the existing Shareholders or any of their subsidiaries or respective close associates; and (iv) none of the subscription of the Offer Shares by the Cornerstone Investors is financed by our Company, the Directors, the chief executive of our Company, the Controlling Shareholders, the substantial shareholders of our Company, the existing Shareholders or any of their subsidiaries or respective close associates.

The Offer Shares to be subscribed for by the Cornerstone Investors may be affected by the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of an over-subscription under the Hong Kong Public Offering as described in "Structure of the Global Offering — Conditions of the Hong Kong Public Offering — Reallocation" in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around November 22, 2019.

OUR CORNERSTONE INVESTORS

CCT China Merchant Buyout Fund (深圳國調招商併購股權投資基金合夥企業(有限合夥)) ("CCT Merchant Buyout")

CCT Merchant Buyout was established in Shenzhen, the PRC, on January 25, 2017. As of the Latest Practicable Date, its partners were Shenzhen China Merchant Huihe Capital Investment and Fund Management Co., Ltd.* (深圳市招商慧合股權投資基金管理有限公司) ("**China Merchant Huihe**"), China State-owned Enterprise Structural Reform Fund Co., Ltd.* (中國國有企業結構調整基金股份有限公司), China Merchant Capital Investment Co., Ltd. (招商局資本控股有限責任公司), Shenzhen Guidance Fund Investment Ltd. (深圳市引導基金投資有限公司), Shenzhen Yantian District State-owned Asset Investment and Management Ltd. (深圳市鹽田區國有資本投資管理有限公司) and Shenzhen Xinhe Investment Partnership (Limited Partnership)* (深圳新合投資合夥企業(有限合夥)). CCT Merchant Buyout is managed by China Merchant Huihe and focuses on equity investment and asset management.

For the purpose of this cornerstone investment, CCT Merchant Buyout has engaged Harvest Fund Management Co., Ltd. (嘉實基金管理有限公司), which is a qualified domestic institutional investor as approved by the relevant PRC authorities, as asset manager in the name of "Harvest Fund Huali Group Single Asset Management Plan" ("嘉實基金華立集團單一資產管理計劃") to subscribe for and hold such Offer Shares on a non-discretionary basis on behalf of CCT Merchant Buyout. The consideration for this cornerstone investment is expected to be funded by the internal resources of CCT Merchant Buyout.

51job, Inc. ("51job")

51job (NASDAQ: JOBS) is a leading human resources service provider in the PRC. 51job, with its online media and advanced mobile information technology as well as its experienced and professional consultant team, provides a broad range of professional human resources services, including recruitment and headhunting, training assessment and personnel outsourcing.

51job is confident in our business prospects and future development, and is of the view that its participation in the Cornerstone Placing will create synergy with our Group. The consideration for this cornerstone investment is expected to be funded by the internal resources of 51job.

As confirmed by 51job, it is not required to obtain any approval from the Nasdaq Stock Market or its shareholders to invest in our Company or to subscribe for the Offer Shares.

Mr. Zhou Da (周達) ("Mr. Zhou")

Mr. Zhou is an entrepreneur and is currently serving as the chairman of Shenzhen Kunlun Holdings Co., Ltd.* (深圳市昆侖控股有限公司), which is principally engaged in real estate development and management, capital market and financial industry investment, technology industry investment, urban construction and cultural tourism industry development and management. Mr. Zhou is also a senior board member of Nankai University (南開大學) in the PRC. The consideration for this cornerstone investment is expected to be funded by Mr. Zhou's own funds.

Save as disclosed hereinabove, to the best of our Company's knowledge after making reasonable enquiries, none of the Cornerstone Investors and their respective substantial shareholders are listed on any stock exchanges.

The following tables set out certain details of the Cornerstone Placing:

Cornerstone Investor	Total investment amount	Assuming an Offer Price of HK$2.93 per Offer Share (being the low-end of the indicative Offer Price range)		
		Number of Offer Shares to be subscribed (rounded down to the nearest whole board lot of 1,000 Shares)	Approximate percentage of the Offer Shares	Approximate shareholding percentage in our Company immediately upon completion of the Global Offering
	(HK$ million)			
CCT Merchant Buyout	175.4	59,880,000	19.96%	4.99%
51job	222.8	76,027,000	25.34%	6.34%
Mr. Zhou	20.0	6,825,000	2.28%	0.57%
Total	**418.2**	**142,732,000**	**47.58%**	**11.90%**

Cornerstone Investor	Total investment amount	Assuming an Offer Price of HK$3.095 per Offer Share (being the mid-point of the indicative Offer Price range)		
		Number of Offer Shares to be subscribed (rounded down to the nearest whole board lot of 1,000 Shares)	Approximate percentage of the Offer Shares	Approximate shareholding percentage in our Company immediately upon completion of the Global Offering
	(HK$ million)			
CCT Merchant Buyout	185.3	59,880,000	19.96%	4.99%
51job	222.8	71,974,000	23.99%	6.00%
Mr. Zhou	20.0	6,462,000	2.15%	0.54%
Total	**428.1**	**138,316,000**	**46.10%**	**11.53%**

Cornerstone Investor	Total investment amount	Assuming an Offer Price of HK$3.26 per Offer Share (being the high-end of the indicative Offer Price range)		
		Number of Offer Shares to be subscribed (rounded down to the nearest whole board lot of 1,000 Shares)	Approximate percentage of the Offer Shares	Approximate shareholding percentage in our Company immediately upon completion of the Global Offering
	(HK$ million)			
CCT Merchant Buyout	195.2	59,880,000	19.96%	4.99%
51job	222.8	68,331,000	22.78%	5.69%
Mr. Zhou	20.0	6,134,000	2.04%	0.51%
Total	**438.0**	**134,345,000**	**44.78%**	**11.19%**

CLOSING CONDITIONS

The subscription obligations of each of the Cornerstone Investors is subject to the following closing conditions:

(i) the Underwriting Agreements having been entered into, having become effective and unconditional by no later than the respective time and date specified therein, and not having been terminated, in accordance with their respective original terms (or as subsequently waived, to the extent it may be waived, by the relevant parties thereto);

(ii) the Offer Price having been agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us in connection with the Global Offering;

(iii) the representations, warranties, acknowledgements, undertakings and confirmations provided by the Cornerstone Investor are true and accurate in all respects and not misleading, and there having been no breach of the relevant Cornerstone Investment Agreement on the part of the Cornerstone Investor;

(iv) the Listing Committee of the Stock Exchange having granted or agreed to grant the approval for the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange and such approval or permission not having been revoked; and

(v) no laws or regulations having been enacted or promulgated by any government authority (as defined in the relevant Cornerstone Investment Agreement) which prohibits the consummation of the transactions contemplated under the relevant Cornerstone Investment Agreement, and there having been no order or injunction of a court of competent jurisdiction in effect precluding or prohibiting consummation of the transactions contemplated under the relevant Cornerstone Investment Agreement.

Based on the terms and conditions of each Cornerstone Investment Agreement, no shareholders' approval is required for the participation in the Cornerstone Placing by the relevant Cornerstone Investor. For the Cornerstone Investor which is a listed company, or having a parent company which is a listed company, as confirmed by the relevant Cornerstone Investor, there is no legal requirement for them to obtain shareholders' approval.

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that it will not, whether directly or indirectly, without consent of our Company and the Sole Global Coordinator, at any time during the period of six months following the Listing Date (the "**Lock-up Period**"), dispose of (as defined in the relevant Cornerstone Investment Agreement) any of the Shares it has purchased pursuant to the Cornerstone Investment Agreement, save for certain limited circumstances such as transfers to any of its wholly-owned subsidiaries which will be bound by the same obligations as such Cornerstone Investor (including the Lock-up Period restriction).

HONG KONG PUBLIC OFFER UNDERWRITERS

China Securities (International) Corporate Finance Company Limited

BOCOM International Securities Limited

China Galaxy International Securities (Hong Kong) Co., Limited

First Shanghai Securities Ltd.

Essence International Securities (Hong Kong) Limited

First Capital Securities Limited

HeungKong Securities Limited

Fosun Hani Securities Limited

Zhongrong PT Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Public Offer Underwriting Agreement

Pursuant to the Hong Kong Public Offer Underwriting Agreement, our Company is offering initially 30,000,000 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 and the Application Forms 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, and to certain other conditions set out in the Hong Kong Public Offer Underwriting Agreement, the Hong Kong Public Offer Underwriters have agreed to subscribe, or procure subscribers to subscribe for the Hong Kong Public Offer Shares which are being offered but 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 Public Offer Underwriting Agreement.

The Hong Kong Public Offer 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 Sole Global Coordinator (for itself and on behalf of the Hong Kong Public Offer Underwriters) shall be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Public Offer Underwriting Agreement with immediate effect if, at any time 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 any jurisdiction relevant to any member of the Group or the Global Offering (collectively, the "**Relevant Jurisdictions**"); or

(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 Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at the U.S. Federal or New York State level or by any other competent authority), the PRC, or any other Relevant Jurisdiction declared by the relevant authorities or any material disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any Relevant Jurisdictions; 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 not disclosed in this prospectus; 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 RMB against any foreign currencies) in any of the Relevant Jurisdictions adversely affecting an investment in the Shares; or

(h) any actions, suits and proceedings (including, without limitation, any investigation or inquiry by or before any authority) and claims (whether or not any such claim involves or results in any action, suit or proceeding) of any third party being threatened or instigated against any member of the Group not disclosed in this prospectus; or

(i) any adverse change or prospective adverse change in the earnings, business, business prospects, financial or trading position, or conditions (financial or otherwise) of the Group (including any litigation or claim being threatened or instigated against the Group); or

(j) any change or prospective change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(k) an executive Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(l) the chairman or chief executive officer of the Company vacating his office; or

(m) an authority or a political body or organization 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

(n) a contravention by any member of the Group of the Listing Rules or applicable laws; or

(o) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Global Offering; or

(p) non-compliance of this 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

(q) 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; or

(r) any breach of any of the obligations of any party (other than the Sole Global Coordinator or the Underwriters, if applicable) to any of the deed of indemnity, the Price Determination Agreement, the receiving bank agreement, the share registrar agreements which has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the business or financial conditions or prospects of the Group; or

which, individually or in the aggregate in the sole opinion of the Sole Global Coordinator (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 is likely to 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 is likely to make it impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or is likely to have the effect of making any part of the Hong Kong Public Offer 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 Sole Global Coordinator:

(a) that any statement contained in this prospectus, the Application Forms and/or in 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 or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of such documents 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 this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(c) any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties under the Hong Kong Public Offer Underwriting Agreement; or

(d) any material breach of any of the obligations imposed upon any party to the Hong Kong Public Offer Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Public Offer Underwriters or the International Underwriters); or

(e) any event, act or omission which gives or is likely to give rise to any material liability of any of the indemnifying parties under the Hong Kong Public Offer Underwriting Agreement; or

(f) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued 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

(g) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(h) any person (other than the Sole Sponsor) has withdrawn or is subject to withdraw its consent to being named in this prospectus or the Application Forms or to the issue of this prospectus or the Application Forms; or

(i) a significant portion of the orders in the book-building process at the time of the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated, cancelled or repudiated.

Restrictions pursuant to the Listing Rules

(i) *Restriction on further issue of Shares by us*

Pursuant to Rule 10.08 of the Listing Rules, we have 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) will be issued by us or form the subject of any agreement to such an issue by us 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; or (b) pursuant to the Global Offering.

(ii) *Restriction on disposal of Shares by the Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to each of the Stock Exchange and our Company that, save as disclosed in this prospectus and except pursuant to the Global Offering, he/it shall not and shall procure that the relevant registered Shareholder(s) shall not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the Listing Rules:

(a) at any time during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in respect of which he/it is shown by 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 paragraph (a) expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would, directly or indirectly, cease to be a Controlling Shareholder.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken jointly and severally to the Stock Exchange and our Company that within the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he will immediately inform our Company and the Stock Exchange of:

(a) any pledge(s) or charge(s) of any Shares or securities of our Company beneficially owned by it/him in favor of any authorized institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan as permitted under Note 2 to Rule 10.07(2) of the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and

(b) any indication(s) received by it/him, either verbal or written, from any pledgee or chargee that any Shares or securities of our Company pledged or charged will be sold, transferred or disposed of.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by the Controlling Shareholders and disclose such matters by way of an announcement to be published as required under the Listing Rules.

Undertakings pursuant to the Hong Kong Public Offer Underwriting Agreement

(i) *Undertaking by us*

We have undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Public Offer Underwriters that the Company shall not, and each of the Controlling Shareholders has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Public Offer Underwriters to procure that the Company shall not, at any time during the period commencing on the date of the Hong Kong Public Offer Underwriting Agreement and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"), except pursuant to the Global Offering and without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and unless in compliance with the requirements of the Listing Rules:

(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 other securities of the 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 other securities of the Company or any shares or other securities of such other member of the Group, as applicable or any interest in any of the foregoing), or deposit any Shares or other securities of the 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 receipt; 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 any Shares or other securities of the 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 other securities of the Company or any shares or other securities of such other member of the Group, as applicable or any interest in any of the foregoing); or

(c) enter into any transaction with the same economic effect as any transaction specified above; or

(d) offer to or agree to or announce any intention to effect any transaction specified above.

In the event that our Company does any of the foregoing during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), our 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.

(ii) *Undertaking by the Controlling Shareholders*

Each of the Controlling Shareholders has undertaken to us and the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Public Offer Underwriters that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) 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 (i) or (ii) of this paragraph; or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) of this paragraph, in each case, whether any of the transactions specified in (i), (ii) or (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);

(b) during the First Six-Month Period and without prejudice to paragraph (e) below, it will, and will procure that its associates and companies controlled by it will, comply with all the applicable restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by any registered holder on its behalf of any Shares or other securities of the Company in respect of which it is or is shown in this prospectus to be the beneficial owner (directly or indirectly);

(c) without prejudice to paragraph (e) below, neither it nor any of its respective associates or companies controlled by it has any present intention of disposing of any Shares or other securities of the Company in respect of which it is, or is shown in this prospectus to be the beneficial owner (or any beneficial interest therein) during the First Six-Month Period;

(d) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(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 would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and

(e) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(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 nothing in this undertaking 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, or (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) for a bona fide loan.

Indemnity

Our Company and the Controlling Shareholders have agreed to indemnify the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Hong Kong Public Offer Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Public Offer Underwriting Agreement and any breach by our Company and the Controlling Shareholders of the Hong Kong Public Offer Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, amongst others, the International Underwriters and the Sole Global Coordinator. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions set out therein, will agree to procure subscribers or purchasers for the International Offer Shares, failing which it agrees to subscribe for or purchase the International Offer Shares which are not taken up under the International Offering.

Indemnity

We and the Controlling Shareholders have agreed to indemnify the International Underwriters against certain liabilities, including liabilities under the US Securities Act.

Grounds for termination

It is expected that the International Underwriting Agreement may be terminated on similar grounds as those in the Hong Kong Public Offer Underwriting Agreement. Potential investors are reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Underwriting Commissions and Expenses

The Hong Kong Public Offer Underwriters are expected to receive from us an underwriting commission of between 2.0% and 3.0% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares offered under the Hong Kong Public Offering. Our Company may also at its sole and absolute discretion elect to pay the Hong Kong Public Offer Underwriters an incentive fee of up to 1.0% of the aggregate Offer Price of the Hong Kong Public Offer Shares.

The aggregate commissions and fees (excluding the discretionary incentive fee), together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK$83.4 million in total (based on an Offer Price of HK$3.095 being the mid-point of our indicative price range of the Global Offering.

Hong Kong Public Offer Underwriters' Interests in Our Group

Save as disclosed in this prospectus and other than its obligations pursuant to the Hong Kong Public Offer Underwriting Agreement, as of the Latest Practicable Date, the Hong Kong Public Offer Underwriters are not 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.

Following the completion of the Global Offering, the Hong Kong Public Offer Underwriters and their affiliates may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Public Offer Underwriting Agreement. Buyers of the Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

PRICING AND ALLOCATION

Offer Price Range

The Offer Price will be not more than HK$3.26 per Offer Share and is expected to be not less than HK$2.93 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. 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.

Price Payable on Application

Applicants for Hong Kong Public Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$3.26 for each Hong Kong Public Offer Share. If the Offer Price is less than HK$3.26 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applications. Please refer to the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

Determining the Offer Price

The Offer Price is expected to be fixed by agreement with the Sole Global Coordinator and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, November 19, 2019 and in any event, no later than Wednesday, November 20, 2019.

If for any reason, the Sole Global Coordinator and us are unable to reach agreement on the Offer Price on or before Wednesday, November 20, 2019, the Global Offering will not proceed.

Reduction in Offer Price Range and/or Number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator and with our consent, considers it appropriate, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, we will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the Company's website **(www.hualiuniversity.com)** and the Stock Exchange's website **(www.hkexnews.hk)**, notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus. If an indicative offer price range is reduced, we will issue a supplemental prospectus updating investors of the change in the indicative offer price together with an update of all financial and other information in connection with such change; extend the period under which the Hong Kong Public Offering was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions; and give potential investors who had applied for the Shares the right to withdraw their applications. Details of the arrangement will then be announced by the Company as soon as practicable.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Allocation

The 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 Sole Global Coordinator.

Allocation of the Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, 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, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of 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, although the allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than 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.

Announcement of Offer Price and Basis of Allocations

The Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on Friday, November 22, 2019 on the websites of the Stock Exchange and the Company.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee granting listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering;

(ii) the Offer Price having been duly agreed between us and the Sole Global Coordinator;

(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 Hong Kong Public Offer Underwriting Agreement and the International Underwriting Agreement having become 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 such underwriting agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event, not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. 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, the application monies will be held in separate bank account(s) with the receiving banker or other bank(s) in Hong Kong licensed under the Hong Kong Banking Ordinance.

Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Friday, November 22, 2019 but will only become valid certificates of title at 8: 00 a.m. on Monday, November 25, 2019, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting – Underwriting Arrangements and Expenses – The Hong Kong Public Offering – Grounds for termination" in this prospectus has not been exercised.

The Hong Kong Public Offering

We are initially offering 30,000,000 Hong Kong Public Offer Shares (subject to the re-allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering) at the Offer Price, representing 10% of the 300,000,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. The total number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK$5 million or less; and

- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of more than HK$5 million and up to the value of pool B.

Applicants should be aware that applications in pool A and pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Public 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 50% of 30,000,000 Offer Shares initially included in the Hong Kong Public Offer (that is 15,000,000 Offer Shares) will be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation at the discretion of the Sole Global Coordinator, subject to the following:

(a) where the International Offer Shares are fully subscribed or oversubscribed:

(i) if the Hong Kong Public Offer Shares are undersubscribed, the Sole Global Coordinator have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deem appropriate;

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 1 time but less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 30,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 60,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering;

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 90,000,000 Offer Shares (in the case of (1)), 120,000,000 Offer Shares (in the case of (2)) and 150,000,000 Offer Shares (in the case of (3)), representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively;

(b) where the International Offer Shares are undersubscribed:

(i) if the Hong Kong Public Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this Prospectus, the Application Forms and the Underwriting Agreements; and

(ii) if the Hong Kong Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 30,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 60,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the maximum total number of Offer Shares under the Hong Kong Public Offering (including the Offer Shares that may be reallocated to the Hong Kong Public Offering) will be 60,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK$2.93 per Offer Share) according to the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue.

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 Sole Global Coordinator may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The International Offering will consist of initially 270,000,000 Shares, and is subject to adjustments, to be offered by us outside the US (within the meaning of Regulation S under the US Securities Act) in reliance on Regulation S under the US Securities Act, including to professional and institutional investors in Hong Kong.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8: 00 a.m. in Hong Kong on Monday, November 25, 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9: 00 a.m. on Monday, November 25, 2019. The Shares will be traded in board lots of 1,000 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 Offer 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.

The Company, the Sole Global Coordinator, 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:

(i) are 18 years of age or older;

(ii) have a Hong Kong address;

(iii) are outside the US and not a US person (within the meaning of Regulation S); and

(iv) 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: (i) have a valid Hong Kong identity card number and (ii) provide a valid email 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 authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator 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:

(i) an existing beneficial owner of Shares in the Company and/or any its subsidiaries;

(ii) a Director or chief executive officer of the Company and/or any of its subsidiaries;

(iii) a close associate (as defined in the Listing Rules) of any of the above;

(iv) a core connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and

(v) have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

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, November 14, 2019 until 12:00 noon, Tuesday, November 19, 2019 from:

(i) the following office of the Sole Global Coordinator:

China Securities (International) Corporate Finance Company Limited
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

(ii) any of the following branches of the receiving bank:

CMB Wing Lung Bank Limited

District	Branch Name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Kennedy Town Branch	28 Catchick Street
	Central District Branch	189 Des Voeux Road Central
Kowloon	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m., Thursday, November 14, 2019 until 12:00 noon, Tuesday, November 19, 2019 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 check or a banker's cashier order attached and marked payable to CMB Wing Lung (Nominees) Limited – Huali University Group Limited 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:

9:00 a.m. to 5:00 p.m., Thursday, November 14, 2019

9:00 a.m. to 5:00 p.m., Friday, November 15, 2019

9:00 a.m. to 1:00 p.m., Saturday, November 16, 2019

9:00 a.m. to 5:00 p.m., Monday, November 18, 2019

9:00 a.m. to 12:00 noon, Tuesday, November 19, 2019

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, November 19, 2019, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" below.

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:

(a) undertake to execute all relevant documents and instruct and authorize the Company and/ or the Sole Global Coordinator (or its agents or nominees), as agent of the Company, to execute any documents 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;

(b) agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(c) 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;

(d) 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;

(e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(f) agree that none of the Company, the Sole Sponsor, the Sole Global Coordinator, 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);

(g) 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;

(h) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Sponsor, the Sole Global Coordinator, 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;

(i) 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 the Company, the Sole Sponsor, the Sole Global Coordinator, 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;

(j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(k) agree that your application will be governed by the laws of Hong Kong;

(l) 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 US Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the US (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(m) warrant that the information you have provided is true and accurate;

(n) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(o) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the 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 "Personal Collection" section in the Prospectus to collect the share certificate(s) and/or refund cheque(s) in person;

(p) 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;

(q) understand that the Company and the Sole Global Coordinator 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;

(r) (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

(s) (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 "Who can apply" 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 the Company. If you apply through the designated website, you authorize 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, November 14, 2019 until 11:30 a.m., Tuesday, November 19, 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Tuesday, November 19, 2019 or such later time under the "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.

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, the 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).

Commitment to sustainability

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 for each "Huali University Group Limited" **White Form eIPO** application submitted via the website **www.eipo.com.hk** to support sustainability.

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 authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

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:

(a) 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;

(b) HKSCC Nominees will do the following things on your behalf:

(i) 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;

(ii) agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;

(iii) 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;

(iv) (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;

(v) (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 authorized to give those instructions as their agent;

(vi) confirm that you understand that the Company, the Directors and the Sole Global Coordinator 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;

(vii) authorize the Company to place HKSCC Nominees' name on the 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;

(viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

(ix) 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;

(x) agree that none of the Company, the Sole Sponsor, the Sole Global Coordinator, 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);

(xi) agree to disclose your personal data to the Company, the Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;

(xii) 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;

(xiii) 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 any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the 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 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;

(xiv) 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 the Company's announcement of the Hong Kong Public Offering results;

(xv) 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;

(xvi) agree with the Company, for itself and for the benefit of each Shareholder (and so that the 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

(xvii) 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 the Company or any other person in respect of the things mentioned below:

(i) instructed and authorized 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;

(ii) instructed and authorized 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

(iii) instructed and authorized 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 1,000 Hong Kong Public Offer Shares. Instructions for more than 1,000 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.

Time for Inputting Electronic Application Instructions[1]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

9:00 a.m. to 8:30 p.m., Thursday, November 14, 2019
8:00 a.m. to 8:30 p.m., Friday, November 15, 2019
8:00 a.m. to 1:00 p.m., Saturday, November 16, 2019
8:00 a.m. to 8:30 p.m., Monday, November 18, 2019
8:00 a.m. to 12:00 noon, Tuesday, November 19, 2019

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, November 14, 2019 until 12:00 noon on Tuesday, November 19, 2019 (24 hours daily, except on November 19, 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, November 19, 2019, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" below.

Note:

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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, the 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 the Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, 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 and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners 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 Center to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, November 19, 2019.

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.

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 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 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).

Please refer to the section headed "Structure of the Global Offering – Pricing and Allocation" 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, November 19, 2019. 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, November 19, 2019 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 "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The 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 Friday, November 22, 2019 on the Company's website at www.hualiuniversity.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 the Company's website at www.hualiuniversity.com and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Friday, November 22, 2019;

(ii) from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, November 22, 2019 to 12:00 midnight on Thursday, November 28, 2019;

(iii) by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Friday, November 22, 2019 to Monday, November 25, 2019;

(iv) in the special allocation results booklets which will be available for inspection during opening hours on Friday, November 22, 2019, Saturday, November 23, 2019 and Monday, November 25, 2019 at all the receiving bank designated branches and sub-branches.

If the 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 "Structure of the Global Offering".

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:

(a) **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 the 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.

(b) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Global Coordinator, 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.

(c) **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:

(i) within three weeks from the closing date of the application lists; or

(ii) within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(d) **If:**

(i) you make multiple applications or suspected multiple applications;

(ii) 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 Offer Shares;

(iii) your Application Form is not completed in accordance with the stated instructions;

(iv) 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;

(v) your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;

(vi) the Underwriting Agreements do not become unconditional or are terminated;

(vii) the Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

(viii) 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$3.26 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 "Structure of the Global Offering – 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 check or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Friday, November 22, 2019.

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:

(i) 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

(ii) refund cheque(s) crossed "Account Payee Only" in favor 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).

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 Friday, November 22, 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, November 25, 2019 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section 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, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, November 22, 2019 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 authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized 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 Friday, November 22, 2019, 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 for collecting refund cheque(s). 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 Friday, November 22, 2019 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 Application Form on Friday, November 22, 2019 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*

  The 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 "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, November 22, 2019 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, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, November 22, 2019, or such other date as notified by the 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 Friday, November 22, 2019 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

(i) 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 Friday, November 22, 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

(ii) The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the 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 "Publication of Results" above on Friday, November 22, 2019. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, November 22, 2019 or such other date as determined by HKSCC or HKSCC Nominees.

(iii) 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.

(iv) 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 Friday, November 22, 2019. 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.

(v) 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 Friday, November 22, 2019.

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 set out on pages I-1 to I-2, 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 of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HUALI UNIVERSITY GROUP LIMITED AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

Introduction

We report on the historical financial information of Huali University Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-58, which comprises the consolidated balance sheets as at August 31, 2017, 2018 and 2019, the balance sheets of the Company as at August 31, 2017, 2018 and 2019, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-58 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 14, 2019 (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.

Directors' responsibility for the Historical Financial Information

The Directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the Directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the

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appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at August 31, 2017, 2018 and 2019, and the consolidated financial position of the Group as at August 31, 2017, 2018 and 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

No dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
November 14, 2019

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) Consolidated statements of comprehensive income

		Year ended August 31,		
	Note	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	5	578,168	608,008	674,800
Cost of sales	8	(258,798)	(273,633)	(307,014)
Gross profit		319,370	334,375	367,786
Selling expenses	8	(7,972)	(8,338)	(13,291)
Administrative expenses	8	(73,167)	(76,083)	(93,827)
Other income	6	8,995	10,748	10,701
Other gains – net	7	4,577	9,523	1,591
Operating profit		251,803	270,225	272,960
Finance income		1,013	1,018	868
Finance expenses		(58,128)	(71,131)	(46,815)
Finance expenses – net	10	(57,115)	(70,113)	(45,947)
Profit before income tax		194,688	200,112	227,013
Income tax expenses	11	(1,596)	(6,785)	(3,950)
Profit for the year		193,092	193,327	223,063
Other comprehensive income for the year		-	-	-
Total comprehensive income		193,092	193,327	223,063
Profit and total comprehensive income attributable to:				
- Owner of the Company		193,092	193,327	223,063
Earnings per share for profit attributable to owner of the Company (expressed in RMB per share)				
Basic and diluted	12	0.386	0.387	0.446

(B) Consolidated balance sheets

	Note	As at August 31, 2017 RMB'000	2018 RMB'000	2019 RMB'000
ASSETS				
Non-current assets				
Land use rights	13	1,002,152	972,052	1,096,010
Property, plant and equipment	14	1,495,055	1,866,314	2,598,503
Investment properties	15	120,200	129,000	132,200
Intangible assets	16	2,186	3,295	6,475
Prepayments	18	16,464	10,404	14,087
		2,636,057	2,981,065	3,847,275
Current assets				
Prepayments	18	3,118	4,542	6,728
Trade and other receivables	19	14,116	13,417	12,472
Amounts due from related parties	30	71,950	60	6,779
Cash and cash equivalents	20	648,342	623,661	453,576
		737,526	641,680	479,555
Total assets		3,373,583	3,622,745	4,326,830
EQUITY				
Share capital	21	327	327	327
Reserves	22	864,183	1,357,510	1,580,573
Total equity		864,510	1,357,837	1,580,900
LIABILITIES				
Non-current liabilities				
Borrowings	25	856,000	766,000	1,078,908
Accruals and other payables	23	-	92,694	152,166
Amounts due to related parties	23	459,092	480,504	44,477
Deferred income tax liabilities	26	28,775	32,509	34,689
		1,343,867	1,371,707	1,310,240
Current liabilities				
Accruals and other payables	23	226,296	124,604	164,069
Amounts due to related parties	23	310,419	119,633	600,788
Contract liabilities	24	484,032	555,926	666,033
Current income tax liabilities		659	3,238	4,404
Borrowings	25	143,800	89,800	396
		1,165,206	893,201	1,435,690
Total liabilities		2,509,073	2,264,908	2,745,930
Total equity and liabilities		3,373,583	3,622,745	4,326,830

(C) Balance sheets of the Company

		As at August 31,		
	Note	2017 RMB'000	2018 RMB'000	2019 RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary		-	-	-
Current assets				
Prepayments	18	2,921	4,271	6,480
Amounts due from a related party	19	327	-	-
Cash and cash equivalents		-	330	14
		3,248	4,601	6,494
Total assets		3,248	4,601	6,494
EQUITY				
Equity attributable to owner of the Company				
Share capital	21	327	327	327
Accumulated losses		(9,955)	(24,215)	(40,640)
Total equity		(9,628)	(23,888)	(40,313)
Current liabilities				
Accruals and other payables	23	6,966	3,487	1,739
Amounts due to subsidiaries		5,910	25,002	45,068
		12,876	28,489	46,807
Total liabilities		12,876	28,489	46,807
Total equity and liabilities		3,248	4,601	6,494

(D) Consolidated statements of changes in equity

	Attributable to owner of the Company				
	Share capital RMB'000	Statutory surplus reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
	(Note 21)	(Note 22(a))	(Note 22(b))	(Note 22(f))	
As at September 1, 2016	327	94,525	699,276	540,448	1,334,576
Profit and total comprehensive income for the year	-	-	-	193,092	193,092
Transactions with owner in his capacity as owner					
Appropriation to statutory reserves	-	65,980	-	(65,980)	-
Utilization of school development funds	-	(46,485)	-	46,485	-
Deemed distribution to the owner of the Company (Note 22(d))	-	-	(665,202)	-	(665,202)
Contribution from the owner of the Company (Note 22(c))	-	-	2,044	-	2,044
	-	19,495	(663,158)	(19,495)	(663,158)
As at August 31, 2017	327	114,020	36,118	714,045	864,510
As at September 1, 2017	327	114,020	36,118	714,045	864,510
Profit and total comprehensive income for the year	-	-	-	193,327	193,327
Transactions with owner in his capacity as owner					
Appropriation to statutory reserves	-	48,661	-	(48,661)	-
Utilization of school development funds	-	(39,495)	-	39,495	-
Capital injection from the owner of the Company (Note 22(e))	-	-	300,000	-	300,000
	-	9,166	300,000	(9,166)	300,000
As at August 31, 2018	327	123,186	336,118	898,206	1,357,837
As at September 1, 2018	327	123,186	336,118	898,206	1,357,837
Profit and total comprehensive income for the year	-	-	-	223,063	223,063
Transactions with owner in his capacity as owner					
Appropriation to statutory reserves	-	58,446	-	(58,446)	-
Utilization of school development funds	-	(58,446)	-	58,446	-
	-	-	-	-	-
As at August 31, 2019	327	123,186	336,118	1,121,269	1,580,900

(E) Consolidated cash flow statements

	Note	Year ended August 31, 2017 RMB'000	2018 RMB'000	2019 RMB'000
Cash flows from operating activities				
Cash generated from operations	27	267,669	387,335	502,066
Interest paid		(50,702)	(51,924)	(56,588)
Income tax paid		(419)	(472)	(604)
Net cash generated from operating activities		216,548	334,939	444,874
Cash flows from investing activities				
Purchase of property, plant and equipment, land use rights and intangible assets		(43,171)	(405,720)	(803,247)
(Increase)/decrease in amounts due from related parties		(5,757)	71,950	-
Net cash used in investing activities		(48,928)	(333,770)	(803,247)
Cash flows from financing activities				
Proceeds from borrowings		1,000,000	-	487,892
Repayments of borrowings		(743,200)	(144,000)	(264,388)
Capital injection from the owner of the Company		-	300,000	-
Payment for listing expenses		(1,711)	(1,350)	(2,209)
Decrease in amounts due to related parties		(171,822)	(180,500)	(33,007)
Net cash generated from/(used in) financing activities		83,267	(25,850)	188,288
Net increase/(decrease) in cash and cash equivalents		250,887	(24,681)	(170,085)
Cash and cash equivalents at beginning of the year		397,455	648,342	623,661
Cash and cash equivalents at end of the year		648,342	623,661	453,576

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information of the Group and reorganization

1.1 General information

Huali University Group Limited (the "Company") was incorporated in the Cayman Islands on May 24, 2016 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in providing private tertiary education services, including tuition services and student accommodation services (the "Listing Business") in the People's Republic of China (the "PRC").

The ultimate holding company of the Company is HL-Diamond Limited ("HL-Diamond"). The Directors consider the ultimate controlling party to be Mr. Zhang Zhifeng, who is also an executive director and the chairman of the Company (the "Owner").

1.2 Reorganization

Prior to the incorporation of the Company and completion of the Reorganization as disclosed below, the tuition services were carried out by Huali College Guangdong University of Technology ("Huali College"), Guangzhou Huali Science and Technology Vocational College ("Huali Vocational College"), Guangdong Province Huali Technician College ("Huali Technician College") (collectively the "PRC Operating Entities") and the student accommodation services were carried out by a department of Guangzhou Huali Investment Company Limited ("the School Sponsor" or "Huali Investment") which was incorporated in the PRC and ultimately controlled and owned by the Owner. In addition, certain land use rights, buildings and investment properties ("Injected Assets") legally owned by a related party controlled by the Owner have been used by the Group during the Track Record Period for operation of the Listing Business. The Injected Assets were legally transferred to the Group during the year ended August 31, 2017 (Note 13, 14 and 15).

In preparation for the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Group underwent a reorganization (the "Reorganization"), pursuant to which the beneficial interests of the companies engaged in the Listing Business were transferred to the Company. Details of the Reorganization are set out below:

(i) On May 18, 2016, Huali (HK) Education Investment Limited ("Huali (HK) Education") was incorporated as a limited liability company in Hong Kong. 10,000 shares were allotted and issued to the Owner at a consideration of Hong Kong Dollar ("HK$") 10,000 on the same day.

(ii) On May 24, 2016, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorized share capital of United States Dollar ("US$") 50,000 divided into 50,000 shares with par value of US$1 each. On the same day, the Owner acquired 1 share from the incorporator at par value, and a further 49,999 shares of the Company were allotted and issued to the Owner at a consideration of US$49,999.

(iii) On June 24, 2016, Huali Investment Holding Limited ("Huali Investment (Cayman)") was incorporated as an exempted company with limited liability in the Cayman Islands. On the same day, the Owner acquired 1 share from the incorporator at par value, and a further 49,999 shares of Huali Investment (Cayman) were allotted and issued to the Owner at a consideration of US$49,999.

(iv) On August 24, 2016, Huali Education Holdings Limited ("Huali Education") acquired the entire issued share capital of the Company from the Owner at a nominal consideration of HK$1.

(v) On August 25, 2016, the Company acquired the entire issued share capital of Huali Investment (Cayman) from the Owner at a nominal consideration of HK$1.

(vi) On August 25, 2016, Huali Investment (Cayman) acquired the entire issued share capital of Huali (HK) Education from the Owner at a nominal consideration of HK$1.

(vii) On December 27, 2016, Guangzhou Huali Shengrong Education Technology Company Limited ("Huali Shengrong") was established in the PRC by Huali (HK) Education with a registered capital of HK$3,000,000.

(viii) On January 18, 2017, Xizang Huali Shengda Information Technology Limited ("XZ Huali") was established by Huali Shengrong with a registered capital of RMB1,450,000.

(ix) Pursuant to a series of contractual agreements signed on March 23, 2017 among XZ Huali, the PRC Operating Entities, their nominee shareholder which is also their school sponsor, Huali Investment and the Owner, XZ Huali acquired the effective control of the PRC Operating Entities and became entitled to the economic benefits generated by these entities. Accordingly, the PRC Operating Entities were treated as subsidiaries of XZ Huali.

(x) On May 10, 2018, the shareholder of Huali Investment resolved to split Huali Investment into two separate corporate entities, Huali Investment and Guangzhou Lingmei Life Service Co., Ltd ("Lingmei Life Service"), under which Huali Investment remains as the School Sponsor of the Huali College, Huali Vocational College and Huali Technician College and continues to own the dormitory properties and operate student accommodation business of the listing group, while all other non-listing business previously run by Huali Investment was transferred to Lingmei Life Service.

(xi) On August 30, 2018, supplemental contractual agreements were signed among XZ Huali, the PRC Operating Entities, their nominee shareholder which is also their school sponsor, Huali Investment and the Owner under which XZ Huali acquired the effective control of Huali Investment and became entitled to the economic benefits generated by Huali Investment. Accordingly, Huali Investment was treated as subsidiary of XZ Huali.

Upon completion of the Reorganization, the Company became the holding company of the other companies comprising the Group. Further details of the contractual arrangements and the supplemental contractual arrangements (collectively referred to as the Contractual Arrangements) are set out in Note 2.2.1 below.

Upon completion of the above reorganization, the Company has direct or indirect interests in the following subsidiaries:

Company name	Country/Place and date of incorporation/ establishment	Paid up/ registered capital	Attributable equity interest of the Group				Principal activities	Place of operations	Note
			August 31,			As at the date of this report			
			2017	2018	2019				
Directly held by the Company:									
Huali Investment (Cayman)	Cayman Islands/ June 24, 2016	US$ 50,000	100%	100%	100%	100%	Holding company	Cayman Islands	Note (1)
Indirectly held by the Company:									
Huali (HK) Education	Hong Kong/ May 18, 2016	HK$ 10,000	100%	100%	100%	100%	Holding company	Hong Kong	Note (1)
Huali Shengrong	PRC/ December 27, 2016	HK$3,000,000	100%	100%	100%	100%	Holding company	PRC	Note (1)
XZ Huali	PRC/ January 18, 2017	RMB1,450,000	100%	100%	100%	100%	Holding company	PRC	Note (1)
Suili Network	PRC/ October 19, 2017	RMB10,000,000	-	100%	-	-	Network technique service	PRC	Note (1), (3)
USA Huali Educational Services LLC	United States of America/ September 19, 2017	US$ 50,000	-	100%	100%	100%	College	United States of America	Note (1)
Treated as subsidiaries under the Contractual Arrangements:									
Huali College* 廣東工業大學華立學院	PRC/ January 11, 2006	RMB10,000,000	100%	100%	100%	100%	College	PRC	Note (2)
Huali Vocational College* 廣州華立科技職業學院	PRC/ July 19, 2005	RMB10,000,000	100%	100%	100%	100%	College	PRC	Note (2)
Huali Technician College* 廣東省華立技師學院	PRC/ August 20, 2003	RMB500,000	100%	100%	100%	100%	College	PRC	Note (2)
Huali Investment* 廣州華立投資有限公司	PRC/ June 15, 1999	RMB400,000,000	100%	100%	100%	100%	School sponsor and student accommodation services	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) Huali College, Huali Vocational College, Huali Technician College and Huali Investment have statutory accounting year end date of December 31. For the purpose of this financial information, the Directors have prepared historical financial information of these subsidiaries as at and for the years ended August 31, 2017, 2018 and 2019 for inclusion of these financial information in the Group's consolidated financial statements. The statutory financial statements of the subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprises. The statutory financial statements of Huali College, Huali Vocational College and Huali Technician College for each of the years ended December 31, 2017 and 2018 were audited by Guangzhou Zengxin Hongri CPA Co., Ltd. ("廣州市增信鴻日會計師事務所有限公司").

The statutory financial statements for Huali College, Huali Vocational College and Huali Technician College for the year ended December 31, 2019 are yet to prepare. No statutory financial statements have been audited for Huali Investment during the Track Record Period.

(3) Suili Network was liquidated on April 19, 2019.

* 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 have not registered any official English names.

1.3 Basis of presentation

The Listing Business comprises provision of tuition services and student accommodation services. Prior to the Reorganization, the tuition services were principally provided through the PRC Operating Entities and the student accommodation services were provided by the student dormitory department of Huali Investment. After the Reorganization, the Listing Business continues to be conducted by the PRC Operating Entities and Huali Investment, and that the PRC Operating Entities, Huali Investment and the Listing Business are under the effective control of XZ Huali and ultimately of the Company through the Contractual Arrangements. The Company had not been involved in any other business prior to the Reorganization and the Reorganization does not result in any changes in business substance, nor in any management or the Owner of the Listing Business. Accordingly, the Historical Financial Information of the entities now comprising the Group is presented using the carrying value of the Listing Business for all years presented.

Furthermore, the Injected Assets were legally transferred from a related entity owned and controlled by the Owner to the Group during the year ended August 31, 2017. The Historical Financial Information has included the carrying value of the Injected Assets throughout the Track Record Period. The Directors consider that those Injected Assets actually form part of the Listing Business as they were in possession and have been used by the Group during the Track Record Period. Refer to Note 13, 14 and 15 for details.

Inter-company transactions, balances and unrealized gains/losses on transactions between the entities within the Group are eliminated on consolidation.

2 Summary of significant accounting policies

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA are set out below. The Historical Financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

All effective standards, amendments to standards and interpretations, which are mandatory for the accounting periods beginning on January 1, 2018, including HKFRS 9 and HKFRS 15, are retrospectively applied to the Group for the Track Record Period.

2.1.1 Going concern assumption

As at August 31, 2019, the Group had net current liabilities of RMB956,135,000. Besides, the Group's total bank borrowings as at August 31, 2019 amounted to RMB1,079,304,000, while its cash and cash equivalents amounted to RMB453,576,000 as at the same date.

Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. As at the date of this report, the Group had unused bank facilities totaling RMB1,053,696,000, of which RMB547,000,000 is for settling the payable of balance due to Guangdong Hualiyuan Technology Company Limited ("Hualiyuan Technology") which was repayable no later than April 30, 2020 (i.e. 3 years after the agreement date), and the remaining bank facilities amounting to RMB506,696,000 are for the capital expenditures and working capital purpose of the Group covering a period of more than 12 months from August 31, 2019.

Also, management has prepared cash flow projections of the Group covering a period of not less than twelve months from August 31, 2019 on the basis that (I) the Group will continue to generate operating cash inflows; and (II) there is continuous availability of the bank facilities.

The Directors have reviewed the Group's cash flow projection and have made due enquiries and considered the basis and assumptions of management's projections as described above. The Directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of bank facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from August 31, 2019. Accordingly, the Historical Financial information has been prepared on a going concern basis.

2.1.2 New standards and interpretations not yet adopted

As at the date of this Historical Financial Information, the HKICPA has issued the following new standards and amendments relevant to the Group which are not yet effective for the year ended August 31, 2019 and have not been early adopted.

		Effective for accounting periods beginning on or after
HK (IFRIC) 23	Uncertainty over income tax treatment	January 1, 2019
HKFRS 16	Leases	January 1, 2019
HKFRS 9 (Amendment)	Financial instruments on prepayment features with negative compensation	January 1, 2019
HKAS 19 (Amendment)	Employee benefits on plan amendment, curtailment or settlement	January 1, 2019
HKAS 28 (Amendment)	Long term interests in associates and joint ventures	January 1, 2019
Annual improvements	2015 - 2017 cycle	January 1, 2019
HKAS 1 and HKAS 8	Disclosure initiative - definition of material	January 1, 2020
HKFRS 3 (Amendment)	Definition of a Business	January 1, 2020
HKFRS 17	Insurance contracts	January 1, 2021
HKFRS 10 and HKAS 28 (Amendment)	Sales or contribution of assets between an investor and its associate or joint venture	To be determined

None of these HKFRSs is expected to have a significant effect on the Historical Financial Information of the Group, except for the following as set out below:

HKFRS 16 Leases

Under HKFRS 16, lessees are required to recognize a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts in the balance sheet. Lessees will also have to present interest expense on the lease liability and depreciation on the right-of-use asset in the income statement. In comparison with operating leases under HKAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognized for each period of the lease term. 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 new standard has included an optional exemption for certain short-term leases and leases of low-value assets. This exemption can only be applied by lessees.

As at August 31, 2019, the Group has no non-cancellable operating lease commitments (Note 29(b)) in which the Group is a lessee.

The initial adoption of HKFRS 16 will not significantly affect the financial position and performance of the Group.

The Group will apply the standard for the accounting periods beginning on or after September 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) 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 fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Subsidiaries controlled through contractual arrangements

The wholly-owned subsidiary of the Company, XZ Huali, entered into the Contractual Arrangements with the PRC Operating Entities and the legal owner of the PRC Operating Entities, on March 23, 2017 and entered into supplemental contractual agreements on August 30, 2018 as detailed in Note 1.2, which enable XZ Huali and the Group to:

- exercise effective control over the PRC Operating Entities and Huali Investment;

- receive substantially all of the economic interest returns generated by the PRC Operating Entities and Huali Investment in consideration for the corporate management and educational services, as well as technical and business support services provided by XZ Huali. Such services include development, design, upgrade and ordinary maintenance on educational software and website; design on college course and major; compilation and selection and/or recommendation on college course materials; recruitment and training supporting on teachers and other employees; admission and enrollment supporting services; public relation services; market research and development services; management and marketing consulting and related services; and other additional services as the parties may mutually agree from time to time;

- obtain an irrevocable and exclusive right to purchase all equity interests in the PRC Operating Entities and Huali Investment from the respective equity holders at nil consideration or a minimum purchase price permitted under PRC laws and regulations. XZ Huali may exercise such options at any time until it has acquired all equity interests in and/or all assets of the PRC Operating Entities and Huali Investment permitted under PRC laws and regulations. In addition, the PRC Operating Entities and Huali Investment are not allowed to sell, transfer, or dispose any assets, or make any distributions to their equity holders without prior consent of XZ Huali; and

- obtain a pledge over the entire equity interest of the PRC Operating Entities and Huali Investment from their equity holders to secure performance of the obligations of the PRC Operating Entities and Huali Investment under the Contractual Arrangements.

- The Group does not have any equity interest in the PRC Operating Entities and Huali Investment. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the PRC Operating Entities and Huali Investment and has the ability to affect those returns through its power over the PRC Operating Entities and Huali Investment, and is considered to control the PRC Operating Entities and Huali Investment. Consequently, the Company regards the PRC Operating Entities and Huali Investment as the indirect subsidiaries under HKFRSs. The Group has included the financial position and results of the PRC Operating Entities and Huali Investment in the consolidated financial statements during the Track Record Period. Please refer to Note 1.3 for details of the related presentation basis.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operating Entities and Huali Investment, due to the uncertainties presented by the PRC legal system to impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Operating Entities and Huali Investment. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements among the PRC Operating Entities and Huali Investment and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Business combination

Except for the Reorganization, 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 recognizes 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 recognized 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 HKFRSs.

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 recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized 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 recognized in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, 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 recognized 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 recognized directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) 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 recognized 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 recognized 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. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 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 consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the entities within the Group 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 Historical Financial Information is presented in RMB, which is the Company's 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 or valuation where items are re-measured.

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 recognized in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'other gains - net'.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial year in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives, as follows:

Buildings	40 years
Vehicles	5-10 years
Electronic equipment	5-10 years
Furniture and fixtures	5-20 years
Interior decoration	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

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 2.9).

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other gains – net' in the consolidated statements of comprehensive income.

Construction in progress represents buildings and plant under construction and is stated at cost less impairment losses. Historical expenditure that is directly attributable to the construction comprises construction costs, the cost of plant and machineries and applicable borrowing costs incurred during the construction year. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to relevant categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statements of comprehensive income as part of a revaluation gain or loss in 'other gains - net'.

2.7 Land use rights

Land use rights are stated at cost less accumulated amortization and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for 29 - 50 years. Amortization of land use right is calculated on a straight-line basis over the lease term of the land use right.

2.8 Intangible assets

Intangible assets represent the computer software. Computer software are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the computer software for 5 years. Amortization of computer software are calculated on the straight-line method over 5 years.

2.9 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 to sell 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.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into the following measurement category:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

During the Track Record Period, the Group only held trade and other receivables, which were classified as debt instruments and measured at amortized cost.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize 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.

2.12 Impairment of financial assets carried at amortized cost

The Group's significant financial assets, which are subject to the new expected credit loss model, include trade receivables and other receivables. The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

2.12.1 Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and requires expected lifetime losses to be recognized from initial recognition of the receivables. See Note 3.1(b) for details of the impairment policy of trade receivables.

2.12.2 Other receivables and amounts due from related parties

For other receivables and amounts due from related parties, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is close to zero.

2.13 Contract assets and liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognized as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognized as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

2.14 Cash and cash equivalents

In the consolidated cash flow statements, cash and cash equivalents includes cash in hand, deposits held at call with banks and other financial institutions and short-term bank deposits with original maturities of three months or less.

2.15 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.

2.16 Accruals and other payables

Accruals and other payables and amounts due to related parties are classified as current liabilities if payment is due within one year or less (or within the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Other payables and amounts due to related parties are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of comprehensive income over the year of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

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 year.

2.18 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 capitalization.

All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized 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 and its subsidiaries 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 recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized 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 realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, 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 utilized.

(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 taxes 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.

2.20 Employee benefits

(a) Pension obligations

The entities within the Group registered in the PRC make employee benefit contributions base on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organized by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligation 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 in limited to the contributions payable in each year. The non-PRC employees are not covered by the housing funds.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2.21 *Provisions*

Provisions are recognized 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 recognized 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 recognized 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 recognized as interest expense.

2.22 *Revenue recognition*

Revenue represents tuition fees and boarding fees from provision of service by the universities of the Group.

Tuition and boarding fees are generally received in advance prior to the beginning of each academic year, and are initially recorded as contract liabilities. Control of the tuition service and accommodation service are transferred over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Therefore, tuition fees and boarding fees are recognized proportionately over each school year. The portion of tuition and boarding payments received from students but not yet earned is recorded as contract liabilities. Amounts which will be earned within one year is reflected as a current liability, and those which will be earned beyond one year is reflected as a non-current liability.

Rental income of property leasing under operating leases is recognized on a straight-line basis over the lease terms.

2.23 *Government grant*

Grants from the government are recognized 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 recognized in the consolidated statements of comprehensive income over the year necessary to match them with the costs that they are intended to compensate.

2.24 *Financial guarantee contracts*

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

2.25 Operating 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 lesser) are charged to the consolidated statements of comprehensive income on a straight-line basis over the year of the lease.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the year in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The overall risk management program of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates in the PRC with most transactions being settled in RMB, which is the functional currency of the group companies. The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

Other than accruals of RMB858,000 and RMB84,000 as at August 31, 2017 and 2019, respectively, which were denominated in HK$ or US$, and cash and cash equivalents of RMB1,430,000 and RMB749,000 as at August 31, 2018 and 2019, respectively, which were denominated in HK$ or US$, the Group had no other material foreign currency denominated assets and liabilities. As at August 31, 2017, 2018 and 2019, the Group did not have any significant foreign exchange risk.

(ii) Cash flow and fair value interests rate risk

The Group's interest rate risk arises from bank deposits and borrowings. Borrowings obtained at floating rates expose the Group to cash flow interest rate risk which is partially offset by cash at bank with floating interest rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. During the Track Record Period, all of the Group's borrowings bore interest at floating rates.

Bank deposits carried at prevailing market interest rate expose the Group to cash flow interest rate risk. The Group closely monitors trend of interest rate and its impact on the Group's interest rate risk exposure. The Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

As at August 31, 2017, 2018 and 2019, if the interest rates on the borrowings 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 RMB4,999,000, RMB4,279,000 and RMB5,397,000 lower/ higher, respectively.

The Group monitor interest rate fluctuation to ensure that exposure to interest rate risk is within an acceptable level.

(b) Credit risk

The Group's maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, trade and other receivables and amounts due from related parties.

At August 31, 2017, 2018 and 2019, substantially all of the Group's bank deposits were deposited with major financial institutions incorporated in the PRC, which management believes are of high credit quality without significant credit risk.

The Group have no significant concentrations of credit risk. The Group assessed the credit quality of the counter parties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The Directors are of the opinion that the risk of default by counter parties is low.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. It considers available reasonable and supportive forwarding-looking information.

The general expected credit loss model as summarized below:

The financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3". The expected credit loss is measured on lifetime basis.

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and requires expected lifetime losses to be recognized from initial recognition of the receivables.

The loss allowance of trade receivables was determined as follows:

Track Record Period	Less than 1 year	1 to 2 years	2 to 3 years
Expected loss rate	0.2%	25%	50%

The Group assessed the loss allowance of trade receivables based on an assessment of the expected credit losses to be incurred, including an assessment of the historical collection rate and forward looking adjustments when applicable.

Management has closely monitored the credit qualities and the collectability of these receivables and consider that the expected credit risks of them are minimal in view of the history of cooperation with them and forward looking information. Trade receivables were mainly tuition and boarding fees receivables. The loss allowance provision for these balances was not material and no provision was recorded during the Track Record Period.

The expected credit loss rate of trade receivables due from third parties remained stable throughout the Track Record Period due to the following reasons:

- trade receivables due from third parties as at August 31, 2017, 2018 and 2019 were mainly tuition fees and boarding fees receivables due from students. The historical loss rate of trade receivables due from students remained stable throughout the Track Record Period;

- management consistently applied the same policies and procedures on collection of tuition fees and boarding fees;

- management's expectation of future economic environment and risk of default stay stable throughout the Track Record Period.

The Directors are of the view that the industrial characteristics factors with regard to trade receivables collections have been taken into accounts in the assessment on the expected credit loss rate throughout the Track Record Period.

(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 borrowings from financial institutions. At the end of the reporting period, the Group held call deposits of RMB453,576,000 that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines. As at the date of this report, the Group has successfully obtained certain long-term bank facilities totaling RMB1,053,696,000 to cope with the planned capital expenditures. The Group will consider to obtain more banking facilities when the shortfall of working capital is expected.

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining year at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at August 31, 2017					
Bank borrowings (principal plus interests)	195,590	134,990	385,649	525,493	1,241,722
Accruals and other payables (excluding non-financial liabilities)	215,516	-	-	-	215,516
Amounts due to related parties	310,419	-	519,650	-	830,069
Total	721,525	134,990	905,299	525,493	2,287,307
As at August 31, 2018					
Bank borrowings (principal plus interests)	133,328	129,186	414,412	362,574	1,039,500
Accruals and other payables (excluding non-financial liabilities)	113,110	-	102,775	-	215,885
Amounts due to related parties	119,633	519,255	-	-	638,888
Total	366,071	648,441	517,187	362,574	1,894,273
As at August 31, 2019					
Bank borrowings (principal plus interests)	59,214	198,322	754,119	281,635	1,293,290
Accruals and other payables (excluding non-financial liabilities)	151,520	160,169	-	-	311,689
Amounts due to related parties	623,462	48,416	-	-	671,878
Total	834,196	406,907	754,119	281,635	2,276,857

3.2 Capital management

The Group's 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt (including external borrowings and amounts due to related parties as shown in the consolidated balance sheet) divided by total equity.

The gearing ratios as at August 31, 2017, 2018 and 2019 were as follows:

	As at August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Total debt	1,769,311	1,455,937	1,724,569
Total equity	864,510	1,357,837	1,580,900
Gearing ratio	204.7%	107.2%	109.1%

The increase in the gearing ratio as at August 31, 2019 resulted primarily from additional external borrowings made by the Group during the year ended August 31, 2019. The decrease in the gearing ratio as at August 31, 2018 resulted primarily from the capital injection from the Owner and the repayment of borrowings.

3.3 Fair value estimation

Financial instruments carried at fair value or where fair value was disclosed can be categorized by levels of the inputs to valuation techniques used to measure fair value. The inputs are categorized 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).

See Note 15 for disclosures of the investment properties that are measured at fair value.

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and other receivables and amounts due from related parties and financial liabilities including accruals and other payables, amounts due to related parties, and current borrowings, approximate their fair values due to their short maturities. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The carrying amount of the Group's non-current amounts due to related parties also approximate their fair values because they are recognized by taking into account the imputed interest rates.

4 Critical accounting estimates and judgments

Estimates and judgments 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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions 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 PRC Operating Entities and Huali Investment 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 PRC Operating Entities and Huali Investment. The Directors assessed whether or not the Group has control over the PRC Operating Entities and Huali Investment by assessing whether it has the rights to variable returns from its involvement with the PRC Operating Entities and Huali Investment and has the ability to affect those returns through its power over the PRC Operating Entities and Huali Investment. After assessment, the Directors concluded that the Group has control over the PRC Operating Entities and Huali Investment as a result of the Contractual Arrangements and accordingly the financial position and the operating results of the PRC Operating Entities and Huali Investment are included in the Group's consolidated financial statements throughout the Track Record Periods or since the respective dates of incorporation/establishment, whichever is the shorter period. Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operating Entities and Huali Investment and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Operating Entities and Huali Investment. The Directors, based on the advice of its PRC legal counsel, consider that the Contractual Arrangements with the PRC Operating Entities and Huali Investment and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Income taxes and deferred taxation

According to the Implementation Rules for the Law for Promoting Private Education ("Implementing Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. However, as of the date of this report, no separate policies, regulations or rules have been introduced by the authorities in this regard. Based on the historical tax returns filed to the relevant tax authorities, the PRC Operating Entities have historically enjoyed preferential tax treatment since their establishment.

Significant judgment is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the year that such determination is made.

(c) Useful lives and residual values of property, plant and equipment

Management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realization of economic benefits from property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. If there are significant changes from previously estimated useful lives and residual values, the amount of depreciation expenses may change.

(d) Fair value of investment properties

Some of the Group's assets are measured at fair value for financial reporting purposes. The board of directors of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. When level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The fair value of investment properties is determined by using valuation technique. Details of the judgment and assumptions have been disclosed in Note 15.

5 Segment information

The Group is principally engaged in provision of private tertiary education and ancillary services in the PRC. The Group's CODM has been identified as the chief executive officer who considers the business from the service perspective.

Information reported to the CODM, for the purpose of resource allocation and assessment of segment performance, is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment. CODM assesses the performance of the reportable segment based on the revenue and gross profit for the year of the Group as presented in the consolidated statements of comprehensive income. The accounting policies of the reportable segment are the same as the Group's accounting policies described in Note 2. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

Revenues during the Track Record Period are as follows:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Recognized over time			
- Tuition fees	538,505	565,738	629,721
- Boarding fees	39,663	42,270	45,079
	578,168	608,008	674,800

Tuition fees and boarding fees are recognized proportionately over each school year. No customers individually accounted for more than 10% of the Group's revenue during the Track Record Period.

6 Other income

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Rental income (Note a)	1,240	7,598	7,550
Government subsidies (Note b)	7,755	3,150	3,151
	8,995	10,748	10,701

(a) During the year ended August 31, 2017, rental income mainly comprised income from leasing of certain space to signal stations of telecommunication companies. During the years ended August 31, 2018 and 2019, rental income mainly comprised income from the Group's investment properties, which were leased to a related party (Note 30(b)) and income from leasing of certain space to signal stations of telecommunication companies.

(b) Government subsidies mainly represent unconditional subsidies from government for school operations.

7 Other gains – net

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Fair value gains on investment properties (Note 15)	4,100	8,800	3,200
Loss on disposals of property, plant and equipment	-	-	(1,746)
Investment loss on put option (Note a)	-	-	(1,500)
Others	477	723	1,637
	4,577	9,523	1,591

(a) In June 2019, the Group entered into a put option agreement with contractual term of 2 months at a consideration of RMB1,500,000 with a financial institution, which enabled the Group to sell HK$500,000,000 in return for RMB at the exchange rate of HK$1 vs RMB0.78 on the expiry date. The Group has not exercised such put option upon expiry in August 2019, and recognized an investment loss of RMB1,500,000.

8 Expenses by nature

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Employee benefit expenses (Note 9)	112,579	127,771	153,432
Depreciation of property, plant and equipment (Note 14)	60,449	63,137	65,348
Joint tuition support fee (Note a)	41,741	42,088	55,010
Amortization of land use rights (Note 13)	30,100	30,100	31,826
Property management fee	15,976	14,887	16,268
Utilities expenses	15,116	15,754	16,248
School consumables	12,266	11,902	14,218
Listing expenses	5,133	6,910	10,661
Promotion expenses	5,067	5,259	9,522
Travel and entertainment expenses	14,140	9,552	9,456
Office expenses	8,210	10,209	8,903
Equipment maintenance fee	4,460	4,425	3,961
Training expenses	2,314	2,465	3,159
Amortization of intangible assets (Note 16)	925	1,087	1,428
Other taxes	1,572	1,605	975
Auditors' remuneration			
- Audit services	30	77	64
Other expenses	9,859	10,826	13,653
Total cost of sales, selling expenses and administrative expenses	339,937	358,054	414,132

(a) Huali Investment entered into an agreement of Cooperation with Guangdong University of Technology, a third party, under which the Group would pay joint tuition support fees to Guangdong University of Technology in each academic year based on 17% of the tuition income of one of the PRC Operating Entities. Such fee has been charged to "cost of sales" in the consolidated statements of comprehensive income.

9 Employee benefit expenses

	Year ended August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	100,962	114,855	136,448
Contribution to pension plan	4,412	5,121	6,937
Welfare and other expenses	7,205	7,795	10,047
	112,579	127,771	153,432

Employee benefit expenses were charged to the consolidated statements of comprehensive income during the Track Record Period as follows:

	Year ended August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost of sales	77,090	88,182	99,688
Administrative expenses	32,633	36,545	50,007
Selling expenses	2,856	3,044	3,737
	112,579	127,771	153,432

(a) Benefits and interests of Directors

Mr. Zhang Zhifeng was appointed as an executive director of the Company on May 24, 2016, Mr. Ye Yaming and Mr. Dong Xiaolin were appointed as executive directors of the Company on December 18, 2017.

Mr. Zhang Yude was appointed as a non-executive director of the Company on December 18, 2017. Mr. Chow Kwong Fai, Edward, J.P., Mr. Yang Ying and Mr. Ding Yi were appointed as the Company's independent non-executive directors on August 16, 2019. During the years ended August 31, 2017, 2018 and 2019, the independent non-executive directors had not been appointed and therefore did not receive any emoluments from the Group and related parties of the Group in their capacity as the Company's directors.

Mr. Zhang Yude received emoluments totaling RMB887,000, RMB477,000 and RMB560,000 during the years ended August 31, 2017, 2018 and 2019, respectively, from certain related parties of the Group as Mr. Zhang Yude was also management of those related parties during the Track Record Period. No emoluments of Mr. Zhang Yude were recharged or apportioned to the Group as the Directors considered it was impractical to do so.

The remuneration of each director (in their role as senior management and employee before their appointment as directors) borne by the Group for the year ended August 31, 2017 is set out below:

Name	Basic salaries	Discretionary bonuses	Contributions to pension plans	Welfare, medical and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Zhang Zhifeng	3,130	-	12	79	3,221
Mr. Ye Yaming	197	-	12	4	213
Mr. Dong Xiaolin	197	-	-	5	202
	3,524	-	24	88	3,636

The remuneration of each director (in their role as senior management and employee before their appointment as directors) borne by the Group for the year ended August 31, 2018 is set out below:

Name	Basic salaries	Discretionary bonuses	Contributions to pension plans	Welfare, medical and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Zhang Zhifeng	4,230	-	14	77	4,321
Mr. Ye Yaming	1,670	-	13	5	1,688
Mr. Dong Xiaolin	821	-	-	4	825
	6,721	-	27	86	6,834
Non-Executive Directors					
Mr. Zhang Yude	62	-	-	-	62
	6,783	-	27	86	6,896

The remuneration of each director borne by the Group for the year ended August 31, 2019 is set out below:

Name	Basic salaries	Discretionary bonuses	Contributions to pension plans	Welfare, medical and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Zhang Zhifeng	2,313	-	14	145	2,472
Mr. Ye Yaming	1,864	-	14	30	1,908
Mr. Dong Xiaolin	819	-	-	4	823
	4,996	-	28	179	5,203
Non-executive Directors					
Mr. Zhang Yude	561	-	-	-	561
	5,557	-	28	179	5,764

(i) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertakings during the Track Record Period.

(ii) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the Track Record Period.

(iii) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company during the Track Record Period.

(iv) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

Other than those disclosed in Note 30(c), there are no loans, quasi-loans and other dealings in favor of directors, controlled body corporate by and connected entities with such directors during the Track Record Period.

(v) Directors' material interests in transactions, arrangements or contracts

Other than those as disclosed in Note 30(c), there are no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest directly or indirectly, subsisted at the end of the year or at any time during the Track Record Period.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 2, 3, 3 directors whose emoluments are reflected in the analysis presented in Note 9(a) for each of the years ended August 31, 2017, 2018 and 2019 respectively. Detail of the remunerations of the remaining highest paid non-director individuals during the Track Record Period are set out as below:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Wages, salaries and bonuses	1,265	1,728	2,193
Contribution to pension plan	11	27	44
Welfare and other expenses	77	77	104
	1,353	1,832	2,341

The emoluments of the highest paid non-director individuals fell within the following bands:

	Year ended August 31,		
	2017	2018	2019
Emolument bands			
Nil – HK$1,000,000	3	2	-
HK$1,000,000 – HK$2,000,000	-	-	2
	3	2	2

During the Track Record Period, 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.

10 Finance expenses – net

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Finance expenses:			
- Interest expenses on discount of amount due to a related party (Note 30(d))	6,977	21,807	22,855
- Interest expenses on bank borrowings	51,151	51,674	56,870
Less: borrowing costs capitalized in property, plant and equipment (Note a)	-	(2,350)	(32,910)
	58,128	71,131	46,815
Finance income:			
- Bank interest income	(1,013)	(1,018)	(868)
Net finance expenses	57,115	70,113	45,947

(a) The capitalization rate used to determine the amount of borrowing costs to be capitalized is the interest rate applicable to the entity's borrowings for construction in progress during the year. The capitalization rates were 5.89% and 5.65% for the years ended August 31, 2018 and 2019 respectively.

11 Income tax expenses

(a) Cayman Islands profits tax

The Company and its direct subsidiary were incorporated in the Cayman Islands as exempted companies with limited liability under the Companies Law of the Cayman Islands and accordingly, are exempted from income tax.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax was provided as the Group did not have assessable profits in Hong Kong during the Track Record Period.

(c) PRC corporate income tax ("CIT")

The corporate income tax rate applicable to the Group entities located in the Mainland China (the "PRC entities") is 25% according to the Corporate Income Tax Law of the People's Republic of China effective on January 1, 2008.

According to the Implementation Rules for the Law for Promoting Private Education ("Implementing Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Despite the fact that no separate policies, regulations or rules have been introduced by the authorities during the Track Record Period and up to date of this report, based on the historical tax returns filed to the relevant tax authorities, the colleges within the Group have historically enjoyed preferential tax treatment since their establishment.

Management considers that no corporate income tax would be imposed by the local tax bureau on the income from provision of formal educational services based on the PRC relevant tax regulation. As a result, no income tax expense was recognized for the income from the provision of educational services in respect of Huali College, Huali Vocational College and Huali Technician College during the Track Record Period.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated in the periods subsequent to January 1, 2008.

(d) United States of America ("USA") corporate income tax

No provision for USA corporate income tax was provided as the Group did not have assessable profits in USA during the Track Record Period.

Analysis of the Group's Income tax expense:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Current tax on profits for the year (Note i)	571	3,051	1,770
Deferred income tax (Note ii)	1,025	3,734	2,180
	1,596	6,785	3,950

(i) Current tax on profits for the year mainly represent tax imposed on joint tuition income from two universities and other taxable subsidies.

(ii) Deferred income tax mainly represents tax on the revaluation gains of investment properties and temporary differences on the recognition of rental income.

(iii) After the contractual agreements became effective, as at August 31, 2017, 2018 and 2019, deferred income tax liabilities of RMB139,712,000, RMB176,079,000 and RMB231,164,000 have not been recognized for the withholding tax and CIT that would be payable on the unremitted earnings amounting to RMB771,886,000, RMB972,812,000 and RMB1,216,652,000 of the PRC Operating Entities, respectively. Such earnings are expected to be retained by the PRC Operating Entities for reinvestment purposes and would not be remitted to the school sponsor or charged as service income by XZ Huali through the contractual agreements in the foreseeable future based on management's estimation of overseas funding requirements.

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 August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Profit before income tax	194,688	200,112	227,013
Calculated at applicable corporate income tax rate	49,955	52,046	59,302
Exemption of corporate income tax for income from formal educational services	(48,359)	(45,261)	(55,352)
	1,596	6,785	3,950

12 Earnings per share

(a) Basic

The basic earnings per share is calculated on the profit attributable to owner of the Company by the weighted average number of ordinary shares in issue during the Track Record Period. In determining the weighted average number of ordinary shares in issue, the subdivision of the Company's shares from 50,000 shares of US$1 each to 500,000,000 shares of US$0.0001 each (see Note 21) were deemed to be effective since September 1, 2016. Earnings per share has not taken into account the capitalization issue of 400,000,000 shares pursuant to the written resolution passed by the shareholders on November 5, 2019 as the capitalization issue will not become effective until upon the Listing.

	Year ended August 31,		
	2017	**2018**	**2019**
Profit attributable to owner of the Company (RMB'000)	193,092	193,327	223,063
Weighted average number of ordinary shares in issue ('000)	500,000	500,000	500,000
Basic earnings per share (expressed in RMB)	0.386	0.387	0.446

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the Track Record Period.

13 Land use rights

The Group's interests in land use rights represent consideration paid or payable for obtaining the use rights of the land located in the PRC and which were held on leases from 29 to 50 years.

	As at August 31,		
	2017 RMB'000	**2018 RMB'000**	**2019 RMB'000**
As at the beginning of the year			
Cost	1,109,669	1,109,669	1,109,669
Accumulated amortization	(77,417)	(107,517)	(137,617)
Net book amount	1,032,252	1,002,152	972,052
Opening net book amount	1,032,252	1,002,152	972,052
Addition (Note (b))	-	-	155,784
Amortization	(30,100)	(30,100)	(31,826)
Closing net book amount	1,002,152	972,052	1,096,010
As at the end of the year			
Cost	1,109,669	1,109,669	1,265,453
Accumulated amortization	(107,517)	(137,617)	(169,443)
Net book amount	1,002,152	972,052	1,096,010

(a) Pursuant to an asset acquisition agreement signed in April 2017, the legal titles of the land use rights which were previously legally owned by a related party, Hualiyuan Technology, which was under the control of the Owner, were transferred to the Group. The land use rights had been included in the Historical Financial Information at their carrying value as if they had been consolidated in the Group throughout the Track Record Period as the Directors consider that the land use rights were in possession and used by the Group during the Track Record Period and formed an integral part of the Listing Business.

(b) Pursuant to an agreement dated January 10, 2019, the Group acquired certain land use rights in Jiangmen, the PRC, at a consideration of RMB148,939,000 including related taxes and surcharge from an independent third party. As at August 31, 2019, the Group has obtained the legal titles of these assets.

Besides, the Group paid an additional land transfer fee amounting to RMB6,845,000 to increase the plot ratio for an expansion project of its existing school in Zengcheng, the PRC.

(c) Amortization of the Group's land use rights has been charged to cost of sales in the consolidated statements of comprehensive income.

14 Property, plant and equipment

	Buildings	Electronic equipment	Furniture and fixtures	Vehicles	Interior decoration	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended August 31, 2017							
Opening net book amount	1,388,325	33,926	18,592	4,141	8,089	1,351	1,454,424
Additions	-	15,210	5,659	2,822	3,732	73,657	101,080
Transfers	3,176	-	-	-	-	(3,176)	-
Depreciation charge	(39,784)	(9,580)	(5,755)	(922)	(4,408)	-	(60,449)
Closing net book amount	1,351,717	39,556	18,496	6,041	7,413	71,832	1,495,055
As at August 31, 2017							
Cost	1,484,083	117,142	48,812	11,033	22,319	71,832	1,755,221
Accumulated depreciation	(132,366)	(77,586)	(30,316)	(4,992)	(14,906)	-	(260,166)
Net book amount	1,351,717	39,556	18,496	6,041	7,413	71,832	1,495,055
Year ended August 31, 2018							
Opening net book amount	1,351,717	39,556	18,496	6,041	7,413	71,832	1,495,055
Additions	3,758	14,168	12,486	1,027	3,852	399,105	434,396
Transfers	71,687	-	-	-	-	(71,687)	-
Depreciation charge	(41,311)	(10,560)	(5,635)	(1,104)	(4,527)	-	(63,137)
Closing net book amount	1,385,851	43,164	25,347	5,964	6,738	399,250	1,866,314
As at August 31, 2018							
Cost	1,559,528	131,310	61,298	12,060	26,171	399,250	2,189,617
Accumulated depreciation	(173,677)	(88,146)	(35,951)	(6,096)	(19,433)	-	(323,303)
Net book amount	1,385,851	43,164	25,347	5,964	6,738	399,250	1,866,314
Year ended August 31, 2019							
Opening net book amount	1,385,851	43,164	25,347	5,964	6,738	399,250	1,866,314
Additions	-	17,634	8,350	593	-	772,706	799,283
Transfers	384,756	-	-	-	24,357	(409,113)	-
Disposals	(1,746)	-	-	-	-	-	(1,746)
Depreciation charge	(41,581)	(11,041)	(5,455)	(1,121)	(6,150)	-	(65,348)
Closing net book amount	1,727,280	49,757	28,242	5,436	24,945	762,843	2,598,503
As at August 31, 2019							
Cost	1,942,502	148,944	69,648	12,653	50,528	762,843	2,987,118
Accumulated depreciation	(215,222)	(99,187)	(41,406)	(7,217)	(25,583)	-	(388,615)
Net book amount	1,727,280	49,757	28,242	5,436	24,945	762,843	2,598,503

Depreciation charges were included in the following categories in the consolidated statements of comprehensive income:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Cost of sales	53,419	56,156	59,011
Administrative expenses	7,003	6,970	6,326
Selling expenses	27	11	11
	60,449	63,137	65,348

Construction-in-progress mainly comprises buildings under construction in the PRC.

(a) Pursuant to an asset acquisition agreement signed in April 2017, the legal titles of certain buildings which were previously legally owned by a related party, Hualiyuan Technology, which was under the control of the Owner, were transferred to the Group. These buildings had been included in the Historical Financial Information at their carrying value throughout the Track Record Period, as the Directors consider that these buildings were in possession and used by the Group during the Track Record Period and formed an integral part of the Listing Business.

(b) As at August 31, 2019, the Group's buildings with net book value of RMB599,627,000 were in the process of applying for ownership certificate.

15 Investment properties

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
At fair value			
Opening net book amount	116,100	120,200	129,000
Revaluation recognized as other gains	4,100	8,800	3,200
Closing net book amount	120,200	129,000	132,200
Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year, under 'other gains – net'	4,100	8,800	3,200

(a) As at August 31, 2017, 2018 and 2019, investment properties of the Group comprised land and buildings for a primary school and ancillary facilities.

(b) Pursuant to an asset acquisition agreement signed in April 2017, the legal titles of the investment properties which were previously legally owned by a related party, Hualiyuan Technology, which was under the control of the Owner, were transferred to the Group. The investment properties had been included in the Historical Financial Information at their carrying value throughout the Track Record Period, as the Directors consider that these investment properties were in possession by the Group during the Track Record Period and formed an integral part of the Listing Business.

(c) All of the Group's investment properties were leased to a related party and the Group started to receive rental income from the related party since the year ended August 31, 2018 (Note 30 (b)).

(d) Fair value hierarchy

As at August 31, 2017, 2018 and 2019, an independent valuation of the Group's investment properties was performed by an independent professional qualified valuer to determine the fair values of the investment properties.

As at August 31, 2017, 2018 and 2019, all of the Group's investment properties were within level 3 of the fair value hierarchy as the valuations were arrived at by reference to certain significant unobservable inputs. There were no transfers between levels 1, 2 and 3 during the Track Record Period.

(e) Valuation processes of the Group

The Group's investment properties were valued as at August 31, 2017, 2018 and 2019 by an independent qualified valuer.

A team from the Group's finance department reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the Chief Financial Officer (the "CFO"). Discussions of valuation processes and results are held between the CFO, the finance team and valuer at least once a year.

(f) Valuation techniques

Investment properties in use: Income approach which takes into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield, to derive at the market value.

(g) Information about fair value measurements using significant unobservable inputs (level 3):

Property category	Description	Fair value at August 31, 2017	Valuation techniques	Unobservable inputs	Unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Primary School and ancillary facilities	RMB 120,200,000	Income approach	Market rents (RMB/sq. m./ month)	18.19	The higher the market rents, the higher the fair value

Property category	Description	Fair value at August 31, 2018	Valuation techniques	Unobservable inputs	Unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Primary School and ancillary facilities	RMB 129,000,000	Income approach	Market rents (RMB/sq. m./ month)	20.12	The higher the market rents, the higher the fair value

Property category	Description	Fair value at August 31, 2019	Valuation techniques	Unobservable inputs	Unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Primary School and ancillary facilities	RMB 132,200,000	Income approach	Market rents (RMB/sq. m./ month)	20.48	The higher the market rents, the higher the fair value

16 Intangible assets

	Computer software
	RMB'000
Year ended August 31, 2017	
Opening net book amount	2,448
Additions	663
Amortization charge	(925)
Closing net book amount	2,186

	Computer software
	RMB'000
As at August 31, 2017	
Cost	7,790
Accumulated amortization	(5,604)
Net book amount	2,186
Year ended August 31, 2018	
Opening net book amount	2,186
Additions	2,196
Amortization charge	(1,087)
Closing net book amount	3,295
As at August 31, 2018	
Cost	9,986
Accumulated amortization	(6,691)
Net book amount	3,295
Year ended August 31, 2019	
Opening net book amount	3,295
Additions	4,608
Amortization charge	(1,428)
Closing net book amount	6,475
As at August 31, 2019	
Cost	14,594
Accumulated amortization	(8,119)
Net book amount	6,475

Amortization of the intangible assets has been charged to cost of sales in the consolidated statements of comprehensive income.

17 Financial instruments by category – Group and Company

The Group

	Financial assets at amortized cost
	RMB'000
As at August 31, 2017	
Assets as per consolidated balance sheet	
Amounts due from related parties	71,950
Trade and other receivables	14,116
Cash and cash equivalents	648,342
	734,408

	Financial liabilities at amortized cost
	RMB'000
As at August 31, 2017	
Liabilities as per consolidated balance sheet	
Borrowings	999,800
Amounts due to related parties	769,511
Accruals and other payables (excluding non-financial liabilities)	217,257
	1,986,568

	Financial assets at amortized cost
	RMB'000
As at August 31, 2018	
Assets as per consolidated balance sheet	
Amounts due from related parties	60
Trade and other receivables	13,417
Cash and cash equivalents	623,661
	637,138

	Financial liabilities at amortized cost
	RMB'000
As at August 31, 2018	
Liabilities as per consolidated balance sheet	
Borrowings	855,800
Amounts due to related parties	600,137
Accruals and other payables (excluding non-financial liabilities)	207,295
	1,663,232

	Financial assets at amortized cost
	RMB'000
As at August 31, 2019	
Assets as per consolidated balance sheet	
Amounts due from related parties	6,779
Trade and other receivables	12,472
Cash and cash equivalents	453,576
	472,827

	Financial liabilities at amortized cost
	RMB'000
As at August 31, 2019	
Liabilities as per consolidated balance sheet	
Borrowings	1,079,304
Amounts due to related parties	645,265
Accruals and other payables (excluding non-financial liabilities)	304,913
	2,029,482

The Company

	Financial assets at amortized cost
	RMB'000
As at August 31, 2017	
Assets as per balance sheet of the Company	
Amounts due from a related party	327

	Financial liabilities at amortized cost
	RMB'000
As at August 31, 2017	
Liabilities as per balance sheet of the Company	
Amounts due to subsidiaries	5,910
Accruals and other payables (excluding non-financial liabilities)	6,966
	12,876

	Financial assets at amortized cost
	RMB'000
As at August 31, 2018	
Assets as per balance sheet of the Company	
Cash and cash equivalents	330

	Financial liabilities at amortized cost
	RMB'000
As at August 31, 2018	
Liabilities as per balance sheet of the Company	
Amounts due to subsidiaries	25,002
Accruals and other payables (excluding non-financial liabilities)	3,487
	28,489

	Financial assets at amortized cost
	RMB'000
As at August 31, 2019	
Assets as per balance sheet of the Company	
Cash and cash equivalents	14

	Financial liabilities at amortized cost
	RMB'000
As at August 31, 2019	
Liabilities as per balance sheet of the Company	
Amounts due to subsidiaries	45,068
Accruals and other payables (excluding non-financial liabilities)	1,739
	46,807

18 Prepayments - Group and Company

The Group

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Prepayments for purchase and construction of property, plant and equipment	16,464	10,404	14,087
Prepaid listing expenses	2,921	4,271	6,480
Others	197	271	248
	19,582	14,946	20,815
Less: non-current portion of prepayments	(16,464)	(10,404)	(14,087)
	3,118	4,542	6,728

The Company

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Prepaid listing expenses	2,921	4,271	6,480

19 Trade and other receivables – Group and Company

The Group

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Trade receivables			
- Tuition fees receivables from students	4,771	2,745	1,303
- Boarding fees receivables from students	104	28	18
	4,875	2,773	1,321
Other receivables			
- Deposits	651	6,612	7,139
- Tuition fees receivables from financial institution	5,521	3,043	1,406
- Staff advance	290	284	154
- Others	2,779	705	2,452
	9,241	10,644	11,151
	14,116	13,417	12,472

As at August 31, 2017, 2018 and 2019, the aging analysis of the trade receivables based on the recognition date is as follows:

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	3,785	1,338	1,202
1 to 2 years	1,081	1,319	119
2 to 3 years	9	116	-
	4,875	2,773	1,321

The Group's trade and other receivables at respective balance sheet dates are denominated in RMB.

As at August 31, 2017, 2018 and 2019, the Group's maximum exposure to credit risk was the carrying value of each class of trade and other receivables mentioned above. The Group does not hold any other collateral as security.

As at August 31, 2017, 2018 and 2019, the fair values of trade and other receivables approximate their carrying amounts.

The Company

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Amounts due from a related party	327	-	-

20 Cash and cash equivalents

	As at August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash at banks	639,013	620,648	452,238
Cash on hand	297	313	213
Cash at non-bank financial institutions	9,032	2,700	1,125
	648,342	623,661	453,576

Cash and cash equivalents of the Group are denominated in the following currencies:

	As at August 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
RMB	648,342	622,231	452,827
HK$	-	1,089	536
US$	-	341	213
	648,342	623,661	453,576

(a) The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) As at August 31, 2017, 2018 and 2019, the Group's maximum exposure to credit risk was the carrying value of cash at banks and cash at non-bank financial institutions mentioned above.

21 Share capital

	Number of ordinary shares	Nominal value of ordinary shares
		US$
Authorized shares at September 1, 2016, August 31, 2017 and 2018 – US$1 each	50,000	50,000
Subdivision of shares (Note (b))	499,950,000	-
Increase in authorized share capital (Note (b))	1,500,000,000	150,000
At August 31, 2019 – US$0.0001 each	2,000,000,000	200,000

	Number of ordinary shares	Equivalent nominal value of ordinary shares
		RMB'000
Issued:		
Issuance of shares upon incorporation of the Company (Note (a))	50,000	327
As at September 1, 2016, August 31, 2017 and 2018	50,000	327
Subdivision of shares (Note (b))	499,950,000	-
As at August 31, 2019	500,000,000	327

(a) The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on May 24, 2016 with an authorized share capital of US$50,000 divided into 50,000 shares of par value of US$1 each.

(b) Pursuant to two written resolutions of the shareholder,

(i) the authorized share capital of the Company was increased from US$50,000 divided into 50,000 shares of US$1 each to US$200,000 divided into 2,000,000,000 shares of US$0.0001 each by subdivision of one share at par value of US$1 each to 10,000 shares at par value of US$0.0001 each.

(ii) Refer to Note 31 for details of a written resolution by the shareholder regarding capitalization issue of additional shares upon the Listing.

22 Reserves and retained earnings

(a) Statutory surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries in the PRC should make appropriations from after-tax profit to certain 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 funds of foreign invested enterprise and (iii) development funds for the 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"), the PRC Subsidiaries are required to appropriate 10% of the annual statutory net profits, 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.

(ii) Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiary that is foreign investment enterprise in China has to make appropriations from its after-tax profit (as determined under the PRC accounting standards) 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 the PRC accounting standards. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the company. Appropriations to the other two reserve funds are at the discretion of the company.

(iii) According to the relevant PRC laws and regulations, private schools are required to appropriate to a development fund of not less than 25% of the net profit or the annual increase of net assets of the relevant schools as determined in accordance with the PRC accounting standards. The development fund is for the construction or maintenance of the school or procurement or upgrading of educational equipments and not available for distribution to shareholders. Upon incurring the corresponding expenditure, an equivalent amount is transferred from development fund to retained earnings.

(b) Other reserves as at September 1, 2016 mainly represented (i) the combined paid-in capital and capital reserves of the PRC Operating Entities and the Listing Business of Huali Investment now comprising the Group; and (ii) the carrying value of certain land use rights, buildings, and properties related to the Listing Business that were in possession and used by the Listing Business and deemed contributed by the Owner before the beginning of the Track Record Period.

(c) The increase of other reserves represented the additional assets contributed by the Owner during the Track Record Period.

(d) Pursuant to an asset acquisition agreement dated April 30, 2017 entered into between one of the PRC Operating Entities and Hualiyuan Technology, a company controlled and owned by the Owner, certain land use rights, buildings and investment properties were transferred from Hualiyuan Technology to the Group at a consideration of RMB732,737,000, of which RMB185,737,000 were settled by netting off the amounts due from Hualiyuan Technology, RMB27,350,000 was repayable by the end of October 2017, and RMB519,650,000 was repayable no later than April 30, 2020 (i.e. 3 years after the agreement date) which was therefore recorded as a non-current payable due to Hualiyuan Technology and initially recognized at the fair value of RMB452,115,000 at discount rate of 4.75% per annum. The fair value of the consideration of RMB665,202,000 was treated as a deemed distribution to the Owner of the listing group.

(e) Pursuant to a written resolution passed by the shareholder of Huali Investment on August 10, 2018, the Owner agreed to increase the capital of Huali Investment by RMB300,000,000. As at August 31, 2018, the capital injection was paid up by the Owner.

(f) In accordance with the principal regulations governing private education in China, a private school that does not require reasonable returns cannot distribute dividends to its sponsors. As Huali College, Huali Vocational College and Huali Technician College had elected to not require reasonable returns, the retained earnings of the PRC Operating Entities amounting to RMB771,886,000, RMB972,812,000 and RMB1,216,652,000 as at August 31, 2017, 2018 and 2019, respectively, were not distributable to its legal owner.

23 Accruals and other payables and amounts due to related parties - Group and Company

The Group

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Payable for property management service	30,883	-	5,930
Payable for joint tuition support fees (Note (a))	41,741	42,088	55,010
Government subsidies payable to students	13,770	12,589	15,555
Miscellaneous fee received from students (Note (b))	20,736	22,816	26,148
Payable for purchase of property, plant and equipment	97,797	120,259	192,180
Employee benefits payable	7,512	8,898	9,943
Other taxes payable	1,527	1,105	1,379
Listing expenses payable	6,966	3,487	1,739
Network and telecommunication fee payable	1,830	1,830	3,098
Interest payable	1,741	1,491	1,773
Others	1,793	2,735	3,480
	226,296	217,298	316,235
Less: non-current portion			
Payable for purchase of property, plant and equipment (Note (e))	-	(92,694)	(152,166)
Current portion	226,296	124,604	164,069
Amounts due to related parties (Note 30(d))			
- Current	310,419	119,633	600,788
- Non-current (Note (f))	459,092	480,504	44,477
	769,511	600,137	645,265

(a) As at August 31, 2017, 2018 and 2019, the aging analysis of the payables for joint tuition support fees was as follows:

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	41,741	42,088	55,010

(b) The amounts represent the miscellaneous fee received from students which would be paid out by the Group on behalf of students.

(c) Other than accruals of the Group of RMB858,000 and RMB84,000 as at August 31, 2017 and 2019 respectively, which were denominated in HK$ and US$, all other accruals and other payables and amounts due to related parties of the Group were denominated in RMB.

(d) As at August 31, 2017, 2018 and 2019, the fair values of accruals and other payables excluding non-current payables approximated their carrying amounts due to their short-term maturities. The fair values of amounts due to related parties as at August 31, 2017, 2018 and 2019, were estimated by discounting the future cash flows using the effective interest rate available to the Group.

(e) As at August 31, 2018 and 2019, the non-current payables were initially recognized at fair value at discount rate of 4.75% per annum and subsequently measured at amortized cost using the effective interest rate method.

(f) The amounts due to related parties were unsecured, interest-free and repayable on demand, except for 1) the payables to Hualiyuan Technology amounting to RMB547,000,000, which were repayable no later than April 30, 2020 according to an asset acquisition agreement signed in April 2017 (Note 22(d)); 2) as at August 31, 2019, the non-current portion of amounts due to related parties represented payable in respect of construction in progress to Guangzhou Gaobiao, which were repayable within 18 months upon the completion of the construction works.

The Company

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Listing expenses payable	6,966	3,487	1,739

24 Contract liabilities

The Group has recognized the following revenue-related contract liabilities:

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Contract liabilities related to tuition fees	451,840	518,908	618,432
Contract liabilities related to boarding fees	31,569	36,750	47,176
Others	623	268	425
	484,032	555,926	666,033

(a) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period related to carried-forward contract liabilities:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue recognized that was included in the balance of contract liabilities at the beginning of the year			
-Tuition fees	456,179	451,840	518,908
-Boarding fees	34,124	31,569	36,750
-Others	336	623	268
	490,639	484,032	555,926

(b) Unsatisfied contracts

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Expected to be recognized within one year			
-Tuition fees	451,840	518,908	618,432
-Boarding fees	31,569	36,750	47,176
-Others	623	268	425
	484,032	555,926	666,033

25 Borrowings

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Current:			
- Secured bank borrowings	143,800	89,800	396
Non-current:			
- Secured bank borrowings	856,000	766,000	1,078,908
Total borrowings	999,800	855,800	1,079,304

(a) As at August 31, 2017 and 2018 and 2019, bank borrowings were pledged by the equity interest of XZ Huali and the charging right of the service fees owned by XZ Huali according to the Contractual Arrangements.

(b) The weighted average effective interest rates (per annum) were as follows:

	As at August 31,		
	2017	2018	2019
Bank borrowings	6.43%	5.89%	5.65%

(c) The maturity date of the borrowing was analyzed as follows:

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	143,800	89,800	396
1 to 2 years	90,000	90,000	145,060
2 to 5 years	280,000	330,000	659,918
Over 5 years	486,000	346,000	273,930
	999,800	855,800	1,079,304

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 as they were carried at floating interest rates.

(d) As at August 31, 2017, 2018 and 2019, the Group's bank borrowings were denominated in RMB.

26 Deferred income tax liabilities

The analysis of deferred income tax liabilities is as follows:

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Deferred income tax liabilities:			
- to be recovered by more than 12 months	28,775	32,509	34,689

The movement in deferred income tax liabilities during the years, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Fair value gain of investment properties	Timing differences on recognition of rental income	Total
	RMB'000	RMB'000	RMB'000
As at September 1, 2016	27,750	-	27,750
Charged to profit or loss (Note 11)	1,025	-	1,025
Year ended August 31, 2017	28,775	-	28,775
As at September 1, 2017	28,775	-	28,775
Charged to profit or loss (Note 11)	2,200	1,534	3,734
Year ended August 31, 2018	30,975	1,534	32,509
As at September 1, 2018	30,975	1,534	32,509
Charged to profit or loss (Note 11)	800	1,380	2,180
Year ended August 31, 2019	31,775	2,914	34,689

27 Cash generated from operations

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Profit before income tax	194,688	200,112	227,013
Adjustments for:			
– Depreciation of property, plant and equipment (Note 14)	60,449	63,137	65,348
– Amortization of land use rights and intangible assets (Notes 13 and 16)	31,025	31,187	33,254
– Loss on disposals of property, plant and equipment (Note 7)	-	-	1,746
– Interest expenses on bank borrowings less borrowing costs capitalized in property, plant and equipment (Note 10)	51,151	49,324	23,960
– Interest expenses on discount of amount due to a related party (Note 10)	6,977	21,807	22,855
– Fair value gains on investment properties (Note 7)	(4,100)	(8,800)	(3,200)
Operating profit before changes in working capital:	340,190	356,767	370,976
Changes in working capital			
– Increase in amounts due from related parties	-	(60)	(6,719)
– Decrease in amounts due to related parties	(9,710)	(10,681)	-
– Prepayments	398	(74)	23
– Trade and other receivables	(8,596)	699	945
– Accruals and other payables	(48,006)	(31,210)	26,734
– Contract liabilities	(6,607)	71,894	110,107
Cash generated from operations	267,669	387,335	502,066

(a) Reconciliation of liabilities arising from financing activities

	September 1, 2016 RMB'000	Addition RMB'000	Imputed interest RMB'000	Cash flows RMB'000	August 31, 2017 RMB'000
Borrowings	743,000	-	-	256,800	999,800
Amount due to related parties	450,989	479,465	6,977	(171,822)	765,609
Liabilities from financing activities	1,193,989	479,465	6,977	84,978	1,765,409

	September 1, 2017 RMB'000	Addition RMB'000	Imputed interest RMB'000	Cash flows RMB'000	August 31, 2018 RMB'000
Borrowings	999,800	-	-	(144,000)	855,800
Amount due to related parties	765,609	-	21,807	(180,500)	606,916
Liabilities from financing activities	1,765,409	-	21,807	(324,500)	1,462,716

	September 1, 2018 RMB'000	Addition RMB'000	Imputed interest RMB'000	Cash flows RMB'000	August 31, 2019 RMB'000
Borrowings	855,800	-	-	223,504	1,079,304
Amount due to related parties	606,916	-	22,855	(33,007)	596,764
Liabilities from financing activities	1,462,716	-	22,855	190,497	1,676,068

(b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Net book amount of the property, plant and equipment disposed (Note 14)	-	-	1,746
Loss on disposal of property, plant and equipment (Note 7)	-	-	(1,746)
Proceeds from disposal of property, plant and equipment	-	-	-

28 Capital Commitments

The Group has the following capital expenditures contracted but not provided for in the Historical Financial Information.

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Property, plant and equipment	189,269	202,933	500,587

The Group has the following capital expenditures authorized but not contracted for in the Historical Financial Information.

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Property, plant and equipment	442,921	362,975	168,402

29 Operating lease commitments

(a) As lessor

The Group leased its investment properties to a related party and certain space to signal stations of telecommunication companies under operating lease arrangement, with leases negotiated for terms ranging from one to twenty years.

As at the end of each of the Track Record Period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	716	1,681	2,597
1 to 5 years	13,938	18,704	22,728
Over 5 years	114,392	108,267	101,756
	129,046	128,652	127,081

(b) As lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Less than 1 year	19	16	-
1 to 5 years	2	2	-
	21	18	-

30 Related party transactions

The ultimate holding company of the Company is HL-Diamond. The Directors consider the ultimate controlling party to be Mr. Zhang Zhifeng, who is also the executive director and chairman of the Company.

(a) Names and relationships with related parties

The following companies and individuals are related parties of the Group that had balances and/or transactions with the Group during the Track Record Period.

Name of related parties	Relationship with the Group
Mr. Zhang Zhifeng	Controlling shareholder, the Owner
Guangdong Hualiyuan Technology Company Limited ("Hualiyuan Technology") "廣東華立園科技有限公司" (Note (i))	A Company controlled by the Owner
Guangdong Huali Property Co., Ltd ("Huali Property") (Former name: Guangzhou Lingmei Investment Co., Ltd) "廣東華立地產集團有限公司" (Note(i))	A Company controlled by the Owner
Guangzhou Jinglian Miaopu Co., Ltd ("Jinglian Miaopu") "廣州市菁蓮苗圃有限公司" (Note (i))	A Company controlled by the Owner's relatives
Guangzhou Lingmei Life Service Co., Ltd ("Lingmei Life Service") "廣州領美生活服務有限公司" (Note (i))	A Company controlled by the Owner
Guangzhou Huali Property Management Co., Ltd ("Huali Property Management") "廣州華立物業管理有限公司" (Note (i))	A Company under significant influence of the Owner
Huali Bilingual School of Yunfu (Yun'an District) ("Yunfu Bilingual School") "雲浮市雲安區華立中英文學校" (Former name: 雲浮市雲安區華立中英文小學) (Note (i))	A Company controlled by the Owner
Gaobiao Construction Engineering Co., Ltd. ("Guangzhou Gaobiao") "廣州高標建築工程有限公司" (Note (i))	A Company under significant influence of the Owner

Note (i): The entities shown above do not have official English names and their Chinese names have been translated into English, for reference only, by the Directors on a best effort basis.

(b) Significant transactions with related parties

Other than those related party transactions as disclosed in elsewhere in this accountant's report, during the Track Record Period, the Group had the following other significant transactions with related parties.

(i) Related party transaction that will continue after the Listing:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Rental income			
- Yunfu Bilingual School	-	6,748	6,748

All of the Group's investment properties were leased to a related party and the Group generated rental income amounting to RMB6,748,000 and RMB6,748,000 during the years ended August 31, 2018 and 2019 respectively.

(ii) Related party transactions that will not continue after the Listing:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
i) Provision of garden landscaping services			
- Jinglian Miaopu	3,431	-	-
ii) Rental income			
- Huali Property	22	35	-
iii) Property management fees			
- Huali Property management	2,329	-	-
iv) Construction in progress incurred			
- Guangzhou Gaobiao	-	-	306,663

(c) Key management compensation

Key management compensation for the Track Record Period, other than those relating to the emoluments of directors being disclosed in Note 9, are set out below:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Wages, salaries and bonuses	1,086	2,745	3,604
Contributions to pension plans	35	53	71
Welfare, medical and other expenses	87	89	164
	1,208	2,887	3,839

(d) Balances with related parties

	As at August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Amounts due from related parties			
- Lingmei Life Service	71,623	-	-
- Mr. Zhang Zhifeng	327	-	-
- Yunfu Bilingual School	-	-	6,779
- Huali Property	-	60	-
	71,950	60	6,779
Amounts due to related parties			
- Hualiyuan Technology (i)	486,442	473,725	496,580
- Mr. Zhang Zhifeng	279,167	-	-
- Lingmei Life Service (ii)	-	126,412	93,405
- Huali Property management	3,880	-	-
- Huali Property	22	-	-
- Guangzhou Gaobiao (iii)	-	-	55,280
	769,511	600,137	645,265

(i) Pursuant to the asset acquisition agreement with Hualiyuan Technology dated April 30, 2017, the consideration payable by the Group to Hualiyuan Technology amounted to RMB547,000,000, which is non-interest bearing and unsecured (Note 22(d)), among which RMB27,350,000 is repayable by the end of October 2017 and remaining balance of RMB519,650,000 was repayable no later than April 30, 2020 (i.e. 3 years after the agreement date). The non-current portion of the payables was initially recognized at fair value at discount rate of 4.75% per annum and subsequently measured at amortized cost using the effective interest rate method. As at August 31, 2019, its amortized cost was RMB503,359,000.

As detailed in note 30(b)(i), as at August 31, 2018 and 2019, the Group has rental income receivables due from Hualiyuan Technology amounting to RMB6,779,000 and RMB6,779,000 respectively.

Other balances of amounts due from/to related parties are unsecured, interest-free.

(ii) The amounts due to Lingmei Life Service are cash advances from the related party which are non-trade nature and will be settled upon the Listing.

(iii) As at August 31, 2019, amounts due to Guangzhou Gaobiao represented payable in respect of construction in progress.

As at August 31, 2019, except for the amounts due to Lingmei Life Service and Hualiyuan Technology relating to the asset acquisition, all other balances were trade in nature and will be settled according to the contract terms.

(iv) The maximum amounts outstanding for the Track Record Period were as follows:

	Year ended August 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Maximum amounts outstanding for the amounts due from entities under the control of Mr. Zhang Zhifeng	247,624	71,950	6,779

(v) As at August 31, 2017, 2018 and 2019, the carrying amounts of the amounts due from/to related parties approximated their fair values and were denominated in RMB.

31 Subsequent events

Save as disclosed elsewhere in this report, the following significant events took place subsequent to August 31, 2019:

Pursuant to a written resolution of the shareholder passed on November 5, 2019, subject to the share premium account of the Company being credited as a result of the global offering, the Directors are authorized to allot and issue a total of 400,000,000 shares credited as fully paid at par to the existing shareholders of the Company by way of capitalization of the sum of US$40,000 standing to the credit of the share premium account of the Company.

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 August 31, 2019 and up to 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 August 31, 2019.

The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the owner of the Company as of August 31, 2019 as if the Global Offering had taken place on August 31, 2019.

This unaudited pro forma statement of adjusted 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 consolidated net tangible assets of the Group as at August 31, 2019 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at August 31, 2019 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owner of the Company as at August 31, 2019 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to owner of the Company as at August 31, 2019	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.93 per Share	1,574,425	741,700	2,316,125	1.93	2.15
Based on an Offer Price of HK$3.26 per Share	1,574,425	828,360	2,402,785	2.00	2.23

Notes:

(1) The audited consolidated net tangible assets attributable to owner of the Company as at August 31, 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owner of the Company as at August 31, 2019 of RMB1,580,900,000 with an adjustment for the intangible assets as at August 31, 2019 of RMB6,475,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$2.93 and HK$3.26 per Share after deduction of the underwriting fees and other related expenses payable by the Company (exclude those listing expenses of approximately RMB26,335,000 which have been accounted for in the consolidated statements of comprehensive income prior to August 31, 2019) and takes no account of any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,200,000,000 Shares were in issue assuming that the Capitalization Issue and the Global Offering have been completed on August 31, 2019 but takes no account of any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate.

(4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to August 31, 2019.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.8978 prevailing on November 4, 2019.

B. REPORT FROM THE REPORTING ACCOUNTANT 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.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Huali University Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Huali University Group 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 August 31, 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated November 14, 2019, 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 pages II-1 to II-2.

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 August 31, 2019 as if the proposed initial public offering had taken place at August 31, 2019. 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 August 31, 2019, 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 behavior.

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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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.

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 August 31, 2019 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 company, 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.

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, November 14, 2019

The following is the text of a letter, summary of valuations and valuation report prepared for the purpose of incorporation in this prospectus received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values of the properties of Huali University Group Limited as at September 30, 2019.

CUSHMAN & WAKEFIELD
戴德梁行

16/F
Jardine House
1 Connaught Place
Central
Hong Kong

November 14, 2019

The Directors
Huali University Group Limited
The Administration Building of
Guangzhou Huali Science and Technology Town
No. 11 Huali Road
Zengcheng District
Guangzhou
Guangdong Province
PRC

Dear Sirs,

Instruction, Purpose & Valuation Date

In accordance with your instructions for us to value the properties of Huali University Group Limited (referred to as the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC") (as more particularly described in the attached valuation report), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of market values of the properties as at September 30, 2019.

Definition of Market Value

Our valuations of each of the properties represent its Market Value which in accordance with HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors ("HKIS") 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".

Valuation Basis and Assumptions

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuation of the properties in the PRC, we have assumed that, unless otherwise stated, the transferable land use rights of the properties for their respective terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and its legal adviser, Jingtian & Gongcheng (競天公誠律師事務所) regarding the title to each of the properties and the interests of the Group in the properties. In valuing the properties, we have assumed that the Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licenses, in accordance with the information provided by the Group are set out in the notes of the valuation report.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the properties, we have assumed that the grantees or the users of the properties have free and uninterrupted rights to use or to assign the properties for the whole of the unexpired term as granted.

Method of Valuation

In valuing each of the properties which are occupied by the Group for owner-occupation in the PRC, in the absence of relevant market data to arrive at the market values of the properties by means of market-based evidence, we have valued the properties by Depreciated Replacement Cost Approach which requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are made to allow for the age, condition and functional obsolescence. The reported market values by Depreciated Replacement Cost Approach only apply to the whole of the properties as a unique interest respectively, and no piecemeal transaction of the properties is assumed. The market values are subject to adequate potential profitability of the business from the use of the properties as a whole.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKIS Valuation Standards 2017.

Sources of Information

We have been provided by the Company with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and its legal adviser regarding the title to each of the properties and the interests of the Group in the properties. We have accepted advice given by the Group on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, particulars of occupancy, construction costs, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation report are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

Title Investigation

We have been provided with extracts of documents relating to the titles of the properties in the PRC, but no searches have been made in respect of the properties. We have not searched the original document to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the advice given by the Group regarding the Group’s interests in the PRC properties.

Site Inspection

Our valuers, Mr. Andy He (13 years' experience in property valuation in the PRC, CIREA and RICS) and Mr. Leo Li (5 years' experience in property valuation in the PRC and possessing academic background in real estate valuation), inspected the exterior and, whenever possible, the interior of the properties in September 2019. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Moreover, we have not carried out investigation on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the area shown on the documents handed to us are correct.

Currency

Unless otherwise stated, all sums stated in our valuation are in Renminbi, the official currency of the PRC.

We enclose herewith a summary of our valuations and our valuation report.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: *Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 26 years' experience in the valuation of properties in the PRC.*

SUMMARY OF VALUATIONS

Properties occupied by the Group in the PRC

	Property	Market value in existing state as at September 30, 2019 *(RMB)*	Interest attributable to the Group *(%)*	Market value in existing state attributable to the Group as at September 30, 2019 *(RMB)*
1.	Huali College Guangdong University of Technology, No. 11 Huali Road, Zengcheng District, Guangzhou, Guangdong Province, the PRC 中華人民共和國廣東省 廣州市增城區華立路11號 廣東工業大學華立學院	1,847,000,000	100	1,847,000,000
2.	Guangzhou Huali Science and Technology Vocational College, No. 7 Huali Road, Zengcheng District, Guangzhou, Guangdong Province, the PRC 中華人民共和國廣東省 廣州市增城區華立路7號 廣州華立科技職業學院	1,122,000,000	100	1,122,000,000
3.	Guangzhou Huali Science and Technology Vocational College Yunfu Campus, No. 53 Yunxiang Avenue, Duyang Town, Yunfu, Guangdong Province, the PRC 中華人民共和國廣東省雲浮市 都楊鎮雲祥大道53號 廣州華立科技職業學院雲浮校區	1,544,000,000	100	1,544,000,000
4.	Industrial Development, Denggaoshi, Industrial Development District, Yamen Town, Xinhui District, Jiangmen, Guangdong Province, the PRC 中華人民共和國廣東省 江門市新會區崖門鎮 工業開發區登高石工業廠區	227,000,000	100	227,000,000
	Sub-total:	**4,740,000,000**		**4,740,000,000**

VALUATION REPORT

Properties occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2019
1. Huali College Guangdong University of Technology, No. 11 Huali Road, Zengcheng District, Guangzhou, Guangdong Province, the PRC 中華人民共和國 廣東省廣州市 增城區華立路11號 廣東工業大學華立學院	The property is developed on two parcels of land with total site area of approximately 489,960.16 sq. m. The property comprises various 2 to 10-story buildings including eight office buildings, sixteen dormitory buildings, a self-study building B1, a canteen and related ancillary facilities completed between 2003 and 2012; whilst ten buildings are under development and scheduled to be completed in 2019. The property has total gross floor area of approximately 326,023.88 sq. m. with details as follows:	As at the valuation date, the property was occupied by the Group as a college.	RMB1,847,000,000 (RENMINBI ONE BILLION EIGHT HUNDRED FORTY SEVEN MILLION) (100% interest attributable to the Group: RMB1,847,000,000)

Portion	Gross Floor Area *(sq. m.)*
Completed Portion	
Office Building	85,334.28
Dormitory Building	111,130.63
Self-study Building B1	34,236.57
Canteen	3,800.40
Under development Portion	
Dormitory Building	17,685.00
Logistics Support Building	2,187.00
Teaching Building	62,824.00
Cultural and Sports Center	8,826.00
Total:	**326,023.88**

The property is located at the east of Guangshan Highway, Zengcheng District, Guangzhou, about 5 km from the downtown of Zengcheng District. The surrounding area comprises residential developments such as Loho Town and Poly Hejing Jiahong Lingxiushan.

The land use rights of the property have been granted for a term due to expire on March 12, 2050 for education use.

Notes:

(1) According to the 21 Real Estate Title Certificates listed below, the land use rights of the property with total site area of 489,960.16 sq. m. and the building ownership of the property have been vested in Huali College Guangdong University of Technology (廣東工業大學華立學院) ("Huali College") for a term due to expire on March 12, 2050 with details as follows:

Certificate No.	Date of Issue	Use	Building	Gross Floor Area *(sq. m.)*
(2018)10200297	January 3, 2018	Office	Office Building No. 1	14,223.24
(2018)10201363	January 23, 2018	Office	Office Building No. 2	618.25
(2018)10200298	January 3, 2018	Office	Office Building No. 3	15,228.38
(2018)10201368	January 23, 2018	Office	Office Building No. 4	1,580.80
(2018)10200293	January 3, 2018	Office	Office Building No. 5	10,149.29
(2018)10201365	January 23, 2018	Office	Office Building No. 6	16,981.06
(2019)10205137	April 9, 2019	Office	Office Building No. 7	16,575.81
(2018)10201612	January 26, 2018	Office	Office Building No. 8	9,977.45
(2018)10200294	January 3, 2018	Residential	Training Building No. 2	6,211.42
(2018)10201362	January 23, 2018	Residential	Training Building No. 3	6,211.42
(2018)10201321	January 23, 2018	Residential	Training Building No. 4	6,211.42
(2018)10218731	December 20, 2018	Residential	Academic Communication Center No. 1	7,249.78
(2018)10218730	December 20, 2018	Residential	Academic Communication Center No. 2	7,249.78
(2018)10218721	December 20, 2018	Residential	Academic Communication Center No. 3	6,873.36
(2018)10218719	December 20, 2018	Residential	Academic Communication Center No. 4	6,873.36
(2018)10218729	December 20, 2018	Residential	Dormitory No. 2	6,808.03
(2018)10218726	December 20, 2018	Residential	Dormitory No. 3	6,808.03
(2018)10218722	December 20, 2018	Residential	Dormitory No. 4	6,808.03
(2018)10218718	December 20, 2018	Residential	Dormitory No. 1	6,808.03
(2018)10218715	December 20, 2018	Others	Canteen No. 1	3,800.40
(2019)10211705	September 29, 2019	Others	Block No. 46	34,002.63
			Total:	**197,249.97**

(2) According to the Planning Permit for Construction Works No. (2012)015, the construction works of Dormitory No. B9 with total gross floor area of 6,804.00 sq. m. are in compliance with the construction works requirements and has been approved.

(3) According to the 4 Planning Acceptance Certificates for Construction Works, the construction works with total gross floor area of 30,213.97 sq. m. with details as follows:

Certificate No.	Date of Issue	Building	Gross Floor Area *(sq. m.)*
(2008)344	August 29, 2008	Dormitory No. C3	7,454.02
(2008)345	August 29, 2008	Dormitory No. C4	7,454.02
(2008)442	September 28, 2008	Dormitory No. C7	7,435.54
(2008)443	September 28, 2008	Dormitory No. C8	7,870.39
		Total:	**30,213.97**

(4) According to the two Commencement Permits for Construction Works, the construction works with total gross floor area of 19,872.00 sq. m. are in compliance with the requirement of work commencement and was permitted to be developed with details as follows:

Certificate No.	Date of Issue	Building	Gross Floor Area (sq. m.)
440183201804280301	April 28, 2018	Dormitory No. D1	17,685.00
440183201804280201	April 28, 2018	Logistics Support Building Nos. 4, 5, 6 and 7	2,187.00
		Total:	**19,872.00**

(5) As advised by the Group, the total expended construction cost of five buildings with total gross floor area of 19,872.00 sq. m., as at the valuation date was approximately RMB70,000,000 whilst the total construction cost of five buildings was fully paid.

(6) According to Commencement Permit for Construction Works No. 440183201901100201, the construction works with total gross floor area of 71,650 sq. m. are in compliance with the requirement of works commencement and was permitted to be developed.

(7) As advised by the Group, the total expended construction cost of five buildings with total gross floor area of 71,650.00 sq. m., as at the valuation date was approximately RMB187,000,000 whilst the outstanding construction cost for their completion as at the valuation date was approximately RMB125,000,000.

(8) According to Private School Operating License No. 144011800000090 dated September 27, 2018, Huali College has been established as an independent college (undergraduate course) for a valid operation period of 4 years.

(9) According to Business License No. 9144010171631817X9 dated August 17, 2018, Guangzhou Huali Investment Company Limited (廣州華立投資有限公司) ("Huali Investment") was established as a limited liability company with a registered capital of RMB400,000,000.

(10) A student activity center, with gross floor area of 1,617.90 sq. m., and Canteen No. 2, with gross floor area of 5,067.30 sq. m., were constructed without any license or permit required for the planning and construction. We have therefore ascribed no commercial value to the said buildings. As advised, the Group is applying relevant construction planning permit for Canteen No. 2. For reference purpose, had valid building ownership certificate been issued, the value of Canteen No. 2 as at the valuation date would be in the sum of RMB11,000,000, excluding land element.

(11) According to the PRC legal opinion:

(i) The Real Estate Title Certificates of the property are valid and legal under the PRC laws;

(ii) Huali College is the legal land user of the property;

(iii) Huali College has the right to freely occupy, use, lease, transfer and dispose of the land use rights and building ownership of Dormitory Nos. 1 to 4, Academic Communication Center Nos. 1 to 4, Canteen No. 1, Office Building Nos. 1 to 8, Training Building Nos. 2 to 4 and Block No. 46;

(iv) Huali College and Huali Investment have obtained the Planning Permits for Construction Works of the Dormitory No. B9, Dormitory No. C3, Dormitory No. C4, Dormitory No. C7, Dormitory No. C8, Dormitory No. D1, Logistics Support Building Nos. 4, 5, 6 and 7, Teaching Building No. 4, 6, 8 and 10 and Cultural and Sports Center; and

(v) PRC laws stipulate that schools and institutions for the purpose of public welfare, educational facilities for social organizations, medical facilities, and other social welfare facilities cannot be mortgaged.

(12) The status of the title and grant of major approvals and licenses in accordance with the information provided to us by the Group and the opinion of the PRC legal adviser:

Real Estate Title Certificate	Yes (part)
Planning Permit for Construction Works	Yes (part)
Commencement Permit for Construction Works	Yes (part)
Planning Acceptance Certificate for Construction Works	Yes (part)
Private School Operating License	Yes
Business License	Yes

VALUATION REPORT

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2019
2.	Guangzhou Huali Science and Technology Vocational College, No. 7 Huali Road, Zengcheng District, Guangzhou, Guangdong Province, the PRC 中華人民共和國廣東省廣州市增城區華立路7號廣州華立科技職業學院	The property is developed on two parcels of land with total site area of approximately 190,049.24 sq. m. The property comprises various 3 to 9-story buildings including six office buildings, eighteen dormitory buildings, a canteen and related ancillary facilities completed between 2000 and 2011; whilst four buildings are under development and scheduled to be completed in 2019. The property has total gross floor area of approximately 252,110.31 sq. m. with details as follows:	As at the valuation date, the property was occupied by the Group as a college.	RMB1,122,000,000 (RENMINBI ONE BILLION ONE HUNDRED TWENTY TWO MILLION) (100% interest attributable to the Group: RMB1,122,000,000)

Portion	Gross Floor Area *(sq. m.)*
Completed Portion	
Office Building	59,519.80
Dormitory Building	106,044.02
Canteen	8,099.49
Under development Portion	
Office Building	9,738.00
Dormitory Building	30,987.00
Laboratory Building	27,984.00
Logistics Support Building	9,738.00
Total:	**252,110.31**

The property is located at the east of Guangshan Highway, Zengcheng District, Guangzhou, about 5 km from the downtown of Zengcheng District. The surrounding area comprises residential developments such as Loho Town and Poly Hejing Jiahong Lingxiushan.

The land use rights of the property have been granted for a term due to expire on March 12, 2050 for education use.

Notes:

(1) According to the 25 Real Estate Title Certificates listed below, the land use rights of the property with site area of 190,049.24 sq. m. and the building ownership of the property have been vested in Guangzhou Huali Science and Technology Vocational College (廣州華立科技職業學院) ("Huali Vocational College") for a term due to expire on March 12, 2050 with details as follows:

Certificate No.	Date of Issue	Use	Building	Gross Floor Area *(sq. m.)*
(2018)10200278	January 3, 2018	Office	Office Building No. 1	6,751.70
(2018)10201273	January 22, 2018	Office	Office Building No. 2	10,894.14
(2018)10200280	January 3, 2018	Office	Office Building No. 3	6,751.70
(2018)10201275	January 22, 2018	Office	Office Building No. 4	10,498.72
(2018)10200281	January 3, 2018	Office	Office Building No. 5	12,142.64
(2018)10200284	January 3, 2018	Office	Office Building No. 6	12,480.90
(2018)10200279	January 3, 2018	Residential	Training Building No. 1	5,394.82
(2018)10218743	December 20, 2018	Residential	Dormitory No. 1	4,745.55
(2018)10218748	December 20, 2018	Residential	Dormitory No. 2	4,745.55
(2018)10218749	December 20, 2018	Residential	Dormitory No. 3	4,742.37
(2018)10218756	December 20, 2018	Residential	Dormitory No. 4	4,745.55
(2018)10218757	December 20, 2018	Residential	Dormitory No. 5	4,422.48
(2018)10218758	December 20, 2018	Residential	Dormitory No. 6	4,742.37
(2018)10218760	December 20, 2018	Residential	Dormitory No. 7	5,463.70
(2018)10218761	December 20, 2018	Residential	Dormitory No. 8	5,283.71
(2018)10218762	December 20, 2018	Residential	Dormitory No. 9	5,463.70
(2018)10218763	December 20, 2018	Residential	Academic Communication Center No. 1	6,850.90
(2018)10218767	December 20, 2018	Residential	Academic Communication Center No. 2	6,850.90
(2018)10218764	December 20, 2018	Residential	Academic Communication Center No. 3	6,850.90
(2018)10218768	December 20, 2018	Residential	Academic Communication Center No. 4	6,850.90
(2018)10218765	December 20, 2018	Residential	Academic Communication Center No. 5	7,386.20
(2018)10218992	December 25, 2018	Residential	Academic Communication Center No. 6	7,386.20
(2018)10218739	December 20, 2018	Others	Canteen No. 3	8,099.49
(2019)10205016	April 10, 2019	Others	Dormitory No. 42	7,059.11
(2019)10205014	April 10, 2019	Others	Dormitory No. 43	7,059.11
			Total:	**173,663.31**

(2) According to Commencement Permit for Construction Works No. 440183201707240201, the construction works with total gross floor area of 78,447.00 sq. m. are in compliance with the requirement of works commencement and were permitted to be developed.

(3) As advised by the Group, as at the valuation date, the total expended construction cost of four buildings with total gross floor area of 78,447.00 sq. m., was approximately RMB306,000,000 whilst the total construction cost of four buildings was fully paid.

(4) According to Private School Operating License No. 144011810000130 dated August 14, 2019, Huali Vocational College has been established as an independent college (junior college course) for a valid operation period of 4 years.

(5) A medical center and a guest boarding house, with total gross floor area of 2,594.00 sq. m., are constructed without any license or permit required for the planning and construction. We have therefore ascribed no commercial value to the said building.

(6) According to Business License No. 9144010171631817X9 dated August 17, 2018, Guangzhou Huali Investment Company Limited (廣州華立投資有限公司) was established as a limited liability company with a registered capital of RMB400,000,000.

(7) According to the PRC legal opinion:

(i) The Real Estate Title Certificates of the property are valid and legal under the PRC laws;

(ii) Huali Vocational College is the legal land user of the property;

(iii) Huali Vocational College has the right to freely occupy, use, lease, transfer and dispose of the land use rights and building ownership of Dormitory Nos. 1 to 9, Dormitory Nos. 42 and 43, Academic Communication Center Nos. 1 to 6, Canteen No. 3, Office Building Nos. 1 to 6, Training Building No. 1;

(iv) Huali Vocational College and Huali Investment have obtained the Planning Permits for Construction Works of the Office Building No. A, Dormitory No. A, Laboratory Building No. A and Logistics Support Building No. A; and

(v) The PRC laws stipulate that schools and institutions for the purpose of public welfare, educational facilities for social organizations, medical facilities, and other social welfare facilities cannot be mortgaged.

(8) The status of the title and grant of major approvals and licenses in accordance with the information provided to us by the Group and the opinion of the PRC legal adviser:

Real Estate Title Certificate	Yes (part)
Commencement Permit for Construction Works	Yes (part)
Completion Examination and Acceptance Form	Yes (part)
Private School Operating License	Yes
Business License	Yes

VALUATION REPORT

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2019
3.	Guangzhou Huali Science and Technology Vocational College Yunfu Campus, No. 53 Yunxiang Avenue, Duyang Town, Yunfu, Guangdong Province, the PRC 中華人民共和國廣東省雲浮市都楊鎮雲祥大道53號廣州華立科技職業學院雲浮校區	The property is developed on a parcel land with site area of approximately 345,924.40 sq. m. The property comprises various 3-12 story buildings including 5 teaching buildings, 5 laboratory buildings, 1 library, 3 gatehouses, 1 academic communication center, 1 research building, 1 kindergarten, 1 cultural and sports center and related ancillary facilities completed in the period between 2013 and 2019; whilst one teaching building is under development and scheduled to be completed in 2019. The property has total gross floor area of approximately 211,554.80 sq. m. with details as follows:	As at the valuation date, part of the property was occupied by the Group as a college. Part of the property was subject to a tenancy (please refer to Note 5 below.)	RMB1,544,000,000 (RENMINBI ONE BILLION FIVE HUNDRED FORTY FOUR MILLION) (100% interest attributable to the Group: RMB1,544,000,000)

Portion	Gross Floor Area *(sq. m.)*
Completed Portion	
Teaching Building	84,787.91
Laboratory Building	33,810.53
Library	20,053.85
Gatehouse	3,510.46
Academic Communication Center	12,510.34
Research Building	26,280.57
Kindergarten	7,485.55
Cultural and Sports Center	11,614.68
Under Development Portion	
Teaching Building	11,500.91
Total:	**211,554.80**

The property is located at the west of Yunxiang Avenue, Duyang Town, Yunan District, Yunfu, about 4 km from the downtown of Duyang Town. The surrounding area comprises residential developments such as Sunny Melody and Lingmei Shanshui Manor.

The land use rights of the property have been granted for a term due to expire on December 4, 2061 for education use.

Notes:

(1) According to Grant Contract of State-owned Land Use Rights No. 445301-2011-000094 entered into between Yunfu Land Resource and Urban and Rural Planning Administrative Bureau (雲浮市國土資源和城鄉規劃管理局) and Guangzhou Huali Science and Technology Vocational College (廣州華立科技職業學院) ("Huali Vocational College") on November 18, 2011, the land use rights of Lot No. 2011265 comprising site area of approximately 345,924.40 sq. m. have been granted to Huali Vocational College at a premium of RMB45,662,056.

(2) According to Planning Permit for Construction Use of Land No. 2012-0010 issued by Yunfu Land Resource and Urban and Rural Planning Administrative Bureau (雲浮市國土資源和城鄉規劃管理局), the construction site of land with site area of 345,924.40 sq. m. are in compliance with the urban planning requirements and have been approved.

(3) According to the 18 Real Estate Title Certificates listed below, the land use rights of the property with site area of 345,924.40 sq. m. and the building ownership of the property have been vested in Guangzhou Huali Vocational College for a term due to expire on December 4, 2061 with details as follows:

Certificate No.	Date of Issue	Use	Building	Gross Floor Area *(sq. m.)*
(2017)0000622	June 9, 2017	Education	Teaching Building No. 1	11,750.07
(2017)0000625	June 9, 2017	Education	Laboratory Building No. 1	5,775.02
(2017)0000626	June 9, 2017	Education	Laboratory Building No. 2	5,774.92
(2017)0000623	June 9, 2017	Education	Library	20,053.85
(2017)0000624	June 9, 2017	Education	Gatehouse	970.64
(2018)0004361	July 19, 2018	Education	Laboratory Building No. 4	12,021.73
(2018)0004360	July 19, 2018	Education	Academic Communication Center	12,510.34
(2018)0000253	January 26, 2018	Education	Teaching Building No. 6	13,107.29
(2018)0000249	January 26, 2018	Education	Gatehouse No. 2	1,118.89
(2019)0000013	January 9, 2019	Education	Laboratory Building No. 5	4,196.67
(2019)0001135	April 30, 2019	Education	Teaching Building No. 2	19,979.01
(2019)0001137	April 30, 2019	Education	Teaching Building No. 3	19,972.53
(2019)0001136	April 30, 2019	Education	Laboratory Building No. 3	6,042.19
(2019)0001138	April 30, 2019	Education	Teaching Building No. 4	19,979.01
(2019)0001139	April 30, 2019	Education	Research Building	26,280.57
(2019)0003038	August 26, 2019	Education	Cultural and Sports Center	11,614.68
(2019)0003037	August 26, 2019	Education	Gatehouse No. 3	1,420.93
(2019)0003016	August 20, 2019	Education	Kindergarten	7,485.55
			Total:	**200,053.89**

(4) According to the Planning Permit for Construction Works No. 2018-007, the construction works of Teaching Building No. 7, Gatehouse No. 3 and Cultural and Sports Center with total gross floor area of 24,566.00 sq. m. are in compliance with the construction works requirements and have been approved.

(5) According to the Commencement Permits for Construction Works No. 445301201804190201, the construction works of Kindergarten, Gatehouse No. 3, Teaching Building No. 3 and No. 4 and Cultural and Sports Center with total gross floor area 49,924.59 sq. m. are in compliance with the requirement of work commencement and was permitted to be developed.

(6) As advised by the Group, as at the valuation date, the total expended construction cost of Teaching Building No. 7 with total gross floor area of 11,500.91 sq. m., was approximately RMB56,000,000 whilst the total construction cost of Teaching Building No. 7 was fully paid.

(7) According to a tenancy agreement, as at valuation date, a portion of the property with site area of 19,318.86 sq. m. and gross floor area of 25,617.63 sq. m. was leased to Huali Bilingual School of Yunfu (Yun'an District) (connected party of the Group) for teaching and dormitory use with the expiry date of August 31, 2036. The rental detail of 20 years tenancy are as follows:

Year	Commence Date	End Date	Annual Rental *(RMB)*
1st Year	September 1, 2016	August 31, 2017	0
2nd Year	September 1, 2017	August 31, 2018	614,823
3rd Year	September 1, 2018	August 31, 2019	1,229,646
4th Year	September 1, 2019	August 31, 2020	2,459,292
5th Year	September 1, 2020	August 31, 2021	3,934,868
6th Year	September 1, 2021	August 31, 2022	6,020,348
7th Year	September 1, 2022	August 31, 2023	6,261,162
8th Year	September 1, 2023	August 31, 2024	6,511,608
9th Year	September 1, 2024	August 31, 2025	6,772,073
10th Year	September 1, 2025	August 31, 2026	7,042,956
11th Year	September 1, 2026	August 31, 2027	7,324,674
12th Year	September 1, 2027	August 31, 2028	7,617,661
13th Year	September 1, 2028	August 31, 2029	7,922,367
14th Year	September 1, 2029	August 31, 2030	8,239,262
15th Year	September 1, 2030	August 31, 2031	8,568,832
16th Year	September 1, 2031	August 31, 2032	8,911,586
17th Year	September 1, 2032	August 31, 2033	9,268,049
18th Year	September 1, 2033	August 31, 2034	9,638,771
19th Year	September 1, 2034	August 31, 2035	10,024,322
20th Year	September 1, 2035	August 31, 2036	10,425,295
		Total:	**128,787,595**

(8) According to Private School Operating License No. 144011810000130 dated August 14, 2019, Huali Vocational College has been established as an independent college (junior college course) for a valid operation period of 4 years.

(9) According to the PRC legal opinion:

(i) The Real Estate Title Certificates of the property are valid and legal under the PRC laws;

(ii) Huali Vocational College is the legal land user of the property;

(iii) Huali Vocational College has the right to freely occupy, use, lease, transfer and dispose of the land use rights and building ownership of Teaching Building Nos. 1-4, 6, Laboratory Building Nos. 1-5, Library, Gatehouse Nos. 1-3, Academic Communication Center, Research Building, Kindergarten and Cultural and Sports Center;

(iv) Huali Vocational College has obtained the Planning Permits for Construction Works of the Teaching Building No. 7; and

(v) PRC laws stipulate that schools and institutions for the purpose of public welfare, educational facilities for social organizations, medical facilities, and other social welfare facilities cannot be mortgaged.

(10) The status of the title and grant of major approvals and licenses in accordance with the information provided to us by the Group and the opinion of the PRC legal adviser:

Grant Contract of State-owned Land Use Rights	Yes
Planning Permit for Construction Use of Land	Yes
Real Estate Title Certificate	Yes (part)
Planning Permit for Construction Works	Yes
Commencement Permit for Construction Works	Yes
Private School Operating License	Yes

VALUATION REPORT

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2019
4.	Industrial Development, Denggaoshi, Industrial Development District, Yamen Town, Xinhui District, Jiangmen, Guangdong Province, the PRC 中華人民共和國廣東省江門市新會區崖門鎮工業開發區登高石工業廠區	The property comprises industrial development developed on four parcels of land with total site area of approximately 225,467.00 sq. m. The property comprises seven single to 5-story buildings including five workshops, an office building, dormitory building and related ancillary facilities completed between 1999 and 2003. The property has total gross floor area of approximately 51,985.26 sq. m. with details as follows:	As at the valuation date, the property was vacant.	RMB227,000,000 (RENMINBI TWO HUNDRED TWENTY SEVEN MILLION) (100% interest attributable to the Group: RMB227,000,000)

Portion	Gross Floor Area *(sq. m.)*
Completed Portion	
Workshop	39,182.40
Office Building	7,606.47
Dormitory Building	5,196.39
Total:	51,985.26

The property is located at the east of 271 Provincial Road, Yamen Town, Xinhui District, Jiangmen, about 1.5 km from the downtown of Yamen Town. The surrounding area comprises industrial developments such as Hemei Electroplating Factory and Katuo Chemical Plant.

The land use rights of the property have been granted for a term due to expire on January 13, 2048 for industrial use.

Notes:

(1) As advised by the Group, the land use rights and building ownership of the property were transferred from Jialian Leather (China) Company Limited (嘉聯皮革(中國)有限公司) to Guangdong Province Huali Technician College (廣東省華立技師學院) ("Huali Technician College") in May 2019. The total cost of acquisition was approximately

RMB150,000,000 (including transfer consideration of RMB110,100,000 and taxes and fees of approximately RMB40,000,000). We have taken into account the expended relevant taxes and fees applicable to the property.

(2) According to the four Real Estate Title Certificates listed below, the land use rights of the property with total site area of 225,467.00 sq. m. and the building ownership of the property with total gross floor area of 55,125.53 sq. m. have been vested in Huali Technician College for a term due to expire on January 13, 2048 with details as follows:

Certificate No.	**Date of Issue**	**Use**	**Site Area** *(sq. m.)*	**Gross Floor Area** *(sq. m.)*
(2019) 2028724	May 8, 2019	Industrial	65,333.00	
(2019) 2028739	May 8, 2019	Industrial	62,333.00	26,649.71
(2019) 2028740	May 8, 2019	Industrial	36,467.00	7,606.47
(2019) 2028747	May 8, 2019	Industrial	61,334.00	20,869.35
		Total:	**225,467.00**	**55,125.53**

As advised by the Group, portion of the property with a total gross floor area of 3,140.27 sq. m. (Certificate No. (2019)2028739) was dismantled as at September 30, 2019.

(3) According to Private School Operating License No. 4401832000008 dated July 28, 2017, Huali Technician College has been established as an independent college (vocational program) for a valid operation period of 3 years.

(4) According to the PRC legal opinion:

(i) The Real Estate Title Certificates of the property are valid and legal under the PRC laws;

(ii) Huali Technician College is the legal land user of the property.

(5) The status of the title and grant of major approvals and licenses in accordance with the information provided to us by the Group and the opinion of the PRC legal adviser:

Real Estate Title Certificate	Yes
Private School Operating License	Yes

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on August 16, 2019 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 Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VI to this prospectus in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on August 16, 2019 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US$200,000 divided into 2,000,000,000 shares of US$0.0001 each.

2.2 Directors

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum 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 Memorandum 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 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 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 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 realized 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 traveling 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 number of Directors and which Directors 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 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 authorized 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 authorized 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 canceled subject to the provisions of the Companies Law; and

(c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the 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 authorized and subject to any conditions prescribed by the 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 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 authorized 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 authorized 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 authorized 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 authorized 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 recognized clearing house (or its nominee(s)) is a member of the Company it may authorize 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 authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized 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 authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings shall also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the

Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

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 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 Companies Law or any other relevant law or regulation or as authorized 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.

2.10 Auditors

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 removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in 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.

2.11 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.

2.12 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 canceled) 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 favor 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).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the 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 canceled upon the repurchase.

2.14 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.

2.15 Dividends and other methods of distribution

Subject to the Companies Law and the 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 Companies 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 any dividend which may be 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, installments 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 check 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 check 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 check 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 checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check 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.

2.16 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 favor 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 authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized 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.

2.17 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 installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments 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 installment 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 installment 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 installment 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 installments 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.

2.18 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.

2.19 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 authorized 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.

2.20 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.

2.21 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 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 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.

2.22 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 checks 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 COMPANIES LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the 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 May 24, 2016 under the 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 authorized share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The 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 cancelation of shares in any other company and issued at a premium. The 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 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 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 authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized 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 authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized 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 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 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 share capital 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 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 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 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 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 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 authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The 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 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 authorized by (a) a special resolution of each constituent company and (b) such other authorization, 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 the 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 Financial Secretary of the Cayman Islands:

(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 adviser on Cayman Islands law, has sent to the Company a letter of advice summarizing aspects of Cayman Islands Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Companies 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 GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on May 24, 2016. Our registered office is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. We have established a principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong, and have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 19, 2016. Mr. Ye Yaming (葉雅明) and Mr. Cheung Kai Cheong, Willie (張啟昌) have been appointed as the authorized representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at the above address.

As we are incorporated in the Cayman Islands, our operations are subject to the Companies Law, the Memorandum of Association and the Articles of Association. A summary of certain provisions of the Memorandum of Association and the Articles of Association and certain aspects of the Companies Law is set out in the section headed "Summary of the Constitution of our Company and Companies Law" in Appendix IV to this prospectus.

2. Changes in the Share Capital of our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US$50,000 divided into 50,000 shares of a par value of US$1.00 each.

The following changes in the share capital of our Company had taken place since the date of incorporation of our Company and up to the date of this prospectus:

(a) on May 24, 2016, one subscriber share of our Company was issued at par of US$1.00 to Offshore Incorporations (Cayman) Limited, and the one subscriber share was subsequently transferred to Mr. Zhang on the same date;

(b) on May 24, 2016, a total of 49,999 share of a par value of US$1.00 each were allotted and issued to Mr. Zhang; and

(c) on August 24, 2016, Mr. Zhang transferred 50,000 shares of a par value of US$1.00 each to Huali Education at a consideration of HK$1.00.

Save as disclosed hereinabove and in the paragraph headed "A. Further Information about our Group – 3. Written Resolutions of the Sole Shareholder Passed on August 16, 2019 and November 5, 2019" in this appendix, there had been no alteration in the share capital of our Company since its incorporation and up to the date of this prospectus.

3. Written Resolutions of the Sole Shareholder Passed on August 16, 2019 and November 5, 2019

Written resolutions of the sole Shareholder were passed on August 16, 2019 and November 5, 2019, pursuant to which, among other things:

(a) the Memorandum of Association and the Articles of Association were conditionally adopted in substitution of, and to the exclusion of, the existing memorandum of association and the articles of association of our Company, respectively, with effect from the Listing Date;

(b) the authorized share capital of our Company be increased from US$50,000 divided into 50,000 shares of a par value of US$1.00 each to US$200,000 divided into 2,000,000,000 Shares of a par value of US$0.0001 each by:

(i) the sub-division of each share of a par value of US$1.00 each in the authorized share capital of our Company (including issued and unissued share capital) into 10,000 Shares of a par value of US$0.0001 each (the "**Sub-division**"); and

(ii) immediately following the Sub-division, the creation of an additional 1,500,000,000 Shares of a par value of US$0.0001 each to rank *pari passu* in all respects with the Shares in issue at the date of passing of such resolutions;

(c) conditional upon (i) the Listing Committee granting the listing of, and the permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and the Capitalization Issue; (ii) the entering into, execution and delivery of the International Underwriting Agreement and the Price Determination Agreement on or around the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements having become unconditional and not having been terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the proposed Listing was approved, and the Board or any committee of the Board or any one Director was authorized and directed to do all such things and execute all such documents to implement the Listing;

(ii) the Global Offering was approved, and the Board was authorized to approve the allotment and issue of the Offer Shares pursuant to the Global Offering on and subject to the terms and conditions set out in this prospectus and the Application Forms; and

(iii) conditional further upon the share premium account of our Company being credited with the proceeds of the Global Offering, the Directors were authorized to allot and issue a total of 400,000,000 Shares, credited as fully-paid at par, to the Shareholder(s) whose name(s) appear on the register of members of our Company at the close of business on the business day immediately preceding the Listing Date (or any such other date as the Directors may direct) in proportion (as nearly as possible without involving fractions) to the then existing Shareholding(s) by way of capitalization of the sum of US$40,000 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to the Capitalization Issue shall rank *pari passu* in all respects with the existing issued Shares, and the Directors were authorized to allot and issue the Shares under the Capitalization Issue and give effect to such capitalization and issue and allotment of Shares;

(d) a general unconditional mandate (the "**Issuing Mandate**") was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of a rights issue, any scrip dividend scheme or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, or under the Global Offering or the Capitalization Issue, or pursuant to a specific authority granted by the Shareholders in general meeting, such number of Shares representing up to 20% of the aggregate number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue, and such mandate to remain in effect until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles of Association, or the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing such mandate, which occurs first;

(e) a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other approved stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all other applicable laws and regulations of the Cayman Islands and Hong Kong and the requirements of the Listing Rules, such number of Shares representing up to 10% of the aggregate number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue, and such mandate to remain in effect until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles of Association, or the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing such mandate, which occurs first; and

(f) the extension of the Issuing Mandate to include the aggregate number of Shares which may be repurchased pursuant to the Repurchase Mandate.

4. Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the Listing. Please refer to the section headed "History, Reorganization and Corporate Structure" in this prospectus for further details.

5. Changes in the Share Capital of our Subsidiaries

Our subsidiaries are referred to in the Accountant's Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountant's Report, we do not have any other subsidiaries.

Save as disclosed above and in the section headed "History, Reorganization and Corporate Structure" in this prospectus, there has been no change to the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Further information about our PRC establishments

We have six subsidiaries and consolidated affiliated entities in the PRC. A summary of the corporate information as of the Latest Practicable Date is set out as follows:

(a) Name: XZ Huali
Date of Incorporation: January 18, 2017
Place of Incorporation: PRC
Business Nature: Limited liability company
Registered Capital: RMB1,450,000

(b) Name: Huali Shengrong
Date of Incorporation: December 27, 2016
Place of Incorporation: PRC
Business Nature: Limited liability company
Registered Capital: HK$3,000,000

(c) Name: Huali Investment
Date of Incorporation: June 15, 1999
Place of Incorporation: PRC
Business Nature: Limited liability company
Registered Capital: RMB400,000,000

(d) Name: Huali College
Date of Incorporation: January 11, 2006
Place of Incorporation: PRC
Business Nature: Private non-enterprise entity
Registered Capital: RMB10,000,000

(e) Name: Huali Vocational College
Date of Incorporation: July 19, 2005
Place of Incorporation: PRC
Business Nature: Private non-enterprise entity
Registered Capital: RMB10,000,000

(f) Name: Huali Technician College
Date of Incorporation: August 20, 2003
Place of Incorporation: PRC
Business Nature: Private non-enterprise entity
Registered Capital: RMB500,000

7. Repurchase of Our Own Shares

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange. This section includes information relating to the repurchase by us of our own Shares, including information required by the Stock Exchange to be included in this prospectus concerning the repurchase.

(a) Shareholders' approval

All proposed repurchases of Shares (which must be fully-paid up) must be approved in advance by an ordinary resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction. Our Directors have been granted the Repurchase Mandate to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Global Offering on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at: (i) the conclusion of the next annual general meeting of our Company; (ii) the date by which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable law; or (iii) the day on which such Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting of our Company, whichever occurs first.

Under the Listing Rules, the Shares which are proposed to be repurchased by a company must be fully paid up.

(b) Number of Shares which may be repurchased

Exercising in full the Repurchase Mandate, on the basis of 1,200,000,000 Shares in issue immediately after completion of the Global Offering, could result in up to 120,000,000 Shares being repurchased by us during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the paragraph headed "A. Further Information about our Group – 7. Repurchase of our Own Shares – (a) Shareholders' approval" in this appendix.

(c) Reasons for repurchase

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such Share repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of repurchase

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Memorandum and Articles of Association, the Companies Law, the applicable laws and regulations of the Cayman Islands and the Listing Rules. A listed company is prohibited from repurchasing 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.

We will make repurchases pursuant to the Repurchase Mandate out of funds legally available for such purpose, including out of profits of our Company, out of the share premium account of our Company or out of the proceeds of a fresh issue of Shares made for such purpose or, if authorized by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of either or both of the profits of our Company and/or out of sums standing to the credit of the share premium account of our Company or, if authorized by the Articles of Association and subject to the Companies Law, out of capital.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a materially adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a materially adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) Status of repurchase Shares

The listing of all repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically canceled and the certificates for those securities must be canceled and destroyed. Under the laws of the Cayman Islands, the repurchased Shares (which are not held by the Company as treasury shares) shall be treated as canceled and the amount of our Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased Shares accordingly, although the authorized share capital of our Company will not be reduced.

(f) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering. Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Our Company is required to procure that the broker (appointed by our Company to effect a repurchase of Shares) disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 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.

(g) Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchase of Shares after a price-sensitive development has occurred or has been the subject of a decision until such time when the price-sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as at the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of our board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarter or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarter or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of our shares on the Stock Exchange if our Company has breached the Listing Rules.

(h) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares 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. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(i) Directors' undertakings

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 and regulations of the Cayman Islands and our Memorandum of Association and Articles of Association.

(j) Takeovers Code

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, depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provisions may apply as a result of any such increase. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases pursuant to the Repurchase Mandate.

If the repurchase mandate is fully exercised immediately following completion of the Global Offering, the total number of Shares which would be repurchased would be 200,000,000 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions.)

(k) Share repurchases made by our Company

No repurchase of Shares has been made by our Company since its incorporation.

(I) Connected parties

Our Company is prohibited from knowingly purchasing Shares on the Stock Exchange from a core connected person (as defined under the Listing Rules), and a core connected person shall not knowingly sell his or her or its shares to our Company on the Stock Exchange.

As of the Latest Practicable Date, none of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) has any present intention to sell any Shares to us or any of our subsidiaries if the Repurchase Mandate is exercised. As of the Latest Practicable Date, no connected person of our Company has notified us that he, she or it has a present intention to sell any Shares to us or any of our subsidiaries, 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) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) the Second Supplemental Agreement to the Business Cooperation Agreement (業務合作協議之補充協議二) dated August 30, 2018 and entered into by 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited), 廣東工業大學華立學院 (Huali College Guangdong University of Technology), 廣州華立科技職業學院 (Guangzhou Huali Science and Technology Vocational College), 廣東省華立技師學院 (Guangdong Province Huali Technician College), 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) and 張智峰 (Zhang Zhifeng), to supplement and amend certain terms of the Business Cooperation Agreement (業務合作協議) dated March 23, 2017;

(b) the Supplemental Agreement to the Exclusive Technical Service and Management Consultancy Agreement (獨家技術服務及管理諮詢協議之補充協議) dated August 30, 2018 and entered into by 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited), 廣東工業大學華立學院 (Huali College Guangdong University of Technology), 廣州華立科技職業學院 (Guangzhou Huali Science and Technology Vocational College), 廣東省華立技師學院 (Guangdong Province Huali Technician College) and 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited), to supplement and amend certain terms of the Exclusive Technical Service and Management Consultancy Agreement (獨家技術服務及管理諮詢協議) dated March 23, 2017;

(c) the Second Exclusive Call Option Agreement (獨家購買權協議二) dated August 30, 2018 and entered into by 張智峰 (Zhang Zhifeng), 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) and 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited), pursuant to which 張智峰 (Zhang Zhifeng) has irrevocably granted 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) or its designated purchaser the exclusive right to purchase all or part of the interest in 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited);

(d) the Equity Pledge Agreement (股權質押協議) dated August 30, 2018 and entered into by 張智峰 (Zhang Zhifeng), 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) and 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited), pursuant to which 張智峰 (Zhang Zhifeng) has unconditionally and irrevocably agreed to pledge and grant first priority security interest over all of his equity interest in 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) to 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited);

(e) the Supplemental Agreement to the School Sponsor's and Directors' Rights Entrustment Agreement (學校舉辦者及董事權利委託協議之補充協議) dated August 30, 2018, and entered into by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited), 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) and Ma Jun (馬俊) (a new director nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited)), pursuant to which Ma Jun (馬俊) has irrevocably authorized and entrusted 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) to exercise all his rights as director nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) to the extent permitted by PRC laws;

(f) the Second Supplemental Agreement to the School Sponsor's and Directors' Rights Entrustment Agreement (學校舉辦者及董事權利委託協議之補充協議二) dated September 28, 2018 and entered into by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited), 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) and Liao Xihai (廖錫海) and Huang Yuelan (黃樂覽) (new directors nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited)), pursuant to which Liao Xihai (廖錫海) and Huang Yuelan (黃樂覽) have irrevocably authorized and entrusted 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) to exercise all their rights as directors nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) to the extent permitted by PRC laws;

(g) the Second Supplemental Agreement to the School Sponsor's and Directors' Rights Entrustment Agreement (學校舉辦者及董事權利委託協議之補充協議二) dated April 23, 2019 and entered into by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited), 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) and Liu Zhuang (劉莊) and Zou Kang (鄒康) (new directors nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited)), pursuant to which Liu Zhuang (劉莊) and Zou Kang (鄒康) have irrevocably authorized and entrusted 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) to exercise all their rights as directors nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) to the extent permitted by PRC laws from January 5, 2019;

(h) the Third Supplemental Agreement to the School Sponsor's and Directors' Rights Entrustment Agreement (學校舉辦者及董事權利委託協議之補充協議三) dated July 22, 2019 and entered into by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited), 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) and Liu Zhuang (劉莊) (a new director nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited)), pursuant to which Liu Zhuang (劉莊) has irrevocably authorized and entrusted 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) to exercise all his rights as director nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) to the extent permitted by PRC laws from June 17, 2019;

(i) the Fourth Supplemental Agreement to the School Sponsor's and Directors' Rights Entrustment Agreement (學校舉辦者及董事權利委託協議之補充協議四) dated October 10, 2019 and entered into by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited), 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) and Bo Yuhong (柏育紅) (a new director nominated by 廣州華立投資有限公司

(Guangzhou Huali Investment Company Limited)), pursuant to which Bo Yuhong (柏育紅) has irrevocably authorized and entrusted 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited) to exercise all his rights as director nominated by 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) to the extent permitted by PRC laws from September 1, 2019;

(j) the Supplemental Agreement to the Rights Entrustment Agreement of the School Sponsor's Shareholder (學校舉辦者股東權利委託協議之補充協議) dated August 30, 2018 and entered into by 張智峰 (Zhang Zhifeng), 廣州華立投資有限公司 (Guangzhou Huali Investment Company Limited) and 西藏華立盛大信息科技有限公司 (Xizang Huali Shengda Information Technology Limited), to supplement and amend certain terms of the Rights Entrustment Agreement of the School Sponsor's Shareholder (學校舉辦者股東權利委託協議) dated September 19, 2017;

(k) the cornerstone investment agreement dated November 11, 2019 and entered into by the Company, 深圳國調招商併購股權投資基金合夥企業(有限合夥) (CCT China Merchant Buyout Fund) and 中信建投(國際)融資有限公司 (China Securities (International) Corporate Finance Company Limited), the details of which are set out in the section headed "Cornerstone Investors" in this prospectus;

(l) the cornerstone investment agreement dated November 11, 2019 and entered into by the Company, 51JOB, INC. and 中信建投(國際)融資有限公司 (China Securities (International) Corporate Finance Company Limited), the details of which are set out in the section headed "Cornerstone Investors" in this prospectus;

(m) the cornerstone investment agreement dated November 11, 2019 and entered into by the Company, 周達 (Zhou Da) and 中信建投(國際)融資有限公司 (China Securities (International) Corporate Finance Company Limited), the details of which are set out in the section headed "Cornerstone Investors" in this prospectus; and

(n) the Hong Kong Public Offer Underwriting Agreement.

2. Intellectual property rights of our Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of Registration	Registered Owner	Class	Registered Number	Expiry Date
1.	华立	Hong Kong	Huali (HK) Education	41, 43	303876913	August 18, 2026
2.	HLU	PRC	Huali Investment	41	21009443	October 13, 2027
3.	HLU	PRC	Huali Investment	43	21009551	October 13, 2027

(b) Domain names

As of the Latest Practicable Date, we have registered the following domain names:

No.	Domain Names	Registration Owner	Date of Registration	Expiry Date
1.	hualixy.com	Huali College	May 10, 2002	May 10, 2024
2.	hlxy.net	Huali Vocational College	November 7, 2002	November 7, 2022
3.	hljg.net	Huali Technician College	December 27, 2004	December 27, 2022
4.	gzhtsoft.com	Huali College	June 30, 2016	June 30, 2020
5.	hualiuniversity.com	Huali Shengrong	July 20, 2016	July 20, 2026

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Interests of the Directors and the chief executive of our Company

Immediately following completion of the Capitalization Issue and the Global Offering, the interests or short positions of our Directors or the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are 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 in the register as referred to therein, or will be required, or to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, will be as follows:

Long positions in our Shares, underlying Shares and debentures of our Company

Name of Director	Capacity/Nature of Interest	Number of Underlying Shares	Approximate percentage of Interest in the Company
Mr. Zhang(1)	Settlor of trust	900,000,000	75%

Note:

(1) The sole shareholder of Huali Education is Trust Co. The entire equity interest in Trust Co is held on trust by UBS Nominees Limited for UBS Trustees (B.V.I.) Limited. UBS Trustees (B.V.I.) Limited is the trustee of HL-Diamond Trust. The HL-Diamond Trust is a discretionary trust established by Mr. Zhang as the settlor and with Mr. Zhang being the sole discretionary beneficiary. Therefore, each of Mr. Zhang, Trust Co and UBS Trustees (BVI) Limited is deemed to be interested in the 900,000,000 Shares held by Huali Education.

(b) Interests of the Substantial Shareholders

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have an interest or a short position in the Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of our Company or any of our subsidiaries. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

Save as disclosed above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, 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 other member of our Group (other than our Company) or any options in respect of such capital.

Please refer to the section headed "Substantial Shareholders" in this prospectus for details of the interest and/or short positions of the substantial shareholders in the Shares or the underlying Shares of the Company.

2. Directors' service contracts and letters of appointment

On August 16, 2019, each of our executive Directors entered into a service contract with our Company for an initial term of three years with effect from the date of the service contract, subject to retirement by rotation and re-election in accordance with the Articles of Association. Under their respective service contracts, each executive Director is entitled to a fixed director's fee, discretionary bonuses and other non-cash benefits.

On August 16, 2019, each of our non-executive Director and independent non-executive Directors entered into an appointment letter with our Company for an initial term of three years with effect from the date of the appointment letter, subject to retirement by rotation and re-election in accordance with the Articles of Association. Under their respective appointment letters, each of our non-executive Director and independent non-executive Director is entitled to a fixed director's fee.

Save as disclosed above, none of our Directors has entered into or has proposed to enter into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Director's remuneration

The aggregate amount of remuneration our Directors received (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind and such remuneration they received when they acted as our senior management before their appointment as Directors) for the years ended August 31, 2017, 2018 and 2019 was approximately RMB3.6 million, RMB6.9 million and RMB5.8 million, respectively.

No remuneration was paid by our Company to the Directors (a) as an inducement to join or upon joining any member of our Group or (b) as a compensation for loss of office as director of any member of our Group or any other office in connection with the management affairs of any member of our Group in respect of the years ended August 31, 2017, 2018 and 2019. Further, none of our Directors waived any remuneration during the same period.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending August 31, 2020 is estimated to be approximately HK$6.7 million.

Further information regarding our Directors' remuneration during the Track Record Period can be found in Note 9 to the Accountant's Report set out in Appendix I to this prospectus.

4. Directors' competing interests

Saved as disclosed in the section headed "Relationship with Controlling Shareholders – Independence from the Controlling Shareholders – Delineation of Business and Non-Competition" in this prospectus, none of our Directors is interested in any business, apart from our Group's business, which competes or is likely to compete, directly or indirectly, with the business of our Group.

5. Disclaimers

Saved as disclosed in this prospectus:

(a) none of our Directors or chief executive of our Company has any interest or short position in any of the Shares, underlying Shares or debentures of our Company or any associated corporation 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 any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered 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 Issuers as set out in Appendix 10 to the Listing Rules, once the Shares are listed on the Stock Exchange;

(b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, 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;

(c) none of our Directors or experts named in paragraph headed "D. Other Information – 6. Qualification of experts" in this appendix has been directly or indirectly interested in 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 our Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;

(d) none of our Directors or the experts named in the paragraph headed "D. Other Information – 6. Qualification of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(e) none of the Directors or experts named in paragraph headed "D. Other Information – 6. Qualification of experts" in this appendix (i) has any shareholding in any company in our Group 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; or (ii) is legally or beneficially interested in any securities of any member of our Group;

(f) none of our Directors has any existing or proposed service contract with our Company (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and

(g) none of our Directors or their respective associates (as defined under the Listing Rules), or the existing Shareholders (who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Estate duty, tax and other indemnity

Mr. Zhang, Trust Co and Huali Education, each being a Controlling Shareholder (collectively, the "**Indemnifiers**"), have entered into a deed of indemnity with and in favor of our

Company (for itself and as trustee for each of our present subsidiaries) to provide indemnities in respect of, among others:

(a) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions or things granted, earned, accrued, received or made, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation; and

(b) all claims, demands, complaints, proceedings, losses, liabilities, damages, costs, expenses, penalties and fines falling on our Company or any member of our Group directly or indirectly resulting from, or relating to or in consequence of:

(i) any failure, delay or defect of corporate or regulatory compliance or error, discrepancy or missing document in the statutory records of any member of our Group under, or any breach of any provision of, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance on or before the Listing Date; and

(ii) any other non-compliance with the applicable laws, rules or regulations by our Company and/or any member of our Group on or before the Listing Date.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation to the extent that:

(a) provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to August 31, 2019;

(b) such taxation or liability falling on any member of our Group in respect of any accounting period commencing on or after September 1, 2019 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

(iii) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or

(iv) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus;

(c) such liability arises or is incurred as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by any statutory or governmental authority (in Hong Kong, the PRC or elsewhere), including but without limitation the Hong Kong Inland Revenue Department, coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the Listing Date with retrospective effect; or

(d) any provision or reserve made for taxation in the audited consolidated accounts of our Group or the audited accounts of any member of our Group up to August 31, 2019 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed "Business – Legal Proceedings and Compliance" in this prospectus, no member of our Group was engaged in any litigation, arbitration or administrative proceedings which had a materially adverse effect on our financial conditions or results of operations, and no litigation, arbitration or administrative proceedings was known to the Directors to be pending or threatened by or against our Group, that would have a materially adverse effect on our financial condition or results of operations.

3. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules and has made an application on behalf of our Company to the Listing Division of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. The Sole Sponsor's fee in relation to the Listing is US$500,000.

4. Shares will be eligible for CCASS

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares.

All necessary arrangements will be made to enable such Shares to be admitted into CCASS.

5. No materially adverse change

Our Directors confirm that there has been no materially adverse change in our financial or trading position since August 31, 2019 (being the date on which our latest audited consolidated financial statements was made up) up to the Latest Practicable Date.

6. Qualification of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
China Securities (International) Corporate Finance Company Limited	Licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified Public Accountants
Jingtian & Gongcheng	Legal adviser to the Company as to PRC laws
Maples and Calder (Hong Kong) LLP	Legal adviser to the Company as to Cayman Islands laws
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Cushman & Wakefield Limited	Property valuer

7. Consents of experts

Each of the experts whose names are set out in the paragraph headed "D. Other Information – 6. Qualification of experts" in this appendix has given and has not withdrawn its respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion statements and/or summary of valuations and/ or valuation certificates and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

As of the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the paragraph headed "D. Other Information – 6. Qualification of experts" in this appendix has any shareholding interest in any of our Company or any of our subsidiaries or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

8. Agency fees or commissions received

Save as disclosed in the section headed "Underwriting" in this prospectus, 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 our subsidiaries within the two years preceding the date of this prospectus.

9. Promoter

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our Company nor is any cash, securities or benefit intended to be paid, allotted or given in connection with the Global Offering or the related transactions described in this prospectus.

10. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately HK$75,203 and have been paid by our Company.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provision) Ordinance so far as applicable.

12. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of or of the fair value of, the Shares being sold or transferred, whichever is higher. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) The Cayman Islands

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of our Shares, save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising rights attached to them. It is emphasized that none of our Company, our Directors or the other parties, involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attached to them.

13. 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 the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

14. Disclaimers

Saved as disclosed in this prospectus, within two years immediately preceding the date of this prospectus:

(i) no Share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(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;

(iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any Shares or loan capital of our Company or any of our subsidiaries; and

(iv) no commission has been paid or payable (except commission to underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company.

Save as disclosed in this prospectus:

(i) no founder shares, management shares or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

(ii) there is no arrangement under which future dividends are waived or agreed to be waived;

(iii) there has not been any interruption in the business of our Company which may have or have had a materially adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this Prospectus;

(iv) our Company has no outstanding convertible debt securities or debentures; and

(v) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the section headed "Statutory and General Information – D. Other Information – 7. Consents of experts" in Appendix V to this prospectus; and

(c) a copy of each 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.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of King & Wood Mallesons at 13/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the Accountant's Report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(c) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

(d) the audited consolidated financial statements of our Group for the years ended August 31, 2017, 2018 and 2019;

(e) the report relating to our property interests prepared by Cushman & Wakefield Limited, the text of which is set out in Appendix III to this prospectus;

(f) 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;

(g) the written consents referred to in the section headed "Statutory and General Information – D. Other Information – 7. Consents of experts" in Appendix V to this prospectus;

(h) the service contracts and letters of appointment referred to in the section headed "Statutory and General Information – C. Further Information about our Directors and Substantial Shareholders – 2. Directors' service contracts and letters of appointment" in Appendix V to this prospectus;

(i) the Frost & Sullivan Report;

(j) the legal opinion issued by Jingtian & Gongcheng, our PRC Legal Adviser, in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(k) the letter of advice prepared by Maples and Calder (Hong Kong) LLP summarizing certain aspects of the Companies Law referred to in Appendix IV to this prospectus; and

(l) the Companies Law.

华立大学集团有限公司
Huali University Group Limited