



China Beststudy Education Group

卓越教育集團*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3978

Global Offering



Sole Sponsor



Joint Global Coordinators



Joint Bookrunners



Joint Lead Managers



*For identification purposes only

IMPORTANT

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



China Beststudy Education Group 卓越教育集團*

(Incorporated in the Cayman Islands with limited liability)

Global Offering

Total number of Offer Shares under the Global Offering	: 151,400,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	: 15,140,000 Shares (subject to adjustment)
Number of International Placing Shares	: 136,260,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	: Not more than HK\$2.90 per Share and expected to be not less than HK\$2.20 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund on final pricing)
Nominal value	: US\$0.00005 per Share
Stock code	: 3978

Sole Sponsor



Joint Global Coordinators



Joint Bookrunners



Joint Lead Managers



Co-Lead Managers



Underwriter



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 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 "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and our Company on or before Monday, December 17, 2018 or such later time as may be agreed between the parties, but in any event, no later than Tuesday, December 18, 2018. If, for any reason, the Joint Global Coordinators, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Tuesday, December 18, 2018, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$2.90 per Share and is expected to be not less than HK\$2.20 per Share although the Joint Global Coordinators, on behalf of the Underwriters, and our Company may agree to a lower price. The Joint Global Coordinators, on behalf of the Underwriters, may, with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus (being HK\$2.20 per Share to HK\$2.90 per Share) at any time on or prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Public Offer Shares and/or the indicative Offer Price range will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.beststudy.com as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for Public Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, and in particular, the risk factors set out in the section headed "Risk Factors."

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Public Offer Shares, the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, have the right in certain circumstances, in their absolute discretion, to terminate the obligation of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for Termination." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S.

* For identification purposes only

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under
the **White Form eIPO** service through the
designated website at **www.eipo.com.hk** (*note 2*) 11:30 a.m. on
Monday, December 17, 2018

Application lists for the Hong Kong Public Offering open (*note 3*) 11:45 a.m. on
Monday, December 17, 2018

Latest time for lodging **WHITE** and **YELLOW**
Application Forms and giving **electronic application**
instructions to HKSCC (*note 4*) 12:00 noon on
Monday, December 17, 2018

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
Monday, December 17, 2018

Application lists close (*note 3*) 12:00 noon on
Monday, December 17, 2018

Expected Price Determination Date (*note 5*) Monday, December 17, 2018

Announcement of the Offer Price, the level of applications in
the Hong Kong Public Offering, the level of indications of
interest in the International Placing and the basis of
allocation of the Public Offer Shares to be published in
the South China Morning Post (in English) and
the Hong Kong Economic Times (in Chinese) and on
the websites of the Stock Exchange at **www.hkexnews.hk**
and our Company at **www.beststudy.com** on
or before (*note 6*) Monday, December 24, 2018

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. (See the section headed
"How to Apply for Public Offer Shares — F. Publication
of Results") from Monday, December 24, 2018

Results of allocations for 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 Monday, December 24, 2018

EXPECTED TIMETABLE⁽¹⁾

Share certificates (if applicable) in respect of wholly or partially successful applications to be dispatched on or before Monday, December 24, 2018

White Form e-Refund payment instructions/Refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before (*note 7*) Monday, December 24, 2018

Dealings in Shares on the Stock Exchange to commence at 9:00 a.m. on Thursday, December 27, 2018

Notes:

- (1) All times refer to Hong Kong local time, except as 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 an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 17, 2018, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Public Offer Shares — E. Effect of Bad Weather on the Opening of the Application Lists.”
- (4) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Public Offer Shares — A. Applications for Public Offer Shares — 5. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” for details.
- (5) The Offer Price is expected to be determined by Monday, December 17, 2018, but in any event, the expected time for determination of the Offer Price will not be later than Tuesday, December 18, 2018. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators, on behalf of the Underwriters, and our Company by Tuesday, December 18, 2018, the Global Offering will not proceed.
- (6) If the Offer Price is determined on Monday, December 17, 2018, the announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allocation of the Public Offer Shares and the successful applicants’ identification document numbers will be published on or before Monday, December 24, 2018.
- (7) Applicants who apply for 1,000,000 Public Offer Shares or more under the Hong Kong Public Offering and have indicated on their Application Forms that they wish to collect any refund cheque(s) (if applicable) and/or Share certificate(s) (if applicable) in person from our 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, may do so in person from 9:00 a.m. to 1:00 p.m. on Monday, December 24, 2018. Applicants being individuals who are applying for 1,000,000 Public Offer Shares or more and are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporations’ chop. Identification and (where applicable) authorization documents acceptable to our 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, must be produced at the time of collection. Uncollected Share certificates and refund cheques will be dispatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms. Further details are set out in the paragraphs headed “Dispatch/Collection of share certificates and refund monies” in the section headed “How to Apply for the Public Offer Shares.”

EXPECTED TIMETABLE⁽¹⁾

Share certificates for the Public Offer Shares are expected to be issued on Monday, December 24, 2018, but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (1) the Global Offering has become unconditional in all respects and (2) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for Termination” has not been exercised. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before they become valid do so entirely at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.

The above expected timetable is a summary only. You should read carefully the sections headed “Underwriting,” “Structure of the Global Offering” and “How to Apply for Public Offer Shares” in this prospectus for details relating to the structure of the Global Offering and the conditions and procedures for the Hong Kong Public Offering.

CONTENTS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has 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 or the Application Forms must not be relied on by you as having been authorized by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, any of the Underwriters, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.beststudy.com, does not form part of this prospectus.

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SUMMARY

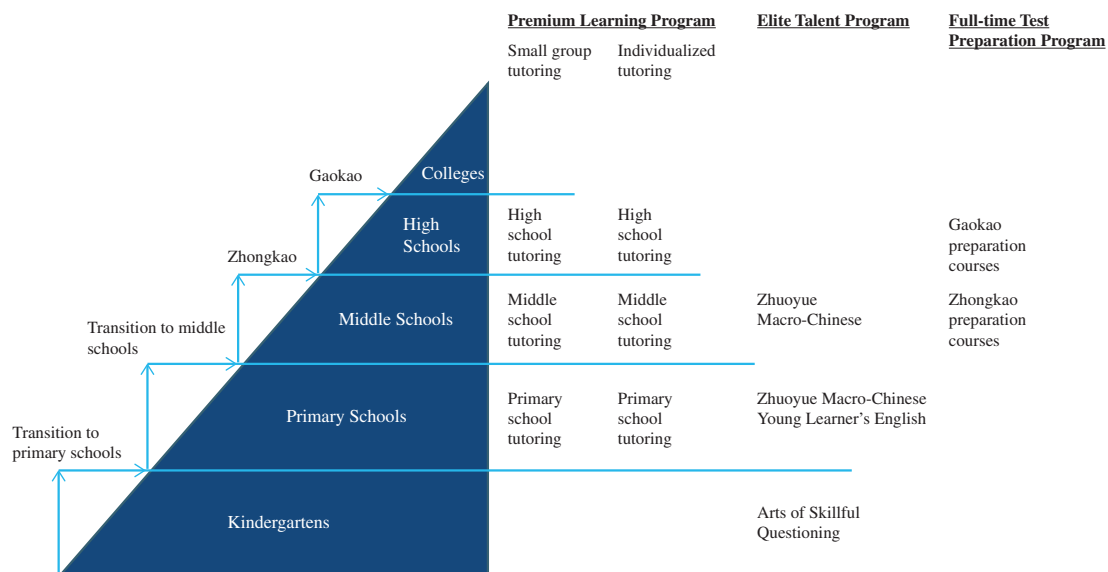
This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set forth in the section headed “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We were the largest K-12 after-school education service provider in southern China and the fifth largest nationwide as measured by total student enrollments and revenue in 2017, according to the F&S Report. We offer a diverse spectrum of K-12 after-school education services and products, including the Premium Learning Program and the Elite Talent Program, as well as other school subject-related courses including the Full-time Test Preparation Program, as illustrated by the following diagram.

Our After-school Education Services and Products



Our Premium Learning Program is designed to improve students' academic performance in schools, and covers all key academic subjects taught in primary schools, middle schools, and high schools in China. Our Elite Talent Program is designed to nurture the all-round development of our students and make the learning process more engaging and enjoyable. Our Full-time Test Preparation Program aims to help middle school and high school graduates achieve admission to their preferred schools through Zhongkao (中考) and Gaokao (高考).

SUMMARY

In addition to academic performance and quantitative learning results, we focus on stimulating students' overall interest in learning, developing effective learning capabilities and nurturing all-round development. We maintain our education quality powered by strong research and development capabilities, as well as a highly qualified teaching team.

We experienced significant growth during the Track Record Period. The number of our education centers increased from 136 as of December 31, 2015 to 180 as of December 31, 2017 at a CAGR of 15.0%, and further to 213 as of June 30, 2018. Our total student enrollments grew from approximately 313,000 for the year ended December 31, 2015 to approximately 500,000 for the year ended December 31, 2017 at a CAGR of 26.4%. For the six months ended June 30, 2017 and June 30, 2018, our total student enrollments were approximately 250,000 and 289,000, respectively. The total tutoring hours we delivered increased from approximately 7,472,000 in 2015 to approximately 11,180,000 in 2017 at a CAGR of 22.3%. For the six months ended June 30, 2017 and 2018, the total tutoring hours we delivered were approximately 4,814,000 and 6,003,000, respectively. Our revenue increased from RMB760.0 million in 2015 to RMB896.1 million in 2016, and further to RMB1,141.7 million in 2017. Our revenue increased from RMB561.3 million in the six months ended June 30, 2017 to RMB723.1 million in the six months ended June 30, 2018. Our gross profit increased from RMB315.6 million in 2015 to RMB376.3 million in 2016, and further to RMB482.8 million in 2017. Our gross profit increased from RMB244.9 million in the six months ended June 30, 2017 to RMB305.9 million in the six months ended June 30, 2018.

COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiated us from our competitors: (1) the largest K-12 after-school education service provider in southern China with substantial growth potential, (2) strong brand recognition, (3) comprehensive and innovative service offerings, (4) highly qualified teaching team underpinned by rigorous teacher training and well-established career pathway, (5) effective and quality teaching powered by our strong research and development capabilities and innovative high-tech tools, and (6) professional and experienced management team with proven track record.

BUSINESS STRATEGIES

We intend to maintain and strengthen our established leading position in China's K-12 after-school education market, and plan to pursue the following strategies to achieve our goal and further grow our business: (1) continue to optimize and diversify our service offerings, (2) increase existing market penetration and expand our geographic coverage, (3) further integrate information technology into our services and operation management, and (4) pursue selective strategic alliances and acquisitions.

SUMMARY

SUMMARY OF BUSINESS OPERATIONAL DATA

The following table sets forth a breakdown of our revenue by type of education services for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Premium Learning Program										
– <i>Small group tutoring</i> . . .	341,665	45.0	417,254	46.6	554,769	48.6	246,379	43.9	339,718	47.0
– <i>Individualized tutoring</i> . .	319,767	42.0	368,208	41.1	458,694	40.2	243,176	43.3	295,817	40.9
Elite Talent Program	6,137	0.8	13,719	1.5	26,695	2.3	9,935	1.8	17,848	2.5
Full-time Test Preparation										
Program	92,422	12.2	96,850	10.8	99,981	8.8	61,295	10.9	67,421	9.3
Others ⁽¹⁾	–	–	100	0.0	1,562	0.1	513	0.1	2,312	0.3
Total	<u>759,991</u>	<u>100.0</u>	<u>896,131</u>	<u>100.0</u>	<u>1,141,701</u>	<u>100.0</u>	<u>561,298</u>	<u>100.0</u>	<u>723,116</u>	<u>100.0</u>

(1) Our revenue from other services mainly represents revenue generated from Feng Bei app. See “Business — Our Education Services and Products — Other Education Service Offerings.”

The following table sets forth a breakdown of our student enrollments and the number of tutoring hours delivered by type of education services for the periods indicated.⁽¹⁾

	Year ended December 31,						Six months ended June 30,	
	2015		2016		2017		2018	
	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours
Premium Learning Program								
– <i>Small group tutoring</i> . . .	229,561	5,800,174	275,212	6,843,040	383,592	8,725,190	205,200	4,562,742
– <i>Individualized tutoring</i> . . .	74,861	1,581,010	78,317	1,739,748	98,802	2,027,882	74,555	1,216,945
Elite Learning Program	3,249	91,108	7,514	240,640	13,169	426,484	6,872	223,712
Full-time Test Preparation Program	<u>4,956</u>	<u>N/A</u>	<u>4,728</u>	<u>N/A</u>	<u>4,846</u>	<u>N/A</u>	<u>2,577</u>	<u>N/A</u>
Total	<u>312,627</u>	<u>7,472,292</u>	<u>365,771</u>	<u>8,823,428</u>	<u>500,409</u>	<u>11,179,556</u>	<u>289,204</u>	<u>6,003,399</u>

(1) Our student enrollments and the number of tutoring hours delivered by type of education services for the periods indicated were based on the internal records and calculations of our Group.

SUMMARY

The following table sets forth the number of our education centers as of the dates indicated.

	As of December 31,			Six months ended June 30, 2018
	2015	2016	2017	
Total number of education centers	136	149	180	213
Number of newly opened education centers	7	14	39 ⁽¹⁾	34 ⁽²⁾
Number of closed education centers	9 ⁽³⁾	1 ⁽⁴⁾	8 ⁽⁵⁾	1 ⁽⁶⁾

- (1) Include 22 newly established education centers and 17 education centers that had been split from existing education centers and managed independently thereafter.
- (2) Include 31 newly established education centers and three education centers that had been split from existing education centers and managed independently thereafter.
- (3) We closed nine education centers in 2015 primarily due to (1) our withdrawal from Jiangmen, a prefectural-level city in Guangdong province, as a result of our strategic adjustment, (2) low utilization rate of certain education centers, and (3) earlier termination of the lease.
- (4) We closed one education center in 2016 primarily due to its results of operations falling short of our expectation.
- (5) We closed eight education centers in 2017 primarily due to (1) earlier termination of the lease, (2) our strategic adjustment, and (3) lack of relevant approvals and permits as to the use of the property.
- (6) We closed one education center in the first half of 2018 primarily due to its results of operations falling short of our expectation.

Capacity and Utilization of Our Education Centers

Based on the internal records and calculations of our Group, the capacity of our education centers for our education services in the form of group class during the Track Record Period is as follows:

Premium Learning Program. The capacity of our small group tutoring, defined as the total student enrollments that can be accommodated assuming full utilization of all classroom seats reserved for small group tutoring, was approximately 376,000, 424,000, 572,000 and 323,000 for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

Elite Talent Program. The capacity of our Elite Talent Program, defined as the total student enrollments that can be accommodated assuming full utilization of all classroom seats reserved for the Elite Talent Program, was approximately 6,000, 13,000, 18,000 and 11,000 for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

SUMMARY

Full-time Test Preparation Program. We do not calculate the capacity and utilization rate of our Full-time Test Preparation Program as the student enrollments each year are relatively stable, and we usually adjust the classroom seats reserved for the Full-time Test Preparation Program according to the actual student enrollments each year.

The utilization rate of our small group tutoring and our Elite Talent Program reached 67.1% and 73.2% in 2017, respectively, whereas the average group class utilization rate of seven major national market players in the same period was 64.6%, according to the F&S Report. The following table sets forth the utilization rate of our education centers by type of education service offerings for the periods indicated.

	Year ended December 31,			Six months ended June 30, 2018
	2015	2016	2017	
Premium Learning Program				
Small group tutoring ⁽¹⁾⁽²⁾	61.1%	64.9%	67.1%	63.6%
Individualized tutoring	N/A	N/A	N/A	N/A
Elite Talent Program ⁽¹⁾⁽²⁾	50.6%	58.1%	73.2%	64.5%
Full-time Test Preparation Program	N/A	N/A	N/A	N/A

(1) The utilization rate of small group tutoring and the Elite Talent Program is calculated by dividing actual student enrollments of each year for each program by the capacity of each program during the same period and multiplied by 100.0%.

(2) The utilization rate of our Group's education centers during the Track Record Period was based on the internal records and calculations of our Group.

OUR TEACHERS

As of December 31, 2015, 2016 and 2017 and June 30, 2018, we had a total of 1,734, 2,148, 2,719 and 2,750 full-time teachers, respectively. As of the Latest Practicable Date, we had a total of 3,323 full-time teachers. We believe that our teachers are critical to maintaining the high quality and standards of our K-12 after-school education services. Therefore, we maintain rigorous qualification standards when selecting and training our teachers to ensure that we can provide consistent and high-quality education services to our students. We also pay close attention to retaining our teachers by (1) providing them with on-the-job training from time to time; (2) providing them with a well-established career pathway and encouraging them to explore various opportunities by offering a rotation program within our Group; and (3) promoting an enterprise culture accommodating personal learning, individual development, and happiness and opportunities. See "Business — Our Teachers." As a result, our teachers have demonstrated high loyalty as evidenced by our annual retention rate of such personnel of approximately 73.8%, 78.1%, 76.9% and 86.9% in 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively, much higher than the industry average of approximately 65.0%, according to the F&S Report.

SUMMARY

OUR STUDENTS

We mainly target students between the first grade and the twelfth grade of the K-12 system. We primarily employ the following marketing methods to attract prospective students and retain existing students: (1) word-of-mouth referrals, (2) social events, (3) media advertisement, and (4) promotional courses. We experienced significant growth in student enrollments during the Track Record Period. Our student enrollments grew from approximately 313,000 for the year ended December 31, 2015 to approximately 500,000 for the year ended December 31, 2017 at a CAGR of 26.4%, which exceeded the industry average growth rate of 6.6% and 6.8% over the same period in the K-12 after-school education service markets in China and southern China, respectively, according to the F&S Report. For the six months ended June 30, 2017 and 2018, our total student enrollments were approximately 250,000 and 289,000, respectively.

CUSTOMERS AND SUPPLIERS

Our customers consist primarily 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 2015, 2016 and 2017 and the six months ended June 30, 2018.

Our suppliers consist primarily of advertising service providers, rental service providers, decoration service providers and construction service providers. In 2015, 2016 and 2017 and the six months ended June 30, 2018, purchases from our five largest suppliers accounted for 16.8%, 12.3%, 11.2% and 17.2% of our total purchases, respectively, and purchases from our largest supplier accounted for 5.8%, 4.6%, 3.4% and 6.4% of our total purchases, respectively.

SHAREHOLDERS AND CORPORATE STRUCTURE

Our Controlling Shareholders

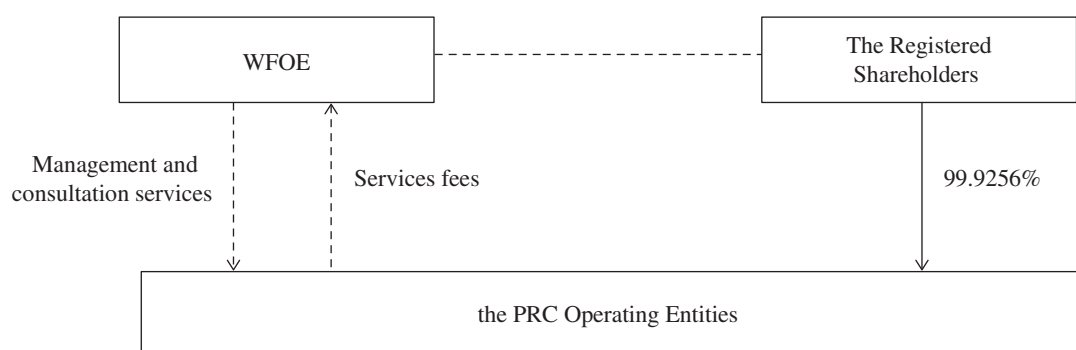
Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou entered into a concert party confirmation dated June 18, 2018 to confirm that they have acted in concert in the management, operation and all major decisions of our Group since they became Shareholders of our Group and will continue to act in concert when they are all interested, directly or indirectly, in our Group. Immediately after completion of the RSU Allotment and the Global Offering, Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Elite BVI, Texcellence BVI and Jameson Ying BVI will beneficially own approximately 53.88% of the issued share capital of our Company assuming the Over-allotment Option is not exercised. Accordingly, Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Elite BVI, Texcellence BVI and Jameson Ying BVI are considered as our Controlling Shareholders. For details, see “Relationship with the Controlling Shareholders.”

SUMMARY

Structured Contracts

We currently conduct our K-12 after-school education business through our PRC Operating Entities in the PRC as PRC laws and regulations generally restrict foreign ownership in the K-12 education industry in the PRC. We do not hold any equity interest in our PRC Operating Entities in the PRC. 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. See “Structured Contracts” in this prospectus for further details.

The following simplified diagram illustrates the flow of economic benefits from our PRC Operating Entities to our Group stipulated under the Structured Contracts.



Notes:

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

“----->” denotes contractual relationship.

See “Structured Contracts — Operation of the Structured Contracts” for details.

Our PRC legal advisers are of the opinion that the Structured Contracts are narrowly tailored to minimize the potential conflict with the relevant PRC Laws and Regulations.

Following the implementation of a variable interest entity structure with the execution of the Structured Contracts on June 18, 2018, we are subject to additional amounts of PRC value-added tax and surcharge. Our Directors consider that the additional amounts of PRC corporate income tax to which we are subject are insignificant, as both the WFOE and most of our PRC Operating Entities are subject to PRC income tax at the same rate of 25%. If the Structured Contracts had been in effect during the Track Record Period, 25% of the net profit of our PRC Operating Entities in the form of private non-enterprise units and 10% of the net profit of our PRC Operating Entities in the form of limited liability companies would have been required to be retained for our PRC Operating Entities’ working capital as the development fund and the companies’ statutory surplus reserve. We estimate, based on the prevailing laws and regulations up to date, that in the worst case scenario our net profit would have decreased

SUMMARY

by approximately 6.5%, 7.7%, 8.7% and 7.2% for the years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2018, respectively. However, such impact is estimated without taking into consideration of potential tax preferential policies, potential tax reductions with respect to factors such as the operational costs and expenses primarily comprising employee benefits, rental expenses and other operating-related expenses that were incurred by the WFOE in the process of providing corporate and education management consulting services, intellectual property licensing services as well as technical and business support services, as such mitigating factors cannot be estimated accurately at this moment. The actual impact on our financial results during the Track Record Period, therefore, may not have been as significant as set out above.

Draft Foreign Investment Law

The MOFCOM published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. See “Structured Contracts — Development in the PRC Legislation on Foreign Investment — Draft Foreign Investment Law and the Explanatory Notes” in this prospectus for further details of the Draft Foreign Investment Law and the potential effect to us if the Draft Foreign Investment Law were to become effective in its current form.

Risks Relating to the 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 and adversely affected. See “Structured Contracts” in this prospectus for further details. We strongly urge you to read “Risk Factors” in its entirety, including “Risk Factors — Risks Relating to Our Structured Contracts” for details of the risks relating to the Structured Contracts.

SUMMARY OF FINANCIAL INFORMATION

The following table presents a summary of our consolidated financial information in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018. You should read this summary together with the consolidated financial information contained in the Accountants’ Report in Appendix I to this prospectus, including the relevant notes, and the information contained in “Financial Information.”

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Highlights of Consolidated Statements of Profit or Loss

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
(RMB in thousands)					
CONTINUING OPERATIONS					
Revenue from contracts					
with customers	759,991	896,131	1,141,701	561,298	723,116
Cost of sales	(444,377)	(519,812)	(658,951)	(316,430)	(417,215)
Gross profit	315,614	376,319	482,750	244,868	305,901
Fair value changes on investments at fair value through profit or loss	4,320	2,184	33,259	3,301	33,331
Profit before tax from continuing operations . . .					
	108,984	85,923	112,782	51,051	113,300
Income tax expense	(38,467)	(27,753)	(37,374)	(22,077)	(31,391)
Profit for the year/period from continuing operations					
	<u>70,517</u>	<u>58,170</u>	<u>75,408</u>	<u>28,974</u>	<u>81,909</u>

Our revenue increased by 50.2% from RMB760.0 million in 2015 to RMB1,141.7 million in 2017, and increased by 28.8% from RMB561.3 million in the six months ended June 30, 2017 to RMB723.1 million in the six months ended June 30, 2018, primarily reflecting the growth of our student enrollments for our tutoring services and the average tuition fees we charge. Our cost of sales increased by 48.3% from RMB444.4 million in 2015 to RMB659.0 million in 2017, and increased by 31.9% from RMB316.4 million in the six months ended June 30, 2017 to RMB417.2 million in the six months ended June 30, 2018, primarily due to increases in the number of our teaching staff and the average compensation we paid to them. As a result of the foregoing, our gross profit increased by 53.0% from RMB315.6 million in 2015 to RMB482.8 million in 2017. Our gross profit then grew from RMB244.9 million for the six months ended June 30, 2017 to RMB305.9 million for the six months ended June 30, 2018.

During the Track Record Period, we recorded fair value changes on investments at fair value through profit or loss of approximately RMB4.3 million, RMB2.2 million, RMB33.3 million, RMB3.3 million and RMB33.3 million in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively. We recognized fair value changes on the following types of investments in profits or losses: (1) unlisted equity investments measured at fair value through profit or loss over which we had no significant influence, (2) listed equity investments measured at fair value through profit or loss, which represented equity securities and stocks purchased whose returns are not guaranteed, and (3) low-risk wealth management products

SUMMARY

issued by banks whose returns are not guaranteed. See “Financial Information — Description of Major Components of Our Consolidated Statements of Profit or Loss — Fair Value Changes on Investments at Fair Value through Profit or Loss.”

Non-IFRS Measure

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that this non-IFRS measure provides additional information to investors and others in understanding and evaluating our 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 eliminates the effect of non-recurring items and certain items that were not incurred in relation to our principal business. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest IFRS performance measure, which should be considered when evaluating our performance. The following table reconciles our adjusted net profit for the year presented to profit for the year, the most directly comparable financial measure calculated and presented in accordance with IFRS:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period	70,517	58,018	65,809	27,685	82,823
Add:					
Equity-settled share compensation costs	1,225	393	25,960	25,960	1,959
Discontinued operation	—	152	9,599	1,289	(914)
Other one-off expenses	427	700	5,202	3,763	—
Listing expenses	—	—	—	—	15,714
Less:					
Fair value changes on convertible redeemable preferred shares	12,403	—	—	—	—
Adjusted net profit	59,766	59,263	106,570	58,697	99,582

See “Financial Information — Description of Major Components of Our Consolidated Statements of Profit or Loss — Non-IFRS Measure” for details.

SUMMARY

Highlights of Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2015	2016	2017	2018
(RMB in thousands)				
Current assets	836,821	833,930	867,677	806,559
Current liabilities	561,072	508,503	686,200	687,308
Net current assets	275,749	325,427	181,477	119,251
Total assets less current liabilities	359,080	466,037	352,793	358,079

Summary of Consolidated Statements of Cash Flows

	Year ended December 31,			Six Months ended June 30,	
	2015	2016	2017	2017	2018
(RMB in thousands)					
Net cash flows generated from operating activities	190,141	169,603	238,415	95,538	102,402
Net cash flows used in investing activities	(42,185)	(191,061)	(400,580)	(78,580)	(108,583)
Net cash flows (used in)/generated from financing activities	(155,616)	37,011	(191,517)	(201,426)	(100,962)
Net (decrease)/increase of cash and cash equivalents	(7,660)	15,553	(353,682)	(184,468)	(107,143)
Cash and cash equivalents at beginning of the year/period	519,075	512,279	526,195	526,195	169,813
Effect of foreign exchange rate changes, net	864	(1,637)	(2,700)	(1,480)	306
Cash and cash equivalents at the end of the year/period	512,279	526,195	169,813	340,247	62,976

Key Financial Ratios

	As of/For the year ended December 31,			As of/For the six months ended June 30,
	2015	2016	2017	2018
Gross profit margin ⁽¹⁾	41.5%	42.0%	42.3%	42.3%
Net profit margin ⁽²⁾	9.3%	6.5%	5.8%	11.5%
Adjusted net profit margin ⁽³⁾	7.9%	6.6%	9.3%	13.8%
Return on equity ⁽⁴⁾	21.8%	14.4%	16.6%	24.9%
Return on assets ⁽⁵⁾	8.2%	6.1%	6.5%	7.9%
Current ratio ⁽⁶⁾	1.49	1.64	1.26	1.17

SUMMARY

Notes:

- (1) Gross profit margin was calculated based on our gross profit for the relevant year/period divided by our total revenue for the same year/period.
- (2) Net profit margin was calculated based on our profit for the year/period divided by our total revenue for the same year/period.
- (3) Adjusted net profit margin was calculated based on our adjusted profit for the year/period divided by our total revenue for the same year/period.
- (4) Return on equity equals profit for the year/period divided by average total equity amounts as of the beginning and end of the year/period.
- (5) Return on assets equals profit for the year/period divided by average total assets as of the beginning and end of the year/period.
- (6) Current ratio was calculated based on our total current assets divided by our total current liabilities as of the end of the year/period.

RECENT DEVELOPMENT

To promote the development of the private education industry, the Standing Committee of the National People's Congress promulgated the Amended Law for Promoting Private Education on November 7, 2016, effective on September 1, 2017 and followed by various administrative rules issued by the PRC central government, including Several Opinions of the State Council on Encouraging Social Resources to Invest in Education and Promote Sound Development of Private Education (國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見), the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》) and the Implementation Rules on the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》) (collectively, the “Administrative Regulations”). The Amended Law for Promoting Private Education and the Administrative Regulations have amended the Former Law for Promoting Private Education in many respects.

Under the Amended Law for Promoting Private Education and Administrative Regulations, private schools are classified by whether they are established and operated for profit-making purposes. In particular, for the first time, the for-profit education institutions are explicitly required to be established in form of limited liability company and are required to obtain the school operation permit. Private schools, except for those engaged in compulsory education, may choose to establish non-profit or for-profit private schools at their own discretion. The existing private schools registered as non-enterprise units can be transformed into limited liability companies and registered as for-profit education institutions upon financial liquidation and completion of required procedures. Further, on August 10, 2018, the Ministry of Justice of the PRC (中華人民共和國司法部, the “MOJ”) issued the Revised Draft of 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

SUMMARY

稿)》, the “MOJ Draft”) and an explanatory note soliciting public comments on the MOJ Draft till September 10, 2018, which intended to revise the existing implementation rules. As of the Latest Practicable Date, the date on which the MOJ Draft can be finalized and published remains uncertain.

In addition, a number of implementation rules regulating the development of the after-school education market have been promulgated following the issuance of the Amended Law for Promoting Private Education. On February 12, 2018, the General Offices of the MOE, SAIC, the MCA and the MOHRSS jointly issued the Circular on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools (《教育部辦公廳等四部門關於切實減輕中小學生課外負擔開展校外培訓機構專項治理行動的通知》, “Circular 3”), and soon after, the Proposal on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools of Guangdong Province (《廣東省教育廳等五部門關於切實減輕中小學生課外負擔開展校外培訓機構專項治理方案》, the “Guangdong Plan”) was issued jointly by Education Department of Guangdong Province (廣東省教育廳), Human Resource and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳), the Civil Affairs Department of Guangdong Province (廣東省民政廳), the Public Security Department of Guangdong (廣東省公安廳) and Administration for Industry and Commerce of Guangdong Province (廣東省工商行政管理局) to provide detailed implementation rules of the Circular 3 in Guangdong. Further, on August 22, 2018, the General Office of the State Council (國務院辦公廳) released the State Council Opinions 80, which provide various guidance on regulating the after-school education market for primary and secondary school students.

Further, on November 15, 2018, the Xinhua News Agency published “Certain Opinions of the Central Committee of the Communist Party of China and the State Council on Strengthening the Reform of, and Regulating the Development of, the Pre-school Education” (《中共中央國務院關於學前教育深化改革規範發展的若干意見》, the “Opinions on the Development of the Pre-school Education”), which provide guidance, among other things, on (1) widening the coverage of the pre-school education, (2) improving the qualification and training of kindergarten teachers, (3) providing comprehensive facilities and resources to kindergartens, (4) strengthening the subsidy system for pre-school education, (5) ensuring sufficient teachers and medical officers available in kindergartens, and (6) tightening the management and operation of kindergartens. The Opinions on the Development of the Pre-school Education also disallow private kindergartens to be listed or listed companies to invest in or acquire any for-profit kindergartens.

Our Group does not engage in kindergarten education. Our “Arts of Skillful Questioning,” a course offered under our Elite Talent Program, prepares kindergarten students for their transition to primary schools by helping them develop disciplined and sustainable learning habits and abilities, which is different from kindergarten education. See “Business — Our Education Services and Products — Elite Talent Program — Arts of Skillful Questioning” and “Relationship with the Controlling Shareholders — Information on Other Companies Owned by Our Controlling Shareholders” for details on our “Arts of Skillful Questioning” course.

SUMMARY

Our Directors are of the view that the business of our Group is not restricted by the Opinions on the Development of the Pre-school Education and therefore the Opinions on the Development of the Pre-school Education would not have any material adverse effect on the business operations and financial performance of our Group.

Furthermore, on November 20, 2018, the General Office of the MOE (中華人民共和國教育部辦公廳), the General Office of the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局辦公廳) and the General Office of the Ministry of Emergency Management of the PRC (中華人民共和國應急管理部辦公廳) jointly issued the Notice on Improving the Specific Governance and Rectification Mechanisms of After-school Education Institutions (《關於健全校外培訓機構專項治理整改若干工作機制的通知》, “Circular 10”), which provides specific requirements for the local people’s governments at all levels in the implementation of the State Council Opinions 80.

For details of the new education regulations disclosed above, see “Business — New Education Regulations.” Our Directors are of the view that these latest education regulations do not have any material adverse impact on our business and results of operations.

Since June 30, 2018 and up to the date of this prospectus, our business generally experienced continued growth, which was in line with the past trends and our expectations. To the best of our knowledge, there is no change to the overall economic and market condition in China or in the K-12 after-school education industry in which we operate that may have a material adverse effect to our business operations and financial position.

Our Directors confirm that, up to the date of this prospectus, there had been no material adverse change in our business, financial or operating conditions since June 30, 2018, being the end of the period reported on in the Accountants’ Report set out in Appendix I to this prospectus.

Since June 30, 2018 and up to the Latest Practicable Date, we have opened 17 new education centers in Guangdong and Shanghai. We have entered into lease agreements for another four new education centers and are preparing for their grand opening within 2018.

LISTING EXPENSES

We expect to incur a total of HK\$58.3 million of listing expenses (assuming an Offer Price of HK\$2.55, being the mid-point of the indicative Offer Price range between HK\$2.20 and HK\$2.90, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, of which approximately HK\$37.4 million will be charged to the consolidated statements of profits or loss in 2018 and HK\$20.9 million will be charged to equity upon completion of the Global Offering. During the Track Record Period, we incurred listing expenses of approximately RMB20.4 million, of which approximately RMB15.7 million was charged to our consolidated statements of profit or loss during the Track Record Period, while the remaining amount of approximately RMB4.7 million was recorded as deferred listing expenses and will be capitalized upon the completion of the Global Offering. Listing expenses

SUMMARY

represent professional fees and other fees incurred in connection with the Listing. The listing expenses above were the best estimate as at the Latest Practicable Date and were for reference only and the actual amount may differ from this estimate.

STATISTICS OF THE GLOBAL OFFERING

	Based on an Offer Price of HK\$2.20 per share	Based on an Offer Price of HK\$2.90 per share
Market value of shares ⁽¹⁾	HK\$1,769.9 million	HK\$2,333.1 million
Unaudited pro forma adjusted consolidated net tangible assets per share ⁽²⁾	HK\$0.81	HK\$0.94

(1) All statistics in this table are based on the assumption that the Over-allotment Option and the RSU Allotment are not exercised. The calculation of market capitalization is based on 804,500,000 Shares expected to be issued and outstanding following the completion of 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 804,500,000 Shares expected to be issued and outstanding following the completion of the Global Offering and does not take into account of any shares which may be issued upon the exercise of the Over-allotment Option or future RSU grants pursuant to the RSU Scheme.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$2.55 per Share (being the mid-point of the indicative range of the Offer Price of HK\$2.20 to HK\$2.90 per Share), we estimate that the net proceeds of the Global Offering, after deducting the estimated underwriting fees and expenses payable by us in connection with the Global Offering, will be approximately HK\$365.2 million.

We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 50% of the net proceeds, or HK\$182.6 million, for the expansion of our business network, including (1) strengthening our presence in southern China, and (2) expanding nationally into new cities or counties with unserved or underserved demand for K-12 after-school education services. In particular, we plan to establish approximately 150 new education centers spanning across a number of major cities in Guangdong province and elsewhere in southern China and nationwide by the end of 2020. See “Business — Our Business Strategies — Increase existing market penetration and expand our geographic coverage” for details;

SUMMARY

- approximately 30% of the net proceeds, or HK\$109.6 million, for seeking strategic alliances and acquisitions to support and expand our operations. We will primarily consider the following factors when analyzing and selecting a potential investment and acquisition target: (1) being ranked among the top three K-12 education service providers in the local market; (2) concentrating its business in Guangdong province, southern China and/or other first-tier cities in China; (3) profit-generating or with potential for generating profits; (4) ability to create synergies with our existing education centers and business development strategies; (5) having an experienced and visionary management team with strong initiatives, credibility, as well as sound execution capabilities; (6) possessing technologies and education resources that complement our existing businesses; (7) competitiveness of the relevant market in which the target operates; and/or (8) growth potential of the target's business. See "Business — Our Business Strategies — Pursue selective strategic alliances and acquisitions"; and
- approximately 20% of the net proceeds, or HK\$73.0 million, for investments to improve our teaching quality, including (1) investing in new technologies, such as advanced information technology platforms, artificial intelligence and data analytics to facilitate our teaching process, and (2) developing new education products and services.

See "Future Plans and Use of Proceeds" in this prospectus for details.

DIVIDENDS

During the Track Record Period, we paid cash dividends of RMB30.8 million, RMB0.6 million, RMB220.0 million, RMB220.0 million and RMB100.0 million in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018 to our then shareholders, respectively.

Our Group currently does not have a pre-determined dividend policy. Any amount of dividend we pay will be at the discretion of our Board of 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 (including all applicable PRC laws and regulations which our subsidiaries in the PRC are required to comply with). See "Financial Information — Dividends" for details.

RISK FACTORS

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. The main risks we faced include without limitation: (1) if we are unable to continue attracting students to enroll in our education programs at reasonable costs, our business and prospects may be materially and adversely affected; (2) we face intense competition in the PRC education industry which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departure of qualified employees and increased capital expenditures if we are unable to compete effectively; (3) we are exposed to

SUMMARY

geographical concentration risks as our operations are heavily concentrated in Guangzhou; (4) our business depends on our ability to recruit, train and retain dedicated and qualified teachers, senior management and other qualified personnel; and (5) higher labor costs, particularly increasing teachers' salary, may adversely affect our business and our profitability. See "Risk Factors" for details.

LEGAL PROCEEDINGS AND COMPLIANCE

We are subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material legal, arbitral or administrative proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our reputation, results of operations or financial condition.

During the Track Record Period and up to the Latest Practicable Date, we did not commit any material non-compliance of the PRC laws and regulations, and, save for otherwise disclosed in "Business — Legal Proceedings and Compliance," including the lack of complete license for online service offerings, the lack of fire safety filings and the failure to make adequate social insurance contribution, we did not experience any systemic non-compliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations. See "Business — Legal Proceedings and Compliance" for details.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed “Glossary” in this Prospectus.

“Administrative Regulations”	collectively, the Several Opinions of the State Council on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》) issued by the State Council on December 29, 2016; the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》) issued by the MOE, the Ministry of Civil Affairs, State Administration of Industry and Commerce, the Ministry of Human Resources and Social Welfare and the State Commission Office of Public Sectors Reform of the PRC on December 30, 2016, and the Implementation Rules on the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》) issued by the MOE, the State Administration of Industry and Commerce and the Ministry of Human Resources and Social Welfare of the PRC on December 30, 2016
“Application Form(s)”	WHITE, YELLOW and GREEN application form(s), or where the context so requires, any of them in relation to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on December 3, 2018 which will become effective upon the Listing Date, a summary of which is set out in Appendix III to this prospectus, as amended from time to time
“AUD”	Australian dollars, the lawful currency of the Commonwealth of Australia
“Audit Committee”	the audit committee of the Board
“Beibu Bay Economic Zone”	an economic zone in Guangxi province which comprises six cities, namely Nanning, Beihai, Qinzhou, Fangchenggang, Yulin and Chongzuo

DEFINITIONS

“Beststudy Limited”	China Beststudy Education (HK) Limited, a company incorporated in Hong Kong, which is a wholly-owned subsidiary of the Company
“Bestudy”	China Bestudy Education Group, an exempted company incorporated in the Cayman Islands with limited liability on August 30, 2010, which is a wholly-owned subsidiary of the Company
“Board” or “Board of Directors”	our board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemented from time to time
“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 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, or a CCASS Custodian Participant or a CCASS Investor Participant
“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

DEFINITIONS

“Co-Lead Managers”	Sinolink Securities (Hong Kong) Company Limited and 9F Primasia Securities Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
“Company”, “our Company” or “Beststudy”	China Beststudy Education Group (卓越教育集團), an exempted company incorporated in the Cayman Islands with limited liability on August 27, 2010
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules and unless the context otherwise requires, refers to the controlling shareholders of our Company, namely Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Elite BVI, Texcellence BVI and Jameson Ying BVI
“Corporate Reorganization”	the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out in “History and Corporate Structure — Corporate Reorganization” in this prospectus
“Deed of Indemnity”	the deed of indemnity dated December 3, 2018 entered into between the Controlling Shareholders and our Company in respect of, among other things, certain indemnities, further details of which are set out in “E. Other information — 2. Deed of Indemnity” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated December 3, 2018 entered into between the Controlling Shareholders and our Company regarding non-competition undertakings given by the Controlling Shareholders, the details of which are set out in “Relationship with the Controlling Shareholders — Deed of Non-competition”
“Director(s)”	the directors of our Company
“EIT”	the PRC enterprise income tax

DEFINITIONS

“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), enacted on March 16, 2007, effective from January 1, 2008 and amended on February 24, 2017 by the NPC
“Elite BVI”	Elite Education Investment Co. Ltd., a BVI business company incorporated in BVI with limited liability on August 18, 2010, which is wholly owned by Mr. Junjing Tang
“Equity Pledge Agreement”	the equity pledge agreement entered into by and among WFOE, Guangzhou Beststudy and the Registered Shareholders, dated June 18, 2018
“Exclusive Call Option Agreement I”	the exclusive call option agreement entered into by and among WFOE, Guangzhou Beststudy and the Registered Shareholders dated June 18, 2018
“Exclusive Call Option Agreement II”	the exclusive call option agreement entered into by and among WFOE, Guangzhou Beststudy and the 40 subsidiaries directly wholly-owned by Guangzhou Beststudy dated June 18, 2018
“Exclusive Call Option Agreements”	collectively refers to Exclusive Call Option Agreement I and Exclusive Call Option Agreement II
“Exclusive Management Consultancy and Business Cooperation Agreement”	the exclusive management consultancy and business cooperation agreement entered into by and among WFOE, Guangzhou Beststudy, our four material PRC Operating Entities, and the shareholders of Guangzhou Beststudy dated June 18, 2018 which is supplemented by the joinder agreements signed by each of our PRC Operating Entities subsequently
“FIE”	foreign invested enterprise
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (弗若斯特沙利文(北京)諮詢有限公司上海分公司), a consulting firm that provides market research and analysis
“F&S Report”	an industry report prepared by Frost & Sullivan
“GDP”	gross domestic product

DEFINITIONS

“Global Offering”	the Hong Kong Public Offering and the International Placing
“Greater Bay Area”	the Chinese government’s scheme to link the cities of Hong Kong, Macau, Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing into an integrated economic and business hub
“ GREEN Application Form(s)”	the application form(s) to be completed by WHITE Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company, its subsidiaries and the PRC Operating Entities from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
“Guangzhou Beststudy”	Guangzhou Beststudy Educational Co., Ltd. (廣州市卓越里程教育科技有限公司), a limited liability company established under the laws of the PRC on June 2, 2000, which is one of our PRC Operating Entities
“Hainan Free Trade Zone”	a free trade zone in Hainan province which will be established by 2020
“HK\$”, “Hong Kong dollar(s)” or “cents”	Hong Kong dollars and cents, respectively, the lawful currency for the time being of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offering”	the offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), on the terms and subject to the conditions described in this prospectus and the Application Forms

DEFINITIONS

“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated December 11, 2018 relating to the Hong Kong Public Offering entered into by our Company, the Controlling Shareholders, the Joint Global Coordinators and the Hong Kong Underwriters
“International Placing”	the conditional placing of the International Placing Shares to institutional, professional and other investors
“International Placing Agreement”	the underwriting agreement relating to the International Placing which is expected to be entered into by our Company, the Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters on or about the date of the Price Determination Agreement
“International Placing Share(s)”	the 136,260,000 new Shares to be offered by us (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus and the Over-allotment Option) under the International Placing
“International Underwriters”	the underwriters of the International Placing
“Jameson Ying BVI”	Jameson Ying Industrial Co. Ltd., a BVI business company incorporated in BVI with limited liability on August 18, 2010, which is wholly owned by Mr. Gui Zhou
“Joint Bookrunners”	CMB International Capital Limited, CEB International Capital Corporation Limited, Fortune (HK) Securities Limited, First Shanghai Securities Limited, Haitong International Securities Company Limited and ABCI Capital Limited
“Joint Global Coordinators”	CMB International Capital Limited and CEB International Capital Corporation Limited

DEFINITIONS

“Joint Lead Managers”	CMB International Capital Limited, CEB International Capital Corporation Limited, Fortune (HK) Securities Limited, First Shanghai Securities Limited, Haitong International Securities Company Limited, ABCI Securities Company Limited and China Galaxy International Securities (Hong Kong) Co., Limited
“Latest Practicable Date”	December 3, 2018, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our 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 Thursday, December 27, 2018 on which our Shares are listed and from which dealings in our Shares are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“MOE”	the Ministry of Education of the PRC (中華人民共和國教育部)
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed or purchased under the Hong Kong Public Offering and the International Placing, to be determined in the manner further described in “Structure of the Global Offering — Pricing and Allocation”
“Offer Share(s)”	the Public Offer Shares and the International Placing Shares, together, where relevant, with any additional Shares to be allotted and issued upon the exercise of the Over-allotment Option

DEFINITIONS

“Over-allotment Option”	the option granted by our Company to the International Underwriters exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) after consultation with the Company under the International Placing Agreement pursuant to which our Company may be required to allot and issue up to an aggregate of 22,710,000 additional Shares at the Offer Price, representing 15.0% of the initial size of the Global Offering, to cover over-allocations in the International Placing
“Powers of Attorney”	the powers of attorney executed by each of the Registered Shareholders, dated June 18, 2018
“PRC Operating Entities”	Guangzhou Beststudy and its subsidiaries and branches from time to time
“Price Determination Agreement”	the agreement expected to be entered into among our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or about the Price Determination Date to record the agreement on the final Offer Price
“Price Determination Date”	the date, expected to be on or around Monday, December 17, 2018 and, in any event, not later than Tuesday, December 18, 2018, on which the final Offer Price is to be fixed for the purpose of the Global Offering
“Public Offer Share(s)”	the 15,140,000 new Shares (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) being offered by us for subscription under the Hong Kong Public Offering

DEFINITIONS

“Registered Shareholders”	the shareholders of Guangzhou Beststudy, namely Mr. Junjing Tang (唐俊京), Mr. Junying Tang (唐俊膺), Mr. Gui Zhou (周貴), Mr. Xiaosong Liu (劉曉松), Mr. Wenhui Xu (徐文輝), Ms. Xiurong Shi (史秀榮), Tibet Zhuoben Equity Investment Co., Ltd. (西藏卓犇股權投資有限公司), Tibet Zhuomiao Equity Investment Co., Ltd. (西藏卓淼股權投資有限公司), Tibet Zhuoyan Equity Investment Co., Ltd. (西藏卓焱股權投資有限公司), Tibet Zhuohe Chuangye Equity Investment Management Co., Ltd. (西藏卓合創業投資管理有限公司), Ningbo Meishan Bonded Port Area Zhuoqian Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓前投資管理合夥企業(有限合夥)), Ningbo Meishan Bonded Port Area Zhuoqing Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓磬投資管理合夥企業(有限合夥)), Ningbo Meishan Bonded Port Area Zhuosi Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓似投資管理合夥企業(有限合夥)), Shenzhen Dezhiqing Investment Co., Ltd. (深圳市德之青投資有限公司), and Ningbo Meishan Bonded Port Area Zhuoqi Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓祁投資管理合夥企業(有限合夥)), and Ningbo Meishan Bonded Port Area Zhuofu Investment Management Partnership (Limited Partnership)(寧波梅山保稅港區卓扶投資合夥企業(有限合夥)), who collectively own approximately 99.9% equity interests of Guangzhou Beststudy
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency for the time being of the PRC
“RSU Allotment”	the 43,540,000 Shares to be allotted and issued at par value to Soarise Bulex Limited on the Listing Date, to provide for future RSU grants pursuant to the RSU Scheme
“RSU Scheme”	the restricted share unit plan adopted by our Company on December 3, 2018, the principal terms of which are summarized under the section headed “Statutory and General Information — D. Share Incentive Schemes — 1. RSU Scheme” in Appendix IV to this prospectus
“RSU(s)”	the restricted share units granted pursuant to the RSU Scheme

DEFINITIONS

“Sequoia Capital China”	collectively, Sequoia Capital China II, L.P., Sequoia Capital China Partners Fund II, L.P. and Sequoia Capital China Principals Fund II, L.P.
“SFC” or “Securities and Futures Commission”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
“Share(s)”	ordinary share(s) with nominal value of US\$0.00005 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on December 3, 2018, the principal terms of which are summarized under the section headed “Statutory and General Information — D. Share Incentive Schemes — 2. Share Option Scheme” in Appendix IV to this prospectus
“Sino-foreign Regulations”	collectively, Regulation of the PRC on Sino-foreign Cooperative Education (中華人民共和國中外合作辦學條例) and the Implementation Measures for the Regulation of the PRC on Sino-foreign Cooperative Education (中華人民共和國中外合作辦學條例實施辦法)
“Sole Sponsor”	CMB International Capital Limited, a corporation licensed under the SFO permitted to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
“Spouse Undertakings”	collectively, the spouse undertaking dated on June 6, 2018 or June 18, 2018, executed by each of the spouse of the individual Registered Shareholders, as the case may be
“sq.m.”	square metre(s)
“Stabilizing Manager”	CMB International Securities Limited, a corporation licensed under the SFO permitted to carry on type 1 (dealing in securities) and type 4 (advising on securities) of the regulated activities under the SFO
“State Council”	State Council of the PRC (中華人民共和國國務院)

DEFINITIONS

“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Elite BVI and the Stabilizing Manager (or its agents) on or around the Price Determination Date
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	collectively, the Exclusive Management Consultancy and Business Cooperation Agreement (including the joinder agreements signed by each of our PRC Operating Entities), the Exclusive Call Option Agreements, the Powers of Attorney, the Equity Pledge Agreement and the Spouse Undertakings
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Texcellence BVI”	Texcellence Holding Company Limited, a BVI business company incorporated in BVI with limited liability August 18, 2010, which is wholly owned by Mr. Junying Tang
“The Amended Law for Promoting Private Education”	the Law for the Promotion of Private Education of the PRC (2016 Revision) which was revised on November 7, 2016 and became effective on September 1, 2017
“The Former Law for Promoting Private Education”	the Law for the Promotion of Private Education of the PRC (《中華人民共和國民辦教育促進法》) (prior to the Amended Law for Promoting Private Education) which was issued on September 1, 2003 and was amended on June 29, 2013
“Track Record Period”	the period consisting of the three years ended December 31, 2017 and the six months ended June 30, 2018
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriters

DEFINITIONS

“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“US\$”	United States dollars, the lawful currency for the time being of the United States
“WFOE” or “Zhuoxue Information Technology”	Zhuoxue Information Technology Company Limited (廣州市卓學信息科技有限責任公司), established in the PRC as a wholly-foreign owned enterprise, which is wholly-owned by the Beststudy Limited
“ WHITE Application Form(s)”	the application form(s) to be completed in accordance with the instructions in “How to Apply for Public Offer Shares — A. Applications for Public Offer Shares — 3. Applying for Public Offer Shares”
“ White Form eIPO ”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“ YELLOW Application Form(s)”	the application form(s) to be completed in accordance with the instructions in “How to Apply for Public Offer Shares — A. Applications for Public Offer Shares — 3. Applying for Public Offer Shares”
“%”	per cent

Unless otherwise specified, all times refer to Hong Kong time.

Unless otherwise specified, references to years in this prospectus are to calendar years.

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

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

DEFINITIONS

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, the terms “associate,” “close associate,” “core connected person,” “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.

GLOSSARY

This glossary of technical terms contains certain technical terms used in this prospectus in connection with our Company. Such terms and their meanings may not correspond to standard industry definitions or usage.

“art major candidates”	candidates taking the Gaokao for art majors
“first-tier universities”	the first batch of universities that enroll students after Gaokao. Except for students with specialties in arts and sports, among other things, the basic admission requirement for the relevant high school graduates is that they achieved certain level of high scores in Gaokao as designated by the relevant PRC provincial education authorities, and they choose such universities for their college entrance application. Generally, these universities have stronger comprehensive strengths, such as school facilities, academic resources and scientific research capabilities, among other things, and frequently gain special support from the PRC central and local government
“Gaokao”	the national college entrance examination in the PRC, which is a prerequisite for entrance into almost all higher educational institutions at the undergraduate level in the PRC
“high school(s)”	schools that provide education for students in grade 10 through 12
“K-12”	refers to China’s education system comprising of three years of kindergarten, nine years of compulsory education in primary and middle school, followed by three years in high school
“middle school(s)”	schools that provide education for students in grade seven through grade nine
“one-child policy”	China’s population control policy implemented by the Population and Family Planning Law of the PRC, according to which a family can have only one child, with certain exceptions. The one-child policy was replaced by the two-child policy implemented in 2016

GLOSSARY

“primary school(s)”	schools that provide education for students in grade one through grade six
“Project 985 universities”	39 universities sponsored by Project 985 initiated by the MOE in 1999, with large amounts of funding allocated from both PRC national and local governments to support the development of the designated universities
“school sponsor”	the individual(s) or group(s) that funds or holds interests in an education institution
“southern China”	includes Guangdong province, Guangxi province and Hainan province
“student enrollments”	refers to the cumulative total number of courses registered and paid for by our students during a given period of time; if one student enrolls in multiple courses, it will be counted as multiple student enrollments
“student retention rate”	refers to the number of students who, after completing one semester tutoring course on a certain subject, continue to enroll in our tutoring course on the same subject for the consecutive semester or every other semester as a percentage of the total number of students who complete our K-12 after-school tutoring courses during a calendar year
“tier-1 cities”	refers to cities with strong economic development and high per capita disposable income, including Beijing, Shanghai, Guangzhou and Shenzhen
“tutoring hour”	the unit for measuring tutoring time delivered to each student, typically represents 60 minutes in lengths for individualized tutoring, 55 minutes in lengths for small group tutoring, and 40 minutes in lengths for the Elite Talent Program. For illustration purposes, if 10 students attended our small group tutoring course for one tutoring hour (i.e., 55 minutes) in the same time, it would be counted as 10 tutoring hours

GLOSSARY

“two-child policy”

China’s population control policy implemented in 2016 by the Decision of the Central Committee of the Communist Party of China and the State Council on Implementing the Universal Two-Child Policy and Reforming and Improving the Management of Family Planning Services 《中共中央、國務院關於實施全面兩孩政策改革完善計劃生育服務管理的決定》， according to which a family is allowed to have up to two children

“Zhongkao”

also known as the Senior High School Entrance Examination, the academic examination held annually in the PRC to distinguish junior high school students

FORWARD-LOOKING STATEMENTS

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political economic, business, competitive, market and regulatory conditions and the following:

- our business prospects;
- our business strategies and plans to achieve these strategies;
- future developments, trends and conditions in and competitive environment for the industries and markets in which we operate;
- general economic, political and business conditions in the PRC;
- our financial condition and performance;
- our capital expenditure plans;
- changes to the regulatory environment, policies, operating conditions of and general outlook in the industries and markets in which we operate;

FORWARD-LOOKING STATEMENTS

- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- the amount and nature of, and potential for, future development of our business;
- the actions of and developments affecting our competitors;
- the actions of and developments affecting our customers and major suppliers; and
- certain statement in the sections headed “Risk Factors,” “Industry Overview,” “Regulation,” “Business,” “Financial Information,” “Relationship with the Controlling Shareholders” and “Future Plans and Use of Proceeds” with respect to trends in interest rates, foreign exchange rates, prices, volumes, operations, margins, risk management and overall market trends.

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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

RISK FACTORS

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 material 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

If we are unable to continue attracting students to enroll in our education programs at reasonable costs, our business and prospects may be materially and adversely affected.

During the Track Record Period, the increase in our revenue depends primarily on the increase in the number of students enrolled in our education programs. Therefore, our ability to continue to recruit and retain students for our education programs at reasonable costs is critical to the continued success and growth of our business. This in turn will be subject to several factors, including our ability to:

- enhance existing education programs and services to respond to market changes and student demands;
- continue to attract new students and incentivize our existing students to continue to enroll our classes;
- develop new programs and services that appeal to our students and their parents;
- expand our education centers and geographic reach to satisfy our strategic needs;
- manage our growth while maintaining consistent and high teaching quality;
- recruit and retain teachers and other school personnel;
- maintain our reputation and enhance our brand recognition;
- effectively market and precisely target our programs to a broader base of prospective students; and
- respond effectively to competitive pressure.

RISK FACTORS

Furthermore, our business performance is sensitive to demographic changes in China. Student enrollments in private education in China are directly affected by the number of potential students in an area, which in turn may be affected by various external factors, including policies of the PRC government on family planning. Should the PRC government introduce policies that further restrict child birth in the future, it could have a negative impact on the growth of the education industry in China, resulting in further competitive pressure on us. This is particularly true with respect to any demographic factors that affect Guangzhou where most of our education centers are located. See “— We are exposed to geographical concentration risks as our operations are heavily concentrated in Guangzhou.”

If we are unable to continue to attract students and parents without significantly decreasing tuition or incurring significant increase in our selling and marketing expenses, our revenue may decline or we may not be able to maintain profitability, either of which could have a material adverse effect on our business, results of operations and financial condition.

We face intense competition in the PRC education industry which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departure of qualified employees and increased capital expenditures if we are unable to compete effectively.

The education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We primarily compete with K-12 after-school education service providers that offer similar education programs. We compete with these education service providers across a range of factors, including, among others, program and curriculum offerings, level of tuition, school location and premises, quality of teaching materials and competency of teachers and other key personnel. Our competitors may adopt similar curricula and marketing approaches, with different pricing and service packages that may have greater appeal than our offerings. In addition, some of our competitors may have more resources than we do and may be able to devote greater resources than we can to the development and promotion of their services and respond more quickly than we can to the changes in student preferences, testing materials, admission standards, market needs or new technologies. If we reduce tuition fees or increase spending in response to competition in order to retain or attract students and qualified teachers, or pursue new market opportunities, our revenue may decrease and our expenses may increase as a result of such actions which may adversely affect our profitability. If we are unable to successfully compete for students, maintain or increase our level of tuition, attract and retain competent teachers or other key personnel, maintain our competitiveness in terms of the quality of our education services in a cost-effective manner, our business and/or results of operations may be materially and adversely affected.

We are exposed to geographical concentration risks as our operations are heavily concentrated in Guangzhou.

We derived approximately 80%, 80%, 80% and 81% of our total revenue for 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively, from our operations in Guangzhou. Going forward, we expect our operations in Guangzhou to continue to constitute

RISK FACTORS

the major source of our revenue. The concentration of our business in Guangzhou exposes us to geographical concentration risks related to this region. Any material adverse social, economic and political developments, such as a serious economic downturn, natural disaster or outbreak of contagious disease in this region, may negatively affect the demand for and/or our ability to provide K-12 after-school education services. Furthermore, in the event that the local government adopts regulations relating to private education that place additional restrictions or burdens on us, or the market in Guangzhou experiences an increase in the level of competition for the types of services we offer, our overall business and results of operations may be materially and adversely affected.

Our business depends on our ability to recruit, train and retain dedicated and qualified teachers, senior management and other qualified personnel.

We rely substantially on our teachers for the provision of education services to our students. Our teachers are therefore critical to maintaining the quality of our programs and services and to upholding our brand and reputation. As of the Latest Practicable Date, we had a total of 3,323 full-time teachers. We must continue to attract qualified teachers who have a strong command of their respective subject areas to meet our high standards in order to maintain the quality of our education services and further grow our business. We seek to hire teachers who are capable of delivering innovative and inspirational classroom instructions, and the number of candidates is limited. In addition, we must provide on-going training to our teachers so that they can stay abreast of changes in market needs, student demands and other key trends necessary to effectively teach their respective courses. Similarly, there is a limited number of qualified and experienced school personnel, such as regional principals, all of whom are crucial to the efficient and smooth running of the education centers we operate. As a result, we have to provide competitive compensation and benefits packages to attract and retain qualified teachers and other school personnel.

We may not be able to hire or retain a sufficient number of qualified teachers and qualified school personnel at acceptable costs, or at all, to keep pace with our anticipated growth while maintaining consistent teaching quality of our education programs across different education centers. Faced with the intense competition, we may need to offer more competitive compensation packages to recruit and retain our teachers and school personnel and incur substantial costs. If we are unable to recruit and retain an appropriate number of qualified teachers and school personnel, the quality of our services or overall education programs may suffer or be perceived to have been compromised in one or more of our education centers, which may have a material adverse effect on our reputation, business or results of operations.

In addition, our future success heavily depends on the continuing services of our executive Directors and senior management team for day-to-day school management. If one or more of our executive Directors or senior management are unable or unwilling to continue their employment with us, we may not be able to replace them with qualified personnel in a timely manner, or at all, and our business may be disrupted and our results of operations and financial condition may be materially and adversely affected.

RISK FACTORS

Higher labor costs, particularly increasing teachers' salary, may adversely affect our business and our profitability.

Labor costs in China have risen in recent years as a result of social development and increasing inflation in China. As of June 30, 2018, we had 5,278 employees in China. The increases in labor cost may erode our profitability and materially harm our business, financial condition and results of operations. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, staff costs represented 69.9%, 71.7%, 69.9%, 72.2% and 69.6% of our total costs of sales, respectively. If labor costs in China continue to increase, our operating costs will increase. We may not be able to pass on these increased costs to our customers by increasing our tuition fees in light of competitive pressure in the markets. In such circumstances, our profit margin may decrease, which could have an adverse effect on our business, financial condition and results of operations.

Failure to adequately and promptly respond to changes in examination systems, admission standards, test materials, teaching methods and regulation changes in the PRC could render our courses and services less attractive to students.

In China, school admissions rely heavily on examination results, and students' performance in these examinations is critical to their education and future employment prospects. It is therefore common for students to take after-school tutoring classes to improve their test performance, and the success of our business to a large extent depends on the continued use of entrance examinations or tests by schools in their admissions. However, such heavy emphasis on examination scores may decline or fall out of favor with educational institutions or government authorities in China.

Admission and assessment processes undergo continuous changes, in terms of subject and skill focus, question type, examination format and the manner in which the processes are administered. We are therefore required to continually update and enhance our curricula, teaching materials and teaching methods. For example, in response to the increasing emphasis on liberal arts education, we have developed several courses focusing on improving students' comprehensive reading and writing abilities, including "Zhuoyue Macro-Chinese" and "Art of Skillful Questioning," which we believe have gained tremendous popularity among our students. Any failure to respond to the changes in a timely and cost-effective manner will adversely impact the marketability of our services and products.

Regulations and policies that decrease the weight of scholastic competition achievements in the admissions process mandated by government authorities or adopted by schools have had, and may continue to have, an impact on our enrollments. For example, the MOE issued certain implementation guidelines in January 2014 to clarify that local educational administrative departments at all levels, public schools and private schools are not allowed to use examinations to select their students for admission to middle schools from primary schools. Public schools may not use various competitions or examination certificates as the criteria or basis for enrollment. On February 13, 2018, the General Office of the MOE, together with three other government authorities, promulgated the Circular on Special Enforcement Campaign

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concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools (關於切實減輕中小學生課外負擔開展校外培訓機構專項治理行動的通知), (“Circular 3”), which aims to alleviate after-school burden on primary and middle school students through inspection and rectification on after-school tutoring institutions. Circular 3 prohibits, among other things, (1) extracurricular private training schools and institutions providing courses that do not follow the formal school curricula, and providing trainings to strengthen testing abilities for students; (2) extracurricular private training schools and institutions organizing after-school examinations and competitions for primary and middle school students, or any activities linking students’ performance in extracurricular private training schools with admission of primary and middle schools; and (3) teachers in primary and middle schools from engaging in part-time jobs to provide training services in after-school education institutions. Pursuant to the Measures for the Supervision and Administration of For-profit Private After-school Education Institutions (《營利性民辦培訓機構的監督管理辦法》, the “Guangdong Measures”) jointly promulgated by the Education Department of Guangdong Province (廣東省教育廳), Human Resources and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) and Administration for Industry and Commerce of Guangdong Province (廣東省工商行政管理局) on May 28, 2018, the tutoring activities on Chinese, mathematics, foreign language, physics, chemistry and other subjects in compulsory education stage provided by after-school education institutions should conform to the educational rules (教育規律) and the characteristics of the physical and mental development of the minors and should be based on the relevant curriculum standards. It is strictly prohibited to unduly raise learning requirements, speed up learning progress and increase learning difficulty in the tutoring activities. We do not conduct any of the prohibited activities and believe that our current programs will not be directly impacted by Circular 3 and Guangdong Measures. (During the Track Record Period, we generated substantially all of our revenue from education centers located in Guangdong. With the assistance of our PRC legal advisers, we consulted the policies and regulations division of the Education Department of Guangdong Province (廣東省教育廳), and we were advised by the Education Department of Guangdong Province that our Group was well-regulated and they did not find any violation of Circular 3 and Guangdong Plan by our Group in material aspects. We were further advised that our Group is among the most well-regulated education institutions in Guangdong that were invited to the consultation conferences by the Ministry of Education and the Education Department of Guangdong Province, when formulating the relevant regulatory rules. In addition, we consulted the education bureau of Shanghai Yangpu District, Beijing Haidian District, Beijing Changping District and Guangxi Province Nanning Qingxiu District, and we were advised by these education authorities that they are not aware of any operation of our Group in violation of Circular 3 in any material aspects. Our PRC legal advisers confirm that these education authorities are the competent authorities and are competent to provide the above confirmations.) However, uncertainties exist as the relevant authorities have discretion as to how Circular 3 and the Guangdong Measures should be interpreted and implemented. We cannot assure you that our business will continue to be in compliance with these regulations if the relevant authorities change their interpretation of these regulations, and our operation of business might be adversely affected.

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We cannot assure you that we will be able to manage our business expansion effectively, failure of which could harm our financial condition and results of operations.

We have expanded rapidly in major cities in China and we plan to continue to expand our geographical footprint into new cities or counties with unserved or underserved demand for professional education. The number of our education centers increased from 136 as of December 31, 2015 to 180 as of December 31, 2017, and further to 213 as of June 30, 2018. This expansion has resulted, and will continue to result, in substantial demands on our management, personnel and operational, technological and other resources. To manage the expected growth of our operations, we need to expand our existing operational, administrative and technological systems, our financial systems, procedures and controls, and the training and management of our growing employee base. In addition, the geographic dispersion of our operations requires significant management resources. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations, or that we will be able to effectively and efficiently manage the growth of our operations or recruit and retain qualified personnel to support our expansion. Our future success will depend in part upon the ability of our senior management to manage this growth effectively. In particular, our management may face the following challenges in managing this growth:

- controlling our costs and expenses and maintaining or increasing our margins and profitability;
- obtaining necessary licenses and approvals for new education centers;
- acquiring and retaining students;
- maintaining our key relationships with governmental agencies and responding to changes in the regulatory and policy environment;
- attracting, training and retaining qualified personnel;
- improving our operational, administrative and financial systems and internal controls and maintaining close cooperation between management members and department heads;
- increasing the awareness of our brand and protecting our reputation; or
- keeping up with evolving industry standards, technologies and market developments.

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Specifically, as we intend to continue to pursue selective strategic alliances and acquisitions to diversify our service offerings, complement our business strategies and enhance our growth potential, we may also face the following challenges in integrating acquired education centers or schools:

- integrating any acquired business into our business operations with minimal disruption to the existing operations of the acquired business;
- the acquired education centers or schools may have a culture that is adverse to change and not receptive to our education values and methods;
- minimizing disruption to existing students' curricula and ensuring their ability to progress through the education system is not hindered as a result of the acquisition;
- ensuring and demonstrating to our stakeholders that the new acquisitions or establishments will not result in any adverse changes to our established brand image, reputation, teaching quality and standards, and realizing the potential benefits of our acquisition.

Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our financial condition and results of operations. If we fail to expand our physical capacity as quickly as the demand for our services grows, we could lose potential students to our competitors, which could adversely affect our results of operations and business prospects.

Our plan to establish and operate educational institutions in foreign countries may not be successful.

With the aim of building our presence overseas and obtaining operational experience from abroad, we plan to establish and operate educational institutions in foreign countries. For example, we have formed a joint venture company with an Australian company to invest in education business in Australia. See “Business — Our Overseas Business.” We also plan to establish and operate an officially recognized high school with after-school tutoring services in the State of California, the United States. See “Structured Contracts — PRC Laws and Regulations Relating to Foreign Ownership in the Education Industry — Actions and Plan to Comply with the Qualification Requirement.” However, we have no prior experience in operating an educational institution in a foreign country and may be unfamiliar with the laws and regulations of a foreign jurisdiction. We may encounter barriers and challenges upon entering into such overseas markets, including failure to meet the relevant regulatory requirements, which may result in delay or inability to carry out our overseas expansion plan. We also plan to hire local administrators and teachers with relevant experience operating an education institution in California, but we cannot assure you that we will be able to identify and hire suitable candidates or that we will be able to work effectively with them. It may also be more difficult than we expect to attract students to enroll due to our lack of market recognition in the region. Furthermore, costs incurred may exceed our current expectations and

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we may need to make additional investment in developing our school overseas and may not be able to effectively manage our costs or generate sufficient revenue to justify the investment we made. We cannot assure you that the establishment of such educational institutions abroad will be successful.

We may face risks and uncertainties in the licensing requirements of our online service offering.

We launched our online service offering in recent years. During the Track Record Period, the revenue generated from our online tutoring services constitutes only a small portion of our revenue. We did not obtain the Internet content provider license (“ICP License”) for our online tutoring services during the Track Record Period. No material fines or other penalties have been imposed on us for non-compliance with licensing requirements for our online tutoring services in the past. However, as advised by our PRC legal advisers, our lack of the ICP License may result in orders to rectify, confiscation of gains from non-compliant operation, and a fine of three to five times of such gains if such gains exceed RMB50,000 or a fine of ranging from RMB100,000 to RMB1,000,000 if such gain is less than RMB50,000, which may adversely affect our business, financial condition and results of operations.

During the Track Record Period, certain of our tutoring videos and course materials were accessible to all registered users through our online platform and mobile applications, and such activities may fall within “online publishing,” which may require us to obtain the Online Publishing Service License (網絡出版服務許可證), which we did not obtain during the Track Record Period. No material fines or other penalties have been imposed on us for non-compliance with licensing requirements for our online platforms in the past. However, as advised by our PRC legal advisers, we cannot exclude the possibility that our lack of the Online Publishing Service License may result in, among other things, termination of business, deletion of all online publications, confiscation of illegal income and the equipment used in illegal activities, and a fine of five to ten times of the illegal income if such income exceeds RMB10,000 or a fine less than RMB50,000 if such income is less than RMB10,000.

In addition, the production, editing, transmission to the public through our online platform or mobile applications of our course materials and audio-visual content may be deemed as online audio-video program services under relevant PRC laws and regulations. In light of the confirmation of the competent PRC government authorities, our PRC legal advisers are of the view that we are not required to obtain the License for Online Transmission of Audio-Visual Programs (信息網絡傳播視聽節目許可證). However, we cannot assure that the competent PRC government authorities will not subsequently take a contrary view, especially in light of new regulatory developments. If the government authorities determine that our online tutoring services fall within the scope of business operations that require the above-mentioned licenses or other licenses or permits, we may not be able to obtain such licenses or permits on reasonable terms or in a timely manner or at all, and failure to obtain such licenses or permits may subject us to fines, legal sanctions or an order to suspend our online tutoring services.

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If we are not able to continually develop and enhance our online education programs and adapt to rapid changes in technological demands and student needs, we may not acquire and may lose market share and our business could be adversely affected.

Widespread use of the Internet for educational purposes is a relatively recent occurrence, and the market for Internet-based courses and services is characterized by rapid technological changes and innovations, as well as unpredictable product life cycles and user preferences. Though we have launched the “Niu Shi Bang” platform, Feng Bei app, and *zycourse.com*, we have limited experience with online education, and their results are largely uncertain. We have to adapt quickly to changing student needs and preferences, technological advances and evolving Internet practices in order to compete successfully in online education market. Ongoing enhancement of our online offerings and technologies may entail significant expenses and technological risks. We may not be able to use new technologies effectively or may fail to adapt to changes in the online education market on a timely and cost-effective basis. If improvements to our online education programs are delayed, result in systems interruptions or are not aligned with market expectations or preferences, we may not gain market share and our growth prospects could be adversely affected.

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

We operate our education centers under the “Zhuoyue Education” (卓越教育) brand. We believe that the market awareness and reputation of our “Zhuoyue Education” brand are crucial to the success and growth of our business. As we continue to grow in size and expand our programs and services, it may become difficult to maintain the quality and consistency of the services we offer, which may lead to diminishing confidence in our brand name.

Our ability to maintain our reputation may be affected by a number of factors, including, but not limited to, the levels of student and parent satisfaction with our curricula, our teachers and their teaching quality, the grades achieved by our students, accidents on campus, teacher or student scandals, negative press, disruptions to our education services, failure to pass an inspection by a government educational authority, loss of certifications and approvals that enable us to operate our education centers in the manner they are currently operated, unauthorized use or infringement of our brand or intellectual properties by third parties and use of our brand by our licensees without adhering to our standards of education. Furthermore, our education centers may not be able to meet our students’ and their parents’ expectations in terms of students’ academic performance, or to ensure that students enrolled in our education centers would be accepted by top-tier middle schools, high schools or universities of their choice. A student may not be able to achieve his or her expected academic results and/or other achievements and, at any time, his or her performance may decline due to reasons beyond our control. Student and parent satisfaction with our education programs may also decline. If we are unable to maintain or sustain our brand name and recognition, we may also be unable to maintain or increase student enrollment, which may have a material adverse effect on our business, financial condition and results of operations.

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We have developed our student base in part through word-of-mouth referrals and media advertisement. We cannot assure you that our marketing efforts will be successful or sufficient in further promoting our brand or in helping us remain competitive. In addition, the content of our advertisement may be investigated by the relevant authorities. Should the relevant authorities found our advertisement in violation of the applicable advertising laws and regulations, we may be subject to administrative penalties, such as fines. 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 substantial marketing and promotional expenses in order to remain competitive, our business, financial condition and results of operations may be materially and adversely affected.

Our business is subject to seasonal fluctuations, which may cause our results of operations to fluctuate from time to time. This may result in volatility and adversely affect the price of our Shares.

Our business is subject to seasonal fluctuations, primarily due to seasonal changes in student enrollments. For example, our small group tutoring programs tend to have the lower student enrollments from January to February each year due to the Chinese New Year. However, our expenses vary, and certain of our expenses do not necessarily correspond with changes in our student enrollments and revenue. We expect to continue to experience seasonal fluctuations in our revenue and results of operations. These fluctuations could result in volatility and adversely affect the price of our Shares.

We may not be able to maintain or increase our tuition fee.

Our results of operations are affected by the pricing of our education services. We determine our tuition rates primarily based on the demand for our educational programs, the cost of our operations, the geographic market where we operate our schools, the tuition rates charged by our competitors, our pricing strategy to gain market share and general economic conditions in the PRC. Our ability to maintain the premium fee level or raise tuition is primarily dependent on the innovative and high-quality services and products we offer and the perception of our brand. Although we have been able to increase the tuition we charge our students in the past, we cannot guarantee that we will be able to maintain or increase our tuition in the future without adversely affecting the demand for our education services.

A portion of our education centers are not in compliance with the relevant fire safety regulations.

All of our education centers are located in properties leased from third parties. We generally made decoration work to the leased properties to meet our business operational needs.

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As of the Latest Practicable Date, we had 16 leased properties, representing 6.53% of our total leased properties, which have not completed the fire safety filing. The gross floor area of such leased properties is 11,207.08 sq.m., representing 5.01% of our aggregate leased area. If we cannot complete the filing of fire protection design, construction work and completion inspection according to the relevant requirements, we may be subject to a fine or may be ordered to make rectification within a specified period of time or suspend our operation on the affected properties, and the application and renewal of school operating permits for the education centers located in the affected properties may be affected. See “Business — Legal Proceedings and Compliance” and “Regulation — Laws and Regulations Relating to Fire Safety.”

We operate our education centers on leased properties and may not be able to control rental cost, quality, maintenance and management of these education centers, nor can we ensure we will be able to renew or find suitable premises to replace our existing education centers in the event our landlords refuse to renew the relevant lease agreements upon the expiry of their terms.

As of the Latest Practicable Date, we lease all the premises used in our operations from third parties. See “Business — Properties.” Such premises and facilities were developed and/or maintained by our landlords. Accordingly, we are not in a position to effectively control the quality, maintenance and management of such premises and facilities. In the event the quality of the premises and facilities deteriorates, or if any or all of our landlords fail to properly maintain and renovate such premises or facilities in a timely manner, or if we are unable to successfully extend or renew our leases upon expiration of the current term on commercially reasonable terms or at all, we may be forced to relocate our education centers, or the rental costs may increase significantly. We compete with many other businesses for sites in certain prime locations, and some landlords may have entered into long-term leases with our competitors for these locations. As a result, we may not be able to find desirable locations without incurring significant time and financial costs. If this occurs, our operations will be disrupted and our results of operations could be materially and adversely affected.

Moreover, as of the Latest Practicable Date, the lessors of 53 of our leased premises have not provided us with valid ownership certificates or authorization of sublease for our leased properties. The gross floor area of such leased properties is 57,088.10 sq.m., representing 25.51% of our aggregate leased area. See “Business — Properties.” As a result, there is a risk that these lessors may not have the right to lease such properties to us, in which case the relevant lease agreements may be deemed invalid or we may face challenges from the property owners or other third parties regarding our right to occupy the premises. If such lease is terminated as a result of challenges by third parties or government authorities, we may also be forced to relocate the affected education centers and incur significant expenses.

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In addition, as of the Latest Practicable Date, we did not register 130 of our lease agreements with the relevant government authorities. See “Business — Properties.” Under the relevant PRC laws and regulations, we may be required to register and file with the relevant government authority executed leases. According to our PRC legal advisers, while the lack of registration will not affect the validity and enforceability of the lease agreements, a fine ranging from RMB1,000 to RMB10,000 may be imposed on the parties for each non-registered lease in case we do not observe an order issued by relevant government authority which require us to file the registration in a specific period of time. We may incur additional expenses if any fines were imposed upon us, which may adversely affect our business and results of operations.

The adoption of IFRS 16 may have material impact on our financial position and performance going forward.

IFRS 16, which will become effective from annual periods on or after January 1, 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases. See Note 2.4 to the Accountants’ Report in Appendix I to this prospectus for more details.

As of June 30, 2018, our Group had payment commitments under non-cancellable operating leases of approximately RMB849.4 million as disclosed in Note 30 to the Accountants’ Report in Appendix I to this prospectus. Based on the preliminary assessment by our Directors, our Directors believe the most significant changes relate to the recognition of right-of-use (“ROU”) assets and lease liabilities in the consolidated statements of financial position for operating leases of the premises. Based on the preliminary assessment by our Directors, assuming all non-cancellation operating lease commitments as disclosed in Note 30 to the Accountants’ Report meet the IFRS 16 criteria, the adoption of IFRS 16 will result in recognition of ROU assets and financial liabilities of approximately RMB710.9 million. The financial liabilities will be measured on an amortized cost basis and the interest expense of RMB138.5 million will be allocated over the lease term using the effective interest rate method. As for the financial performance impact in profit or loss, rental expenses will be replaced with straight-line depreciation expense on the ROU asset and interest expenses on the lease liability. The combination of the 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 consolidated statements of profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. Our Directors anticipate that the application of IFRS 16 in the future will result in an increase in financial assets and financial liabilities, which is likely to have significant impact on our Group’s financial position. However, our Directors anticipate that the net impact on our Group’s financial performance is not significant. For the classification of cash flows, our Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under IFRS 16, lease payments in relation to lease liability will be allocated into principal and interest portions which will be presented as financing cash flows.

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The fair value of our equity investment may face uncertainties and be subject to fluctuations as the valuation of its fair value involves the use of significant unobservable inputs.

We recorded fair value changes on equity investment of nil, nil, RMB19.4 million, RMB0.7 million and RMB17.5 million in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively. We recognized fair value changes on the following types of equity investments in profits or losses: (1) unlisted equity investments measured at fair value through profit or loss over which we had no significant influence, and (2) listed equity investments measured at fair value through profit or loss, which represented equity securities and stocks purchased whose returns are not guaranteed. Our Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole. See Note 2.5 to the Accountants' Report in Appendix I to this prospectus for details. Changes in any of the unobservable inputs could result in changes of the fair value of our equity investment. As a result, the fair value of our equity investment is subject to uncertainties in accounting estimate, which could negatively impact our financial condition and net profit or loss.

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

We are required to obtain and maintain various approvals, licenses and permits and fulfill registration and filing requirements in order to conduct our education services and operate our education centers. For instance, as required by the Amended Law for Promoting Private Education and its implementing rules, we are required to obtain a private school operation permit from the local education bureau and to register with the local civil affairs bureau or industry and commerce department to obtain a certificate of registration for a private non-enterprise unit or corporate entity. As of the Latest Practicable Date, we had a total of 55 PRC Operating Entities, 27 of which are in the form of private non-enterprise units, while the remaining 28 are in the form of limited liability companies. All of our 27 PRC Operating Entities in the form of private non-enterprise units are required to obtain school operation permits and all of them have obtained such permits. Among 28 PRC Operating Entities in the form of limited liability companies, 19 PRC Operating Entities of which are required to obtain the private school operation permits in accordance with the Amended Law for Promoting Private Education and nine PRC Operating Entities of which are not required to obtain the private school operation permits because they do not directly operate any education centers. For the 19 PRC Operating Entities in the form of limited liability companies which are required to obtain the private school operation permits, their education centers are located in Beijing, Shanghai, Guangdong and Guangxi, respectively. Among these 19 PRC Operating Entities, six PRC Operating Entities have obtained school operation permits, and the remaining 13 PRC Operating Entities are in the process of preparing for the application for such permits. According to the consultation with the competent education departments of Shanghai,

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Guangdong and Guangxi by our PRC legal advisers, our limited liability companies that operate education centers which have not obtained private school operation permits will not be subject to administrative penalty if we file the application for such permits promptly under the local regulations and guidance with competent authorities. According to the consultation with the competent education department of Beijing by our PRC legal advisers, the limited liabilities company in Beijing, namely, Beijing Qiaowen Education Technology Co., Ltd. (北京巧問教育科技有限公司) which has not obtained the private school operation permit will not be subject to administrative penalty before Beijing promulgates the detailed measures for application of school operation permits. See “Business — New Education Regulations — Circular 10.” As advised by our PRC legal advisers, provision of tutoring services without obtaining the school operation permits may subject us to order to suspend the operation of the affected tutoring centers and refund the tuition fees, or a fine of one to five times of the gains from the tutoring centers that failed to obtain the private school operation permits.

In addition, we may be required to obtain China work permit for our foreign employees. As of the Latest Practicable Date, we had one foreign employee as the English teacher under our Elite Talent Program at our education centers, and we are in the process of applying for his work permit. If we fail to obtain the China work permit, our Company may be subject to a fine of RMB10,000 for each foreign employee without China work permit and no more than RMB100,000 in total; those foreign employees may be subject to deportation and fine.

There can be no assurance that we will be able to obtain all required permits and complete all necessary filings, renewals and registrations on a timely basis for our education centers and our employees, given the significant amount of discretion the local PRC authorities may have in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control and anticipation. If we fail to receive required permits in a timely manner or obtain or renew any permits and certificates, we may be subject to fines, confiscation of the gains derived from our non-compliant operations, suspension of our non-compliant operations or claims for compensation of any economic loss suffered by our students or other relevant parties.

Capacity constraints of our education centers could cause us to lose students to our competitors.

Our education centers are limited in number and size of classrooms. Our ability to serve our students is constrained by the physical capacity of the education centers we operate as well as the number of qualified teachers we have. As we may not be able to admit all students who would like to enroll in our programs due to the capacity constraints, this would deprive us of the opportunity to serve those students and to potentially develop a long-term relationship with them for continued services. If we fail to expand our physical capacity as quickly as the demand for our services increases, we could lose potential students to our competitors, and our results of operations and business prospects could suffer as a result.

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As we have certain third-party meal catering services at our education centers, we cannot guarantee that the quality and price of the food they provide are always the best available. In addition, we may be exposed to potential liabilities if the food quality does not comply with relevant standards.

During the Track Record Period, we have certain independent meal catering services providers at our education centers for our Full-time Test Preparation Program. We monitor the food quality strictly. While we have internal control over the quality of these service providers, such as conducting due diligence in relation to the requisite licenses and qualifications of the providers and regular inspection of the canteens at our education centers, it is impracticable for us to monitor the day-to-day operations of our service providers. As such, we cannot assure you that we will be able to monitor the preparation process to ensure its quality. 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 materially and adversely affected.

Accidents or injuries suffered by our students, our employees or other personnel at our 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 education centers, including those caused by or otherwise arising in connection with our facilities or employees. We could also face claims alleging that we were negligent, provided inadequate maintenance to our 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 education centers. 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 education centers may thus be perceived to be unsafe, which may discourage prospective students from applying to or attending our education centers. Furthermore, our insurance coverage may not be adequate to fully protect us from these kinds of claims and liabilities, and we may not be able to obtain liability insurance in the future at reasonable prices or at all. A liability claim against us or any of our employees could adversely affect our reputation, student enrollments and the retention rate. 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 may have a material adverse effect on our business, prospects, financial condition and results of operations.

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

Companies operating in the PRC are required to participate in various employee benefit plans, including social insurance. During the Track Record Period, we did not make adequate contributions to the social insurance plans for certain employees. See “Business — Legal Proceedings and Compliance — Social Insurance.” We cannot assure you that our employees will not complain to the relevant authorities regarding the basis of how we had made the

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contribution 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.

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

We have experienced growth in revenue during the Track Record Period. Our historical growth was driven by the increases in the number of students enrolled, the level of tuition 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:

- our ability to maintain and increase student enrollments and maintain and raise tuition fees;
- general economic and social conditions and government regulations or actions pertaining to the provision of private education in the PRC;
- increased competition and market perception and acceptance of any of our newly introduced education programs in any given year;
- expansion and related costs in a given period;
- shifts in attitude towards private education in the PRC from students and their parents;
- our ability to control our cost of sales and other operating costs, and enhance our operational efficiency; and
- our ability to successfully carry out our growth strategies and expansion plans.

In addition, during the Track Record Period, some of our subsidiaries enjoyed preferential tax treatments, such as preferential tax treatments for small-to-micro business and/or software business. See “Financial Information — Description of Major Components of Our Consolidated Statements of Profit or Loss — Taxation.” We cannot assure you that the PRC government will not promulgate relevant tax regulations that will reduce or eliminate such preferential tax treatments, or the local tax bureaus will not change their policy in the future. If the currently available preferential tax treatments discontinue or the applicable enterprise income tax rate and/or value-added tax rate increase in the future, our profitability may be materially and adversely impacted.

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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. Our Shares could be subject to significant price volatility, should our earnings fail to meet the expectations of the investment community. Any of these events could cause the price of our Shares to materially decrease.

Our investments in wealth management products may be subject to certain counterparty risks and market risks.

During the Track Record Period, we invested certain amounts of cash in wealth management products. These investments are generally short-term low-risk wealth management products issued by licensed commercial banks in the PRC. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, the fair value gains of such investments totalled RMB4.3 million, RMB2.2 million, RMB13.8 million, RMB2.6 million and RMB15.8 million, respectively. Accordingly, we are subject to the risks that any of our counterparties, such as the banks that issued wealth management products, may not perform their contractual obligations, such as in the event that any such counterparty declares bankruptcy or becomes insolvent. Any material non-performance of our counterparties with respect to the wealth management products we invested in could materially and adversely affect our financial position and cash flow. Furthermore, our short-term investments are subject to the overall market conditions, including the capital markets. Any volatility in the market or fluctuations in interest rates may reduce our financial position or cash flow, which, in turn, could materially and adversely impact our financial condition. In addition, general economic and market conditions affect the fair value of these wealth management investments. If circumstances indicate that the carrying amount of these investments may not be recoverable, such investments may be considered “impaired,” and an impairment loss would be recognized in accordance with accounting policies and charged to our statements of profits or loss for the relevant period. Accordingly, any material decline in the fair value of these short-term investments may have a material adverse effect on our results of operations.

New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects.

The private education industry in the PRC is subject to regulations in various aspects. Relevant rules and regulations could be changed to accommodate the development of the education, in particular, the private education markets from time to time. For example, the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》) was promulgated in December 2002, amended in June 2013, and was further amended in November 2016 and took effect from September 1, 2017. Pursuant to the latest amendments, (1) school sponsors of a private school which provides education services may choose for the school to be a for-profit private school or a non-profit private school, provided that, a private school which provides compulsory education is not allowed to become a for-profit school; (2) school sponsors of a for-profit private school are allowed to receive operating profits, while school sponsors of a non-profit private school are not allowed to do so; (3) a non-profit private school

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shall enjoy the same preferential tax treatment as public schools, while a for-profit private school shall enjoy the preferential tax treatment as stipulated by the governments; and (4) a for-profit private school may determine the tuition by itself while a non-profit private school shall collect tuition pursuant to the measures stipulated by the provincial governments. See “Regulation — Regulations on Private Education in the PRC — The Amendment to the Law for Promoting Private Education.”

Our private non-enterprise unit which operates the education center is required to choose to register as a “for-profit private school” or a “non-profit private school” subject to the deadlines stipulated in the local rules and regulations, and such requirement does not apply to a limited liability company regardless of whether it operates an education center. As of the Latest Practicable Date, our Group had 27 private non-enterprise units which are located in Guangdong and Shanghai, respectively. In Shanghai, as of the Latest Practicable Date, we had one private non-enterprise unit that operates education centers, namely, Shanghai Yangpu Beststudy Education and Training Center (上海楊浦區卓越教育培訓中心, “Yangpu Center”). Yangpu Center, as a private non-enterprise unit, is required to choose to register as a “for-profit private school” or a “non-profit private school.” Pursuant to the Management Methods of Classified Registration of Private Schools (《上海市民辦學校分類許可登記管理辦法》) promulgated by Shanghai Municipal Government, private non-enterprise units operating education centers choosing to register as a for-profit private school shall complete the registration before December 31, 2020. We have determined that Yangpu Center, the only private non-enterprise unit of our Group in Shanghai is to register as a for-profit private school. Yangpu Center is in the process of preparing application for such registration and shall therefore complete such registration before December 31, 2020. In Guangdong, as of the Latest Practicable Date, we had 26 private non-enterprise units that operate education centers, and had transferred all their businesses to our seven limited liability companies. Such private non-enterprise units are required to choose to register as a “for-profit private school” or a “non-profit private school.” As advised by our PRC legal advisers, the respective education departments of Guangdong have not promulgated specific rules to provide the respective deadlines for private non-enterprise units operating education centers to register as a “for-profit private school” or a “non-profit private school.” Except that we plan to deregister the Foshan Shunde Lecong Learning Frontline Education and Training Center (佛山市順德區樂從鎮學習前線教育培訓中心, “Lecong Center”) and Dongguan Houjie Beststudy Training Center (東莞市厚街卓越培訓中心) due to the termination of their leases, our Directors confirm that our Group have decided to choose to register the remaining 24 private non-enterprise units as “for profit private schools” in due course in compliance with the relevant rules.

In addition, pursuant to the Amended Law for Promoting Private Education and other related administrative rules, in order to obtain the school operation permit, private education institutions must submit the qualification certificates of their school principals, teachers and financial personnel. The teaching staff of the institutions shall have relevant teacher qualifications or professional skill qualifications. For the teaching staff who teach Chinese, mathematics, English, physics, chemistry and other subjects in compulsory education stage, such teaching staff shall have the relevant teacher qualifications. However, it is silent on the definition of “teacher qualifications.” As of the Latest Practicable Date, approximately 71.8%,

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or 2,385 of our full-time teaching staff (including approximately 2,324 based in Guangdong province) who teach Chinese, mathematics, English, physics, chemistry and other subjects have teacher qualifications issued by competent governmental authorities or China Education for Non-government Association (中國民辦教育協會). Based on the consultation with the policies and regulations division of the Education Department of Guangdong Province (廣東省教育廳), our Company has been advised, among others, that (1) the “teacher qualifications” include but not limited to the teacher qualifications issued by competent governmental authorities and educational industry association, such as China Education for Non-government Association (中國民辦教育協會), (2) the after-school education institutions established prior to the promulgation of the Amended Law for Promoting Private Education are allowed to rectify its issues of insufficient qualified teaching staff within a certain period, during which the after-school education institutions will not be ordered to cease operation for the reason of insufficient qualified teaching staff if they could meet the requirements of the number of qualified teaching staff by competent education authorities during annual inspection, and (3) the specific rules and standards for the qualification of teaching staff will be further promulgated by local governments of municipality cities in Guangdong. Our PRC legal advisers are of the view that the abovementioned education departments of Guangdong Province are the competent authorities and such authority is competent to provide the above confirmation. However, there are still uncertainties as the specific rules and standards for the qualification of teaching staff in municipality cities of Guangdong other than Guangzhou have not been promulgated. In addition, the municipality cities in Guangdong may set forth more specific and stricter requirements for teacher qualifications according to the Guangdong Measures and the Guangdong Standards. Moreover, uncertainties also exist as the specific rules and standards for the qualification of teaching staff may be further promulgated from time to time by national or local competent authorities. On August 31, 2018, the General Office of the MOE promulgated the Circular regarding the Truly Implementation of Special Measures and Rectification Work on the Private Education Institutions (《教育部辦公廳關於切實做好校外培訓機構專項治理整改工作的通知》), which provides detailed requirements for the provincial education departments to enforce the State Council Opinions 80. Among other things, it provides that the teaching staff who are required to obtain relevant teacher qualifications shall participate in the Teacher Qualification Examination in the second half of 2018, and if such teaching staff fail to pass the Teacher Qualification Examination, they shall not engage in the abovementioned tutoring activities. We have required those teaching staff of our Group who have not obtained relevant teacher qualifications to participate in the Teacher Qualification Examination in accordance with guidances of the competent education authorities, requirements of the Amended Law of Promoting Private Education and other related administrative rules. If such teaching staff fail to obtain relevant teacher qualifications as required by the Amended Law for Promoting Private Education and related administrative rules, we will cease their engagement in the tutoring activities for Chinese, mathematics, English, physics, chemistry and other subjects. Therefore, we may not be able to meet the local requirements to obtain or renew our school operation permit pursuant to the local practice under the enforcement of the Amended Law for Promoting Private Education.

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On August 10, 2018, the Ministry of Justice (“MOJ”) of the PRC (中華人民共和國司法部) issued the Revised Draft of 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”) and an explanatory note to invite public comments on the MOJ Draft till September 10, 2018. The main changes compared to the current Implementation Rules in effect that may be related to our Group are as follows:

- (i) Article 5 of the MOJ Draft provides that foreign invested enterprises incorporated and social organizations established in the PRC whose ultimate controlling owners are foreign nationals shall not invest or participate in investing, or have ultimate and actual control over any private school engaged in compulsory education. Our Directors consider that since our Group does not operate or plan to invest in compulsory education schools, this revision will not have any substantial impact on our Group.
- (ii) Article 12 of the MOJ Draft provides that any social organization that invests in or actually controls a number of private schools and manages private schools within a group shall have (a) the legal capacity, and (b) the funds, personnel, qualification and ability suitable for the education activities it carries out, and shall undertake the responsibilities of management and supervision over the private schools sponsored by it. The social organization that manages private schools within a group is prohibited from controlling any non-profit private schools through mergers and acquisitions, franchising or controlling contracts. Clause 1(6) of the explanatory note to the MOJ Draft clarifies that, in view of the fact that some private schools are concurrently sponsored by, or operated by, the same sponsor, Article 12 of the MOJ Draft recognizes such operations of the existing group schools. Our Directors are of the view that since our Group does not plan to expand its business to establish or acquire any non-profit private schools, the MOJ Draft will not have any substantial adverse impact on our Group if it is enacted.
- (iii) Article 16 provides that any institution that uses Internet technology to engage in online training education activities and/or operates an Internet technology platform that provides services for such institution shall obtain the relevant Internet business license and make a filing with the education department of the relevant provincial government for records. Those institutions that provide academic education (學歷教育) services through Internet technology would need to obtain the school operation permits. As we do not provide academic education (學歷教育) services through Internet technology, our Directors believe that we are not required to obtain the school operation permit for our online services under Article 16. We will duly make the filings of our online services associated with our tutoring services in accordance with the then effective implementing rules.

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- (iv) Article 45 provides that connected transactions by private education institutions shall be transparent, just and fair, and shall not jeopardize the interests of the state, the private education institutions, and the teachers and students. The private education institutions shall establish information disclosure mechanism for such connected transactions. Article 45 further provides that for agreements between non-profit private education institutions and their connected persons, which involve material interests or are long-term and recurring, the relevant government authorities shall review and audit such agreements regarding their necessity, legitimacy and compliance. Our Structured Contracts may be regarded as connected transactions between the WFOE and our PRC Operating Entities engaged in provision of K-12 after-school education services. Our Directors undertake to establish disclosure mechanisms and make appropriate arrangement to ensure that our Structured Contracts, if deemed as connected transactions, are transparent, just and fair, and do not jeopardize the interests of the state, the private education institutions, and our teachers and students if and when Article 45 is enacted. Our Directors further undertake to comply with the review and audit requirements if our Group enters into any agreement with non-profit private education institutions and their connected persons if and when Article 45 is enacted.
- (v) the MOJ Draft further provides that (1) the chairman of the board of directors or management committee or similar committee of a private school must be a PRC national; (2) there must be representative(s) of the employees and the Communist Party in the board of directors or the management committee or similar committee and the board of supervisors of a private school; (3) any import of foreign education materials must be legitimate and subject to pre-filing with provincial educational authority; (4) private training schools must not carry out any competition or assessment which may link to the school entrance targeting students in kindergarten, primary school, and middle school or teenagers. Our Directors consider that we will make appropriate adjustment after the Implementation Rules for the Law for Promoting Private Education become effective, where necessary.

Based on the aforementioned discussion and after consultation with our PRC legal advisers, our Directors do not foresee any material adverse impact on our Group, taken as a whole, if the MOJ Draft is enacted.

The MOJ Draft was recently released for public comments and may be subject to further revision. Thus, our PRC legal advisers are of the view that there are substantial uncertainties on, among other things, the final provisions of the Implementation Rules for the Law for Promoting Private Education of the PRC and its effective date.

As uncertainties exist with respect to the interpretation and enforcement of new and existing laws and regulations that may be proposed, we cannot assure you that we will be in compliance with these or any other new rules and regulations, interpretation of which may

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remain uncertain, or that we would be able to efficiently change our business practice in line with any new regulatory environment. Any such failure could materially and adversely affect our business, financial condition and results of operations.

Uncertainties exist in relation to the State Council Opinions 80, which may materially and adversely affect our business, financial conditions, and results of operations.

On August 22, 2018, the General Office of the State Council (國務院辦公廳) issued the Opinions on Regulating Development of After-school Education Institutions (《國務院辦公廳關於規範校外培訓機構發展的意見》, the “State Council Opinions 80”) which provide various guidance on regulating after-school training market for primary and secondary school students, including, among others, the operation standards that after-school education institutions should follow, the requirements and approvals necessary for opening new after-school education institutions, the guidance for daily operation of after-school education institutions, and the regulatory supervision scheme for after-school education institutions. See “Regulation — Opinions on Regulating Development of After-school Education Institutions” for the summary of the State Council Opinions 80.

The State Council Opinions 80 only set out general guidance on regulating after-school education institutions targeting primary and secondary school students. Detailed rules of implementation are yet to be introduced by the competent authorities. For instance, the State Council Opinions 80 provide that personal safety insurance shall be purchased for students to mitigate risks, but are silent as to the specific type and coverage of such required personal safety insurance. We have been consulting with competent local authorities about the type and coverage of insurance policy that can satisfy the State Council Opinions 80, as well as evaluating insurance plans proposed by insurance companies.

Further, there are potential conflicts between the State Council Opinions 80 and previously published government policies which require further interpretation and clarification. For instance, pursuant to the State Council Opinions 80, opening branches or learning centers by any after-school education institution within the same county-level city shall also be subject to approval, whereas the MOJ Draft provided that opening branches or learning centers within the same municipality directly under the central government or the same city with districts where such after-school education institution is located does not need to seek approval but shall file with both the authority granting the operation permit to such after-school education institution and the relevant authorities where the branches or learning centers are located for records. In addition, detailed rules of application for such approval are yet to be introduced by local education administration authorities, and the State Council Opinions 80 are silent as to whether there will be a time limit for the existing after-school education institutions to obtain such approval. As of the Latest Practicable Date, among our 19 PRC Operating Entities which are required to obtain such operation permits, six PRC Operating Entities have obtained their school operation permits, and the remaining 13 are in the process of preparing for the application of such operation permit. We will submit the relevant application once such detailed rules are promulgated by the competent authorities.

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We have conducted a self-review to ensure that we comply with the State Council Opinions 80 in material aspects in relation to the operation of after-school education institutions. We also, accompanied with the PRC legal advisers, consulted with the policies and regulations division of the Education Department of Guangdong Province (廣東省教育廳法規處) about the detailed guidance and implementing rules in accordance with the State Council Opinions 80, as well as the impact on our Company of the State Council Opinions 80. See “Business — The State Council Opinions 80” for details. However, uncertainties still exist as the competent authorities may set more specific and stringent operation requirements for after-school education institutions. We may be unable to meet such requirements in a prompt manner or incur additional costs in complying with such requirements, which may adversely affect our business, financial conditions and results of operations.

We maintain limited insurance coverage which could expose us to additional costs and business disruption.

The insurance industry in China is still at an early stage of development. In particular, Chinese insurance companies offer limited business insurance products to education service providers. We do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain insurance policies covering damages to our technical infrastructure or any insurance policies for our properties. Except for our Full-time Test Preparation Program, we also do not maintain any third-party liability insurance. Consequently, we are exposed to various risks associated with our business and operations. We are exposed to risks including, but not limited to, accidents or injuries at our education centers that are beyond the scope of our insurance coverage, fires, explosions or other accidents for which we do not currently maintain insurance, loss of key management and personnel, business interruption, natural disasters, terrorist attacks and social instability or any other events beyond our control. Our business, financial condition and results of operations may be materially and adversely affected as a result.

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

We rely on a combination of copyright, trademark and trade secrets laws to protect our intellectual property rights. Nevertheless, third parties may obtain and use our intellectual property without due authorization. Unauthorized use of any of our intellectual property may adversely affect our business and reputation. The practice of intellectual property rights enforcement action by Chinese regulatory authorities is in its early stage of development and is subject to significant uncertainty. We may also need to resort to litigation and other legal proceedings to enforce our intellectual property rights. Any such action, litigation or other legal proceedings could result in substantial costs and diversion of our management’s attention and resources and could disrupt our business. In addition, there is no assurance that we will be able to enforce our intellectual property rights effectively or otherwise prevent others from the

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unauthorized use of our intellectual property. Failure to adequately protect our intellectual property could materially and adversely affect our brand name and reputation, and our business, financial condition and results of operations.

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

We cannot assure you that materials and other educational content developed or used by us or our teachers do not or will not infringe intellectual property rights of third parties. We may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in those disputes. As of the Latest Practicable Date, we did not receive notices of any material claims or complaints against us for intellectual property infringement that have not been amicably resolved. However, there can be no guarantee that in the future third parties will not raise such claims.

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 one without any merit, could also hurt our reputation and brand image. Any such event could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that we will not be subject to liability claims for any inaccurate or inappropriate content in our course programs, which could cause us to incur legal costs and damage our reputation.

We develop the content for our course programs ourselves. We cannot assure you that there will be no inaccurate or inappropriate materials included in our course programs. In addition, our mock examination questions designed internally based on our understanding of the relevant examination requirements may be investigated by the regulatory authorities. Therefore, we may face civil, administrative or criminal liability if an individual or corporate, governmental or other entity believes that the content of any of our course programs violates any laws, regulations or governmental policies or infringes upon its legal rights. Even if such a claim were not successful, defending such a claim may cause us to incur substantial costs. Moreover, any accusation of inaccurate or inappropriate conduct could lead to significant negative publicity, which could harm our reputation and future business prospects.

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We may from time to time become a party to litigation, legal disputes, claims or administrative proceedings that may materially and adversely affect us.

We may from time to time become a party to various litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. Negative publicity relating to such litigation, legal disputes, claims or administrative proceedings may damage our reputation and adversely affect the image of our brands and services. In addition, ongoing litigation, legal disputes, claims or administrative proceedings may distract our management's attention and consume our time and other resources. Furthermore, any litigation, legal disputes, claims or administrative proceedings which are not of material importance may escalate due to the various factors involved, such as the facts and circumstances of the cases, the likelihood of winning or losing, the monetary amount at stake, and the parties concerned, continue to evolve in the future, and such factors may result in these cases becoming of material importance to us. If any verdict or award is rendered against us or if we decide to settle the disputes, we may be required to incur monetary damages or other liabilities. Even if we can successfully defend ourselves, we may have to incur substantial costs and spend substantial time and efforts in these lawsuits. Consequently, any ongoing or future litigation, legal disputes, claims or administrative proceedings could materially and adversely affect our business, financial condition and results of operations.

We face risks related to natural disasters, health epidemics, terrorist attacks or other outbreaks in China, which could result in reduced student attendance or temporary closure of our education centers.

Our business could be materially and adversely affected by natural disasters, such as earthquakes, typhoons, floods, landslides, outbreaks of health epidemics such as avian influenza, severe acute respiratory syndrome (SARS), or 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. Any of the above may cause material disruptions to our operations, such as temporary closure of our education centers for our Full-Time Test Preparation Program, which in turn may materially and adversely affect our financial condition and results of operations. In addition, any of these could adversely affect the PRC economy and demographics of the affected regions, which could cause significant declines in the number of our students enrolled in our education centers. If this takes place, our business, financial condition and results of operations could be materially and adversely affected.

We are dependent on our information systems, and if we fail to further develop our technologies, or if our systems, software, applications, database or source code contain “bugs” or other undetected errors, or encounter unexpected network interruptions, security breaches or computer virus attacks, our operations may be seriously disrupted.

The successful development and maintenance of our systems, software, applications and database, such as “Niu Shi Bang,” our management software and system and student database, are critical to the attractiveness of our education services and the management of our business

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operations. In order to achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our technology. This may require us to acquire additional equipment and software and to develop new applications. In addition, our technology platform upon which our management systems operate, and our other databases, products, systems and source codes could contain undetected errors or “bugs” that could adversely affect their performance.

Major risks involving the network infrastructure on which we operate our business include:

- breakdowns or system failures resulting in a prolonged shutdown of our servers, including failures attributable to power shutdowns, or attempts to gain unauthorized access to our systems, which may cause loss or corruption of data or malfunctions of software or hardware;
- disruption or failure in the national backbone network, which would make it impossible for visitors and students to log on to our websites;
- damage from fire, flood, power loss and telecommunications failures; and
- any infection by or spread of computer virus.

Any network interruption or inadequacy that causes interruptions in the availability of our websites or deterioration in the quality of access to our websites could reduce customer satisfaction and result in a reduction in the number of students using our services. If sustained or repeated, these performance issues could reduce the attractiveness of our websites and course offerings.

In addition, proprietary and confidential student and teacher information, such as names, addresses, and other personal information, is primarily stored in our digital database. 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 and other records, which could subject us to liabilities, interrupt our business and adversely impact our reputation.

To date, our information systems have not encountered material errors or technical issues that have adversely affected or disrupted our operations. If we encounter errors or other service quality or reliability issues, or if we are unable to design, develop, implement and utilize information systems and the data derived from these systems, our ability to realize our strategic objectives and our profitability could be adversely affected, and this may cause us to lose market share, harm our reputation and brand names, and materially and adversely affect our business and results of operations.

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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 and adversely affected.

We are a Cayman Islands company and thus we are classified as a foreign enterprise under PRC laws.

Even foreign investment in K-12 after-school education is not explicitly prohibited, our Company is unable to independently or jointly operate K-12 after-school education as confirmed with the relevant authorities. See “Structured Contracts — Background of the Structured Contracts.” Accordingly, we have been and are expected to continue to be dependent on our Structured Contracts to operate our business.

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 MOE, which regulate the education industry, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiary or PRC Operating Entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiary or PRC Operating Entities;
- imposing fines or other requirements with which we or our PRC subsidiary 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 business and operations in China.

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

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

On January 19, 2015, MOFCOM published a draft of the PRC Law on Foreign Investment (Draft for Comment) (中華人民共和國外國投資法(草案徵求意見稿)) (or the “Draft Foreign Investment Law”). At the same time, MOFCOM published an accompanying explanatory note of the Draft Foreign Investment Law, or “the Explanatory Note,” which contains important information about the Draft Foreign Investment Law, including its drafting philosophy and principles, main content, plans to transition to the new legal regime and treatment of business in the PRC controlled by foreign invested enterprises, or “the FIEs,” primarily through contractual arrangements. The Draft Foreign Investment Law is intended to replace the current foreign investment legal regime consisting of three laws: the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》), as well as detailed implementation rules. The Draft Foreign Investment Law proposes significant changes to the PRC foreign investment legal regime and introduced the concept of “control” determined by the identity of the ultimate natural person or enterprise that controls the domestic enterprise. If an enterprise is actually controlled by a foreign investor through structured contracts or contractual arrangements, such enterprise may be regarded as a FIE. Such FIE is restricted from investment in certain industries listed on the negative list unless permission from the competent authority in the PRC is obtained. As the negative list has yet to be published, it is unclear whether it will differ from the current list of industries subject to restrictions or prohibitions on foreign investment (including our industry). The Draft Foreign Investment Law also provides that any FIEs operating in industries on the negative list will require entry clearance and other approvals that are not required for PRC domestic entities. As a result of the entry clearance and approvals, certain FIEs operating in industries on the negative list may not be able to continue to conduct their operations through contractual arrangements.

While the Draft Foreign Investment Law had been released for consultation purpose, there is substantial uncertainty regarding the Draft Foreign Investment Law, including, among others, what the actual content of the law will be as well as the adoption timeline or effective date of the final form of the law. While Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou are of Chinese nationality and indirectly interested in more than 50% of the issued share capital of our Company, we cannot assure you that our Company will be deemed as controlled by Chinese investors and the Structured Contracts will be deemed as domestic investment under the Draft Foreign Investment Law. Furthermore, the issues as to the level of “control” for being qualified as a domestic enterprise, how existing domestic enterprises which are operated by foreign investors under contractual arrangements are to be handled and what business will be respectively classified as “restricted business” or “prohibited business” in the negative list are yet to be clarified at this stage. While such uncertainty exists, we cannot determine whether the

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new foreign investment law, when it is adopted and becomes effective, will have a material impact on our corporate structure and business. In the event that the Structured Contracts under which we operate our education business are not treated as a domestic investment and/or our education business is classified as “prohibited business” in the negative list under the Draft Foreign Investment Law, such Structured Contracts may be deemed as invalid and illegal and we may be required to unwind the Structured Contracts and/or dispose of such education business. As we primarily conduct education business and operate in the PRC, the occurrence of such event could have a material adverse effect on our business, financial condition and results of operations such that the financial results of our PRC Operating Entities would no longer be consolidated into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

As a measure to secure the passing of the “actual control” test in order for the Structured Contracts to remain a domestic investment and compliant with the Draft Foreign Investment Law, Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou, our Controlling Shareholders, have given an undertaking in favor of our Company that, among others, they will continue to maintain their Chinese nationalities for as long as they hold a controlling interest in our Company. See “Structured Contracts — Development in the PRC Legislation on Foreign Investment — Potential Measures to Maintain Control Over and Receive Economic Benefits from our PRC Operating Entities.” Our compliance with the Draft Foreign Investment Law may depend on Mr. Junjing Tang’s, Mr. Junying Tang’s and Mr. Gui Zhou’s adherence to the terms of such undertaking. In the event that Mr. Junjing Tang, Mr. Junying Tang or Mr. Gui Zhou breaches the undertaking, the Stock Exchange has limited enforcement power against Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou and the Structured Contracts may be deemed invalid and illegal. In the extreme case-scenario, we may be required to unwind the Structured Contracts and/or dispose our PRC Operating Entities, which could have a material adverse effect on our business, financial condition and result of operations. In addition, there may be uncertainties that the measures to be adopted by us to maintain control over and receive economic benefits from our PRC Operating Entities alone may not be effective in ensuring compliance with the Draft Foreign Investment Law (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares or even result in delisting of our Company. For details of the Draft Foreign Investment Law and the negative list and its potential impact on our Company, and our potential measures to maintain control over and receive economic benefits from our PRC Operating Entities, see “Structured Contracts — Development in the PRC Legislation on Foreign Investment.”

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, see “Structured Contracts.” 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

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equity interest in our PRC Operating Entities, we would be able to exercise our rights as a direct or indirect holder of the equity interest in 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 Registered Shareholders fail to perform their respective obligations under these Structured Contracts, we cannot exercise shareholder's rights to direct such corporate action as the direct ownership would otherwise entail.

If the parties under such Structured Contracts refuse to carry out our directions in relation to the everyday business operations of our PRC Operating Entities, 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 all of the total revenue in our consolidated financial statements during our Track Record Period, our financial position would be materially and 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 their cash flow from operations, which may reduce our liquidity.

The owners of our PRC Operating Entities may have conflicts of interest with us and breach their contracts with us, which may materially and adversely affect our business and financial condition.

Our control over our PRC Operating Entities is based upon the Structured Contracts with our PRC Operating Entities, the Registered Shareholders and the directors of our PRC Operating Entities. The Registered Shareholders 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 our PRC Operating Entities on the other, the Registered Shareholders 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. If we are unable to resolve such conflicts, including where the Registered Shareholders breached their contracts or undertakings with us and as a result or otherwise subject us to claims from third parties, our business, financial condition and operations could be materially and adversely affected.

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We may not be able to meet the Qualification Requirement under PRC laws and regulations.

Pursuant to the Foreign Investment Catalogue and the Sino-foreign Regulation and as confirmed by the education departments of Guangdong Province, Guangxi Province, Beijing and Shanghai, the foreign investor in Sino-foreign joint venture schools offering preschool, higher education, academic non-credential and secondary vocational education must be a foreign educational institution with the relevant qualification and high quality of education (the “Qualification Requirement”), hold less than 50% of the capital in a Sino-foreign educational institute (the “Foreign Ownership Restriction”) and the domestic party shall play a dominant role (the “Foreign Control Restriction”). Based on our consultation with the education departments of Guangdong Province, Guangxi Province, Beijing and Shanghai, the foreign investor should be an officially recognized educational institution and generally has certain advantages over the PRC-invested educational institutions. As of the Latest Practicable Date, while we do not meet the Qualification Requirement given that we have no experience in operating educational institutions outside of the PRC, we have taken concrete steps towards the compliance with the Qualification Requirement. See “Structured Contracts — PRC Laws and Regulations Relating to Foreign Ownership in the Education Industry — Actions and Plan to Comply with the Qualification Requirement.”

Our PRC legal advisers are of the view that the steps taken by us to set up a high school with after-school tutoring services in California are reasonable to demonstrate compliance with the Qualification Requirement. However, according to the consultation with the education departments of Beijing, Shanghai, Guangdong Province and Guangxi, respectively, there are no implementing measures or specific guidance on the Qualification Requirement and they have not historically approved any application to establish a Sino-foreign Education Institution offering K-12 after-school education services.

Therefore, we cannot assure you that we will be able to 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 equity 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 equity interest in 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 material adverse effect on our business, financial condition and results of operations.

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Our exercise of the option to acquire the equity 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 cost on our part to exercise the option to acquire the equity interest in our PRC Operating Entities. In the event that WFOE or its designated entity acquires the equity interest in our PRC Operating Entities pursuant to the Structured Contracts and the relevant PRC authorities determine that the purchase price for acquiring the equity interest of our PRC Operating Entities is below market value, WFOE or its designated entity may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

We are subject to additional amounts of PRC value-added tax and surcharge following the implementation of a variable interest entity structure, and the Structured Contracts may be subject to scrutiny of PRC tax authorities, which may materially and adversely affect our results of operation and value of your investment.

Following the implementation of a variable interest entity structure with the execution of the Structured Contracts on June 18, 2018, we are subject to additional amounts of PRC value-added tax and surcharge. Our Directors consider that the additional amounts of PRC corporate income tax to which we are subject are insignificant, as both the WFOE and most of our PRC Operating Entities are subject to PRC income tax at the same rate of 25%. If the Structured Contracts had been in effect during the Track Record Period, 25% of the net profit of our PRC Operating Entities in the form of private non-enterprise units and 10% of the net profit of our PRC Operating Entities in the form of limited liability companies would have been required to be retained for our PRC Operating Entities' working capital as the development fund and the companies' statutory surplus reserve. We estimate that in the worst case scenario, based on the prevailing laws and regulations up to date, our net profit would have decreased by approximately 6.5%, 7.7%, 8.7% and 7.2% for the years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2018, respectively. However, such impact is estimated without taking into consideration of potential tax preferential policies, potential tax reductions with respect to factors such as the operational costs and expenses primarily comprising employee benefits, rental expenses and other operating-related expenses that were incurred by the WFOE in the process of providing corporate and education management consulting services, intellectual property licensing services as well as technical and business support services, as such mitigating factors cannot be estimated accurately at this moment. The actual impact on our financial results during the Track Record Period, therefore, may not have been as significant as set out above.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Exclusive Management Consultancy and Business Cooperation Agreement we have with our PRC Operating Entities

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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, PRC tax authorities may have reasons to believe that our subsidiaries or PRC Operating Entities are dodging their tax obligations, and we may not be able to rectify such incident within the limited timeline required by PRC tax authorities. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for under-paid taxes, which could materially and adversely affect our business, financial condition and results of operations.

Certain terms of the 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 International Economic and Trade Arbitration Commission in Beijing, 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, award injunctive relief and/or order the winding up of our PRC Operating Entities. In addition, the Structured Contracts contain provisions to the effect that courts in the PRC, 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 advisers, 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 the 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 advisers are also of the view that, in case 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 still not be recognized or enforced by PRC courts. As a result, in the event that our PRC Operating Entities or any of the Registered Shareholders 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 and adversely affected. See “Structured Contracts — Dispute Resolution” for further details of the enforceability of the dispute resolution provisions in the Structured Contracts as opined by our PRC legal advisers.

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We rely on dividend and other payments from WFOE to pay dividends and other cash distributions to our Shareholders.

Our Company is a holding company and our ability to pay dividends and other cash distributions to our Shareholders, service any debt we may incur and meet our other cash requirements depends significantly on our ability to receive dividends and other distributions from WFOE. WFOE's income in turn depends on the service fees paid by our PRC Operating Entities. The amount of dividends paid to our Company by WFOE depends solely on the service fees paid to WFOE from our PRC Operating Entities. However, there are restrictions under PRC laws for the payment of dividends to us by WFOE. For example, under PRC laws and regulations, WFOE shall make up its losses of previous years when conducting outward remittance. WFOE is required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to fund a statutory reserve until the accumulated amount of such reserve has exceeded 50% of its registered capital and may only distribute after-tax dividends after deduction of statutory reserve and other expenses as required by the regulations. These reserves are not distributable as cash dividends.

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

We currently conduct our operations in China through Structured Contracts. As part of these arrangements, substantially all of our education-related assets, permits and licenses 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, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our PRC Operating Entities undergoes a voluntary or involuntary liquidation proceeding, its equity owner or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations. As a result, we may not be able to exercise our rights in a timely manner and our business, financial condition and operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

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

Our business and operations are located in China. As a result, our business, financial condition, results of operations and prospects are affected by the economic, political and legal developments in China. The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government

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involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and government structure. For example, the PRC government has implemented economic reform and measures emphasizing the utilization of market forces in the development of the PRC economy in the past three decades. These reforms have resulted in significant economic growth and social prospects. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

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

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

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

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

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

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

In utilizing the proceeds of the Global Offering in the manner described in “Future Plans and Use of Proceeds” in this prospectus as an offshore holding company of our PRC subsidiary, we may (1) make loans to WFOE or our PRC Operating Entities, (2) make additional capital contributions to our PRC subsidiaries, (3) establish new subsidiaries and make additional new capital contributions to these new PRC subsidiaries, and (4) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

- loans by us to WFOE, our PRC subsidiary and a foreign-invested enterprise, cannot exceed statutory limits and must be registered with SAFE, or its local counterparts;
- loans by us to our PRC Operating Entities, once over a certain threshold, must be approved by the relevant government authorities and must also be registered with SAFE or its local counterparts; and
- capital contribution to our PRC Operating Entities must be approved by or filed with the MOE and the Ministry of Civil Affairs or industry and commerce department or their respective local counterparts.

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

PRC governmental control on the convertibility of Renminbi may affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. All of our turnover is dominated in Renminbi and shortages in the availability of foreign currencies may restrict our ability to pay dividends or other payments, or otherwise satisfy our foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. Approval from appropriate government authorities or their authorized banks is required where Renminbi is to be converted

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into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, impose restrictions on access to foreign currencies for current account transactions and if this occurs in the future, we may not be able to pay dividends in foreign currencies to our Shareholders.

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 pressure 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.

All of our turnover and substantially all of our expenses are denominated in Renminbi. We rely entirely on dividends and other fees paid to us by our PRC subsidiary and PRC Operating Entities. Any significant change in the exchange rates of the Hong Kong dollar against Renminbi may materially and adversely affect the value of, and any dividends payable on, our Shares in Hong Kong dollars. For example, a further appreciation of Renminbi against the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to us, to the extent that we need to convert Hong Kong dollars into Renminbi for such purposes. An appreciation of Renminbi against the Hong Kong dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our Hong Kong dollar denominated financial assets into Renminbi, as Renminbi is the functional currency of our subsidiaries and PRC Operating Entities inside China. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the Hong Kong dollar against Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

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. 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

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reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us and our Shareholders. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention.

As our Shareholder, you hold an indirect interest in our operations in the PRC. 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 laws 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.

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

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. However, according to the PRC Company Law, shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

On July 14, 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院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》). Under such an arrangement, where any designated people's court in the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court in the PRC or Hong

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Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

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

If we are classified as a PRC “resident enterprise,” we could be subject to PRC income tax at the rate of 25% on our worldwide income, and 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.

We are a holding company incorporated under the laws of Cayman Islands and indirectly hold interests in our PRC Operating Entities. Under the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its “de facto management bodies” located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on its worldwide income. Under the implementation rules for the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《國家稅務總局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》, “SAT Circular 82”) to clarify certain criteria for the determination of the “de facto management body” for foreign enterprises controlled by PRC enterprises. The aforementioned criteria include: (1) the enterprise’s day-to-day operational management is primarily exercised in the PRC; (2) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by institutions or personnel in the PRC; (3) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC; and (4) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. In addition, SAT issued the Administrative Measures for Income Tax of Chinese-Controlled Resident Enterprises Registered Abroad (For Trial Implementation) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》, “SAT Bulletin 45”) on July 7, 2011, effective on September 1, 2011 and last amended on June 15, 2018, providing more guidance on the implementation of the SAT Circular 82. The SAT Bulletin 45 clarifies matters including residence status determination, post-determination administration and competent tax authorities. Although both the SAT Circular 82 and the SAT Bulletin 45 apply only to offshore enterprises controlled by PRC enterprises and there are

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currently no further rules or precedents 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 SAT Bulletin 45 may reflect 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. Since all of our management is currently located in the PRC, we may be recognized as a PRC tax resident enterprise for the purpose of the EIT Law and therefore we would be subject to PRC income tax at the rate of 25% on our worldwide income. In such event, our income tax expenses may increase significantly and our net profit and profit margin could be materially and adversely affected.

Under the EIT Law and its implementation rules, we might be deemed as a PRC resident enterprise by the PRC tax authorities for tax purposes. As a result, dividends payable by us and gains obtained from sales of our Shares will be subject to PRC withholding tax since such income may be regarded as the PRC-sourced income. Under the circumstances, the aforementioned dividends and gains obtained by our foreign corporate Shareholders, who are not deemed as PRC resident enterprises, may be subject to a 10% withholding income tax under the EIT Law, unless any such foreign corporate Shareholder is qualified for a preferential tax rate under relevant tax treaties. If the PRC tax authorities deem us to be a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties need to apply to the PRC tax authorities to be recognized as eligible for such benefits in accordance with the Announcement of SAT on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》, “Circular 60”), which was issued on August 27, 2015. According to Circular 60, the preferential tax rate does not automatically apply. With respect to dividends, the “beneficial owner” tests under the Bulletin on Certain Issues of Beneficial Owner under Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》, the “Bulletin 9”) issued by SAT on February 3, 2018 will also apply. If we are determined to be ineligible for the abovementioned tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would be subject to higher PRC tax rates. In such cases, the value of such foreign Shareholders’ investment in our Shares sold in the Global Offering may be materially and adversely affected.

The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business or our acquisition or restructuring strategies.

On February 3, 2015, SAT promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “SAT Bulletin 7”), which provides comprehensive guidelines relating to, and heightened the PRC tax authorities’ scrutiny on indirect transfers, by a non-resident enterprise, of assets (including equity interests) of a PRC resident enterprise. On October 17, 2017, SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax 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》)

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(“SAT Bulletin 37”), which came into effect and superseded Circular 698 on December 1, 2017. SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax. For further details, please see the section headed “Regulation — PRC Laws and Regulations Relating to Tax — Circular on Strengthening the Administration of Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprises” in this prospectus.

There is uncertainty as to the application of the SAT Bulletin 7 and SAT Bulletin 37. The SAT Bulletin 7 and SAT Bulletin 37 may be determined by the tax authorities to be applicable to our offshore restructuring transactions or sale of the shares of our offshore subsidiaries, where non-resident enterprises being transferors were involved. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply with the SAT Bulletin 7 and SAT Bulletin 37 or to establish that we and our non-resident enterprises should not be taxed under the SAT Bulletin 7 and SAT Bulletin 37 for our previous and future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC resident Shareholders to personal liability, limit our PRC subsidiaries’ ability to distribute profits to us, or otherwise adversely affect our financial position.

SAFE promulgated the Circular of SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”) on July 4, 2014. According to Circular 37, PRC residents (including PRC citizens and PRC enterprises) shall apply to SAFE or its local bureau to register foreign exchange for overseas investments before contributing to special purpose vehicles (the “SPVs”) with legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increases or decreases in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus.

To the best of our knowledge, as of the Latest Practicable Date, all of our Shareholders that are being subject to SAFE regulations have completed all necessary registrations required by Circular 37. However, we may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC nationals, and may not always be able to compel our beneficiaries to comply with the requirements of Circular 37. As a result, we cannot assure you that all of our Shareholders or beneficiaries who are PRC nationals will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by Circular 37 or other related regulations. Under the relevant rules, failure to comply with the

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registration procedures set forth in Circular 37 may result in restrictions on the foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under PRC foreign exchange administration regulations.

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 would develop.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators on behalf of the Underwriters and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

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

The price at which our Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment regarding private education industries and companies;
- changes in laws and regulations in China;
- our inability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

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In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

We may grant share-based awards under the Share Option Scheme and the RSU Scheme, which may result in increased share-based compensation expense and dilution to the shareholding of existing Shareholders.

We adopted the Share Option Scheme and the RSU Scheme for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. As of the Latest Practicable Date, no option under the Share Option Scheme or RSU under the RSU Scheme has been granted. Any additional grant of share-based awards by us will further increase our share-based compensation expense. In addition, the vesting of any RSU or the exercise of any option will increase the number of our Shares in issue and will result in a dilution of Shareholders' shareholding interest in our Company. Any actual or perceived sales of the additional Shares by grantees of the RSUs following the vesting of their RSUs may adversely affect the market price of our Shares.

Because the initial public Offer Price per Share is higher than the net tangible book value per Share, purchasers of our Shares in the Global Offering will experience immediate dilution.

The Offer Price of our Offer Shares is higher than the net tangible book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Offer Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible asset value of HK\$0.87 per Share (assuming an Offer Price of HK\$2.55 per Offer Share, being the mid-point of our Offer Price range of HK\$2.20 to HK\$2.90 per Offer Share) and existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. If we issue additional Shares in the future, purchasers of our Offer Shares may experience further dilution.

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.

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares. There will be 848,040,000 Shares outstanding immediately following the RSU Allotment and the Global Offering, without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme. Our Controlling Shareholders agreed that any Shares held by them will be subject to a lock-up after the Listing. See "Underwriting —

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Underwriting Arrangements and Expenses” in this prospectus. However, the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry of the lock-up period.

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

Immediately after the completion of the RSU Allotment and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), our Controlling Shareholders will own approximately 53.88% of our Shares. As such, our Controlling Shareholders will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who purchased Shares in the Global Offering. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Offer Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be on the sixth business day after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

Prior dividend distributions are not an indication of our future dividend policy.

Any future dividend declaration and distribution by our Company 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 deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and PRC laws, including (where required) the approvals from our Shareholders and our Directors. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiary. As a result of the above, we cannot assure you that we will make any dividend payments on our Shares in the future with reference to our historical dividends. See “Financial Information — Dividends.”

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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 in a number of ways. See “Future Plans and Use of Proceeds — Use of Proceeds.” 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.

Waivers have been granted from compliance with certain requirements of the Listing Rules by the Stock Exchange. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Stock Exchange has granted to us, a number of waivers from strict compliance with the Listing Rules. See “Waivers from Strict Compliance with the Listing Rules” for further details. There is no assurance that the Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could adversely affect us and our Shareholders.

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from the F&S Report contained in this prospectus.

Certain facts and statistics in this prospectus, including but not limited to information and statistics relating to the PRC private education industry, are based on the F&S Report or are derived from various publicly available publications, which our Directors believe to be reliable.

We cannot guarantee the quality or reliability of such facts and statistics. We have taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such publications and the F&S Report. However, these facts and statistics have not been independently verified by us, the Joint Global Coordinators, the Underwriters or any other party involved in the Global Offering (excluding Frost & Sullivan in respect of the F&S Report and the information therein) and no representation is given as to its accuracy. We therefore make no representation as to the accuracy of such facts and statistics which may not be consistent with other information compiled by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the F&S Report contained in this prospectus.

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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 terminology 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.

You may face difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Cayman Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, 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 that 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 in other jurisdictions.

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

There may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus,

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we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

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

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The business operations of the Group are located in China. Due to the business requirements of the Group, none of the executive Directors has been, is or will be based in Hong Kong. Our Company considers that it would be impracticable and commercially infeasible to appoint two Hong Kong residents as executive Directors or to relocate the existing executive Directors to Hong Kong considering that the operations of our Group are based outside of Hong Kong. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will adopt the following measures:

- (a) our Company has appointed 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 will ensure that we comply with the Listing Rules at all times. The two authorized representatives are Mr. Junjing Tang and Ms. Chau Hing Ling (“Ms. Chau”); Ms. Chau is ordinarily resident in Hong Kong. Although Mr. Junjing Tang resides in the PRC, he possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile or e-mail (if applicable). Each of the authorized representatives has been duly authorized to communicate on behalf of the Company with the Stock Exchange. The Company will inform the Stock Exchange promptly in respect of any change in its authorized representatives;
- (b) both authorized representatives have means to contact all Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters;
- (c) all our executive Directors, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with relevant members of the Stock Exchange in Hong Kong upon reasonable notice; and

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (d) our Company has appointed Central China International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will act as our additional communication channel with the Stock Exchange and will be available to respond to enquiries from the Stock Exchange.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (i) a member of the Hong Kong Institute of Chartered Secretaries;
- (ii) a solicitor or a barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (iii) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

In addition, pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (i) length of employment with the issuer and other issuers and the roles he played;
- (ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Future Ordinance, Companies Ordinance, Companies (WUMP) Ordinance and the Code on Takeovers and Mergers and Share Buy-backs;
- (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (iv) professional qualifications in other jurisdictions.

Our Company has appointed Mr. Changxu Zhu (“Mr. Zhu”) and Ms. Chau (an associate member of the Institute of Chartered Secretaries and Administrators and a fellow member of the Hong Kong Institute of Chartered Secretaries) as our joint secretaries. They will jointly discharge the duties and responsibilities as our company secretaries. For detailed information about Mr. Zhu and Ms. Chau please refer to the section headed “Directors and Senior Management” in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

As Mr. Zhu does not possess the specified qualifications required by Rule 3.28 of the Listing Rules, and may not possess the relevant experience as required by the Stock Exchange, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules.

Although Mr. Zhu does not possess the specified qualifications required by Rule 3.28 of the Listing Rules, our Company believes that considering Mr. Zhu's past experience in investment and board secretary, he is able to discharging the functions of a joint company secretary with the assistance of Ms. Chau. In addition, Mr. Zhu has a thorough understanding of the operations of our internal business and finance. Therefore, we believe that the appointment of Mr. Zhu as a joint company secretary is in our and our Shareholders' best interests and beneficial to our corporate governance. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting with the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements for the waiver:

- Mr. Zhu will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organized by our Company's legal adviser as to the laws of Hong Kong on an invitation basis, and seminars organised by the Stock Exchange from time to time, in addition to the 15 hours' minimum requirement under Rule 3.29 of the Listing Rules;
- we have appointed Ms. Chau, who meets the requirements under Rule 3.28 of the Listing Rules, as a joint company secretary to work closely with and to provide assistance to Mr. Zhu in the discharge of his duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Mr. Zhu to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as a company secretary;
- the Company will further ensure that Mr. Zhu has access to the relevant training and support to enable him to be familiar with the Listing Rules and the duties required as a company secretary of a company listed on the Stock Exchange; and
- Mr. Zhu will also be assisted by our compliance adviser as to the laws of Hong Kong on matters in relation to our Company's continuing compliance obligations under the Listing Rules and the applicable laws and regulations.

Before the expiry of the initial three-year period, the qualifications of Mr. Zhu will be reevaluated to determine whether the requirements as stipulated in Rule 3.28 of the Listing Rules can be satisfied and to decide whether further assistance by Ms. Chau to Mr. Zhu would be necessary. In the event that Mr. Zhu has obtained relevant experience under Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary for our Company.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. For further details in this respect, see “Connected Transactions — Continuing Connected Transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

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

INFORMATION ON THE GLOBAL OFFERING

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 us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation 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 the date of this prospectus.

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

UNDERWRITING

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

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price. An International Placing Agreement relating to the International Placing is expected to be entered into on or around Monday, December 17, 2018, subject to the Offer Price being agreed.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he 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 or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes 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 offering 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 and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

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

No part of our Company’s share 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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, December 27, 2018, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, December 27, 2018.

The Shares will be traded in board lots of 1,000 Shares each.

The stock code of our Shares will be 3978.

SHARE REGISTER AND STAMP DUTY

Our principal register of members will be maintained by Harneys Fiduciary (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.

Dealings in the Shares will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Sole Sponsor, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains certain translations for the convenience purposes at the following rates:

US\$1.00: HK\$7.8244

HK\$1.00: RMB0.8876

No representation is made that any amounts in HK\$, RMB and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Rounding

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.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated. However, the translated English names of the PRC and foreign national, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the names in their original languages shall prevail.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality

Executive Directors

Mr. Junjing Tang (唐俊京)	Room 601 Junjinguayuan Zone I 28 Junjing Road Tianhe District, Guangzhou Guangdong PRC	Chinese

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Mr. Gui Zhou (周貴)	Room 1202, 5 Yijingdongsi Street Yijing Road Haizhu District, Guangzhou Guangdong PRC	Chinese

Non-executive Directors

Mr. Wenhui Xu (徐文輝)	Room A801, Lixiu Huating 145 Nanguang Road Nanshan District, Shenzhen Guangdong PRC	Chinese

Ms. Wen Li (李雯)	Room 16A, Jilian Tower 2 Futian District, Shenzhen Guangdong PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Independent Non-Executive Directors		
Ms. Yu Long (隆雨)	201-1-302, Vanke Qingqing Jiayuan 5th Courtyard, Dougezhuang Chaoyang District Beijing PRC	Chinese
Mr. Yingmin Wu (吳穎民)	Room 1701, Block 1 Affiliated High School of South China Normal University Guangzhou Guangdong PRC	Chinese
Mr. Peng Xue (薛鵬)	Room B, 36F, Le Sommet Block 1 28 Fortress Hill Road North Point Hong Kong	Chinese
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Joint Global Coordinators	CMB International Capital Limited 45th Floor, Champion Tower 3 Garden Road Central Hong Kong CEB International Capital Corporation Limited 22/F AIA Central 1 Connaught Road Central Hong Kong	

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Bookrunners

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CEB International Capital Corporation Limited

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Fortune (HK) Securities Limited

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183 Queen's Road Central
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First Shanghai Securities Limited

19/F Wing On House
71 Des Voeux Road Central
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Haitong International Securities Company Limited

22/F Li Po Chun Chambers
189 Des Voeux Road Central
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ABCI Capital Limited

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Joint Lead Managers

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Haitong International Securities Company Limited

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ABCI Securities Company Limited

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**China Galaxy International Securities (Hong Kong)
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Co-Lead Managers

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**Legal Advisers to our
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**Industrial and Commercial Bank of China (Asia)
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CORPORATE INFORMATION

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Headquarters and principal place of business in the PRC	35/F, Tower B China International Center No. 33 Zhongshansan Road Yuexiu District, Guangzhou Guangdong PRC
Company's website	www.beststudy.com <i>(information contained in this website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. Changxu Zhu Room 25-601, Bicui Haoyuan Honggang Road Daliang Sub-district Shunde District Foshan, Guangdong PRC Ms. Chau Hing Ling (<i>LLM, FCIS, FCS</i>) Room 1901, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

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Mr. Peng Xue (薛鵬)
Ms. Yu Long (隆雨)
Mr. Wenhui Xu (徐文輝)

Remuneration committee

Ms. Yu Long (隆雨)
Mr. Junjing Tang (唐俊京)
Mr. Peng Xue (薛鵬)

Nomination committee

Mr. Junjing Tang (唐俊京)
Mr. Yingmin Wu (吳穎民)
Ms. Yu Long (隆雨)

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PRC

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Grand Cayman, KY1-1002

Cayman Islands

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**Computershare Hong Kong Investor
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Shops 1712-1716, 17th Floor

Hopewell Centre

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Wanchai

Hong Kong

INDUSTRY OVERVIEW

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 fact has been omitted that would render such information false or misleading. The information from official government and non-official sources has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering (other than Frost & Sullivan in respect of the F&S Report and the information therein) and no representation is given as to its accuracy. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

SOURCES OF INFORMATION

This section includes information from the F&S Report, a report commissioned by us as we believe such information imparts a greater understanding of the industry. Frost & Sullivan is a global consulting company and an independent third party. Founded in 1961, it has 40 offices worldwide with over 2,000 industry consultants, market research analysts and economists. We have agreed to pay a total of RMB800,000 in fees for the preparation of the F&S Report. Figures and statistics provided in this prospectus and attributed to Frost & Sullivan or the F&S Report have been extracted from the F&S Report and published with the consent of Frost & Sullivan. In preparing the F&S Report, Frost & Sullivan conducted both primary and secondary research to obtain information from various sources, and an independent consumer survey of 3,300 respondents. Primary research involved discussing the status of the industry with leading industry participants and industry experts; and secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. In compiling and preparing the F&S Report, Frost & Sullivan assumed that (1) China's economy is likely to maintain steady growth in the next decade; (2) China's social, economic, and political environment is likely to remain stable in the forecast period; (3) market drivers like great attention on education of Chinese households and relaxation of one-child policy are likely to drive China's after-school education market; and (4) all the data and information regarding our Company is provided by our Company.

CHINA'S K-12 AFTER-SCHOOL EDUCATION SERVICE MARKET

Overview of China's K-12 Education System

China's K-12 education system comprises of three years in kindergarten, nine years of compulsory education in primary and middle schools, followed by three years in high school. Students may then proceed to matriculate into colleges or universities. The total student enrollments of K-12 education in China increased from 201.4 million in 2013 to 215.0 million in 2017, and is expected to reach 235.9 million in 2022, according to the F&S Report.

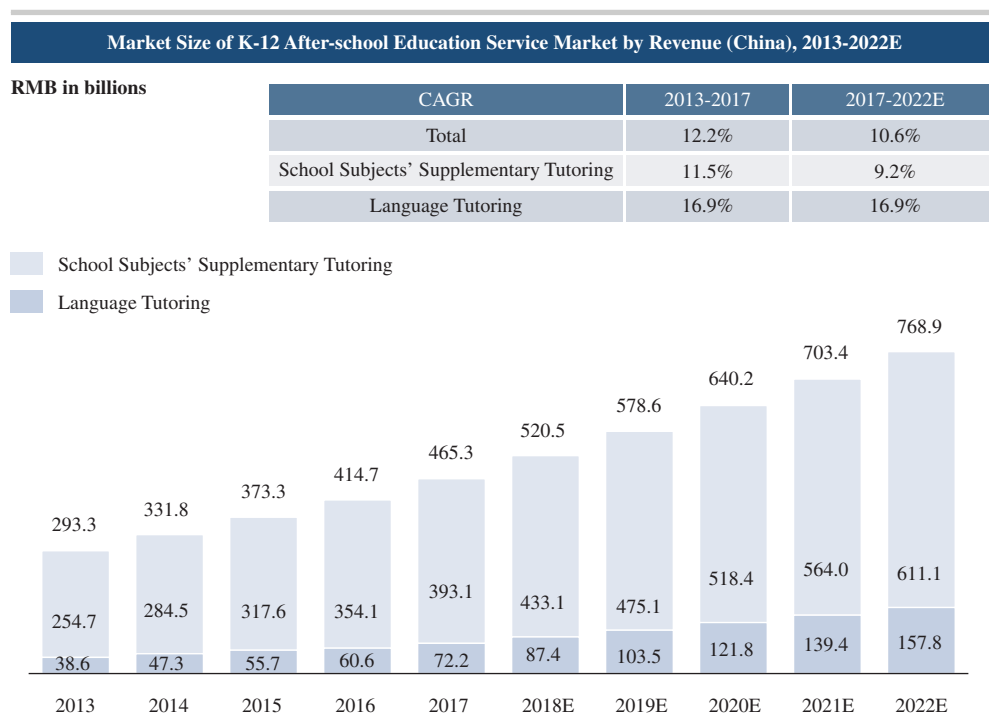
INDUSTRY OVERVIEW

In order to be admitted to colleges or universities in China, high school graduates are required to take the national college entrance examinations, or “Gaokao.” The Gaokao is the most critical set of examinations in a student’s education as the results determine whether a student will be able to attend a highly-ranked college, or any at all, which in turn has a significant impact on the student’s future job prospects. In addition, there is a gap between the huge number of students and the limited number of quality colleges and universities. According to the F&S Report, in 2017, 9.4 million students attended the Gaokao, among which only 3.7 million students were admitted to universities and only 1.2 million students were admitted to first-tier universities. In 2017, the acceptance rates of four-year degree colleges and the top 50 universities in China were only 39.6% and 2.5%, respectively, substantially lower than that of 55.8% and 23.5% in the United States, respectively.

Due to such fierce competition for quality undergraduate education in China, students prepare themselves fervently for the high school entrance examinations, or “Zhongkao,” such that they can enter the best high schools in China to increase their chances for entering top universities. Prior to the Zhongkao, they also compete to enter the best middle schools typically based on the students’ academic performance in primary schools. Therefore, in order to increase their chances of eventually being admitted to top universities, many students start working diligently at a very young age in the hope of excelling in the Xiao Sheng Chu process and the Zhongkao, for a spot in the schools of their choice.

The Market Size and Trends of the K-12 After-school Education Service Nationwide

With growing pressure of quality education and high aspirations of better academic performance, an increasing number of parents choose after-school education services for their children from the early stage of K-12 education. K-12 after-school education is supplemental to the regular in-school education, which helps students improve their classroom performance, deepen their knowledge acquired at school and better prepare them for school entrance examinations.



Source: F&S Report

INDUSTRY OVERVIEW

According to Frost & Sullivan, in terms of class format, the K-12 after-school education market in China can be classified into three categories:

- *One-on-one classes.* This class format offers the most customized tutoring services based on a student's specific situations and study needs and gains increasing popularity in recent years, as the demand for highly tailored tutoring services increased significantly due to an increase in the number of high-income families in China. In 2017, this segment represented an estimated market size of RMB66.2 billion, according to the F&S Report, and is expected to continue to increase from 2017 to 2022 at a CAGR of 13.3%.
- *Small group classes.* The smaller size of small group classes comparing to that of regular classes allows teachers to pay closer attention to individual students and better tailor the classes to their study needs. This class format has become very popular given it intends to strike a balance between affordability and the amount of individual attention students received from their teachers. In 2017, this segment represented an estimated market size of RMB170.3 billion, according to the F&S Report, and is expected to continue to increase from 2017 to 2022 at a CAGR of 10.3%.
- *Regular classes.* As the most traditional form of K-12 after-school education classes, regular classes provide the proper tutoring solution for cost conscious families as large enrollments share the costs. However, the regular class segment is becoming less popular as the effectiveness in improving students' academic performance may be lower comparing to other class formats. In 2017, this segment represented an estimated market size of RMB228.8 billion, according to the F&S Report, and is expected to continue to increase from 2017 to 2022 at a CAGR of 9.9%.

Meanwhile, the after-school education service markets in non tier-1 cities in China also present great growth potential. In 2017, the average penetration rate of K-12 after-school education services was 25.3% for non tier-1 cities in China, compared to that of 62.9% for tier-1 cities, according to the F&S Report. With the increasing household disposable income and the pressure to compete for quality education resources in these areas, we believe the demand for K-12 after-school education services in non tier-1 cities will exhibit strong growth in the near future.

As for the cost structure, according to the F&S Report, teaching staff cost is the largest component of the total cost of revenue of K-12 after-school education services, generally accounting for 60% to 70%, followed by rental and facility maintenance expenses for education centers which accounts for 20% to 30%.

Key Drivers and Uncertainties of China's K-12 After-school Education Service Market

The development of the K-12 after-school education service market in China is primarily driven by the following factors:

- *Strong emphasis on academic excellence among Chinese parents.* Chinese culture attaches great importance to education as a means of enhancing an individual's worth and promoting his or her career and social status. Given the fierce competition for admission into quality high schools, colleges and universities, many parents choose after-school education services to assist their children in better mastering the course content of formal school education.
- *Implementation of the Universal Two-child Policy.* With the relaxation of the "one-child policy" in China in 2013 and the implementation of the "two-child policy" in 2016, the birth rate is expected to grow, leading to an increase of school-age population who may need after-school education services in the near future.
- *Increasing affluence.* With the increase in disposable income of Chinese families and the improvement of living conditions in China, Chinese parents are willing to spend more on students' education, which sustains the growing demand for after-school education services.
- *Growing household expenditure on after-school education.* According to the F&S Report, China's per capita annual expenditure on education has experienced a steady growth, reaching RMB826 in 2017, and is expected to reach RMB1,255 in 2022 at a CAGR of 8.7% from 2017 to 2022. Specifically, after-school education has become the second largest category among all kinds of expenditures on education, representing 40.5% of China's household expenditure on education in 2017.

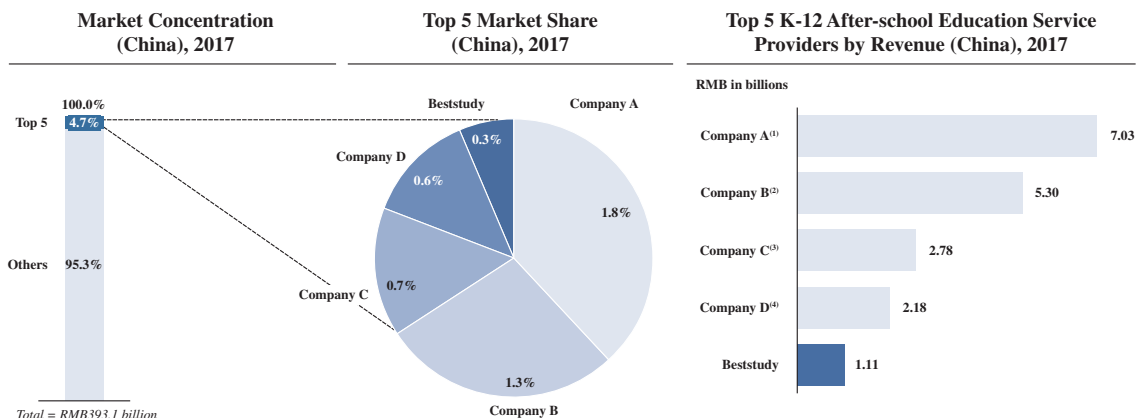
However, the K-12 after-school education service market also faces uncertainties, according to the F&S Report. For example, the PRC Ministry of Education issued a series of demanding regulations which set up strict standards of establishment and operation for K-12 after-school education service providers. As a result, small scaled after-school education institutions with difficulty of compliance would be forced to gradually exit the market.

Competitive Landscape of China's K-12 After-school Education Service Market

The national K-12 after-school education service market is highly fragmented. According to the F&S Report, in 2017, the top five players accounted for 4.7% of the total K-12 after-school education service market in terms of revenue. We were the fifth largest K-12 after-school education service provider in China in terms of revenue, with a market share of 0.3% in 2017, according to the F&S Report.

INDUSTRY OVERVIEW

The market share of the other top K-12 after-school education service providers by revenue in 2017 is set out below.



Note: Revenue refers to an after-school education institution's revenue in 2017. After-school education institutions providing language training only are not included. For our Group, revenue generated from our Elite Learning Program is not included.

Source: F&S Report

We were also the fifth largest K-12 after-school education service provider in China in terms of student enrollments, with a total student enrollments of approximately 487,000 in 2017 (which does not include the number of students enrolled in our Elite Learning Program), according to the F&S Report.

THE K-12 AFTER-SCHOOL EDUCATION SERVICE MARKET IN SOUTHERN CHINA

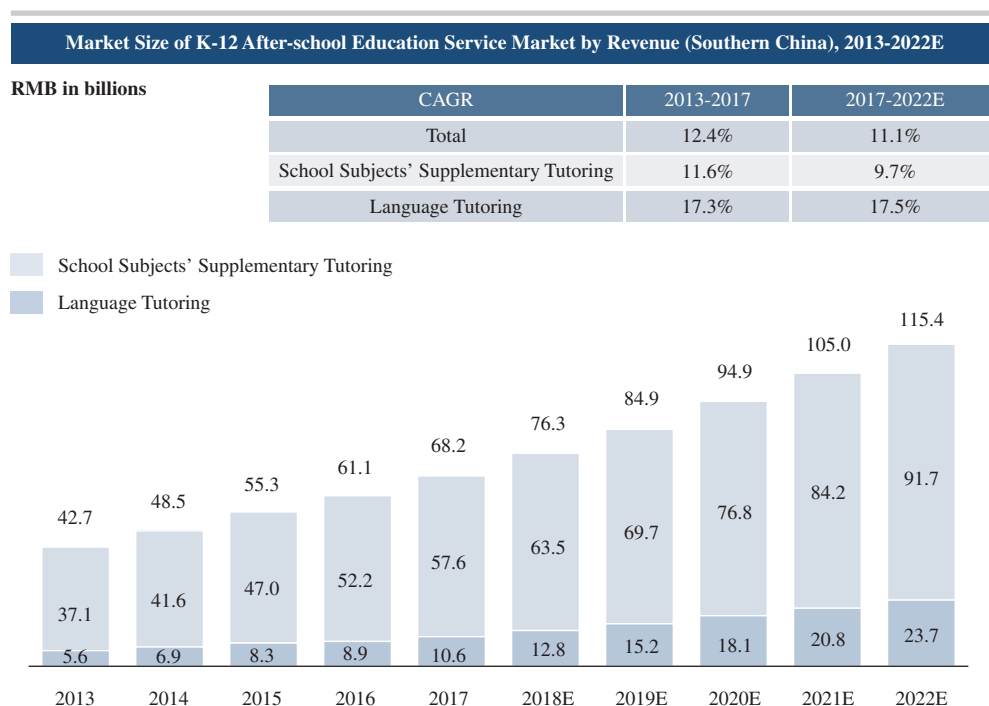
Market Size and Trends of Southern China's K-12 After-school Education Service Market

Due to the increasing student enrollments of K-12 education and parents' growing emphasis on children's academic performance, the number of students enrolled in K-12 after-school education services in southern China increased from 7.3 million in 2013 to 8.3 million in 2017, and is expected to reach 10.0 million in 2022, according to the F&S Report. In addition, due to the rising costs and increasing demand of quality after-school education services, the average tuition fee of K-12 after-school education service in southern China increased from RMB38.7 per hour in 2013 to RMB46.7 per hour in 2017, and is expected to reach RMB57.2 per hour in 2022, according to the F&S Report. Accordingly, the total revenue

- (1) Company A is a public company listed on the New York Stock Exchange, primarily providing various education service offerings, including pre-school education service, K-12 after-school education service, online education service, and overseas study consulting service.
- (2) Company B is a public company listed on the New York Stock Exchange, primarily providing tutoring services to K-12 students nationwide. It also provides online courses covering various examinations, including Zhongkao and Gaokao.
- (3) Company C is affiliated with a Chinese public company listed on the Shenzhen Stock Exchange, primarily providing personalized tutoring services for primary and secondary school students nationwide.
- (4) Company D is a public company listed on the New York Stock Exchange, primarily providing premium K-12 after-school education services nationwide.

INDUSTRY OVERVIEW

of the K-12 after-school education service market in southern China grew rapidly from RMB42.7 billion in 2013 to RMB68.2 billion in 2017, representing a CAGR of 12.4%, and is expected to reach RMB115.4 billion in 2022 at a CAGR of 11.1% from 2017 to 2022.



Source: F&S Report

The K-12 after-school education service market in southern China displays the same pattern as the national market in terms of class formats. From 2017 to 2022, the market size of one-on-one and small classes is expected to grow at a CAGR of 13.8% and 10.8%, respectively, faster than that of 10.5% for regular classes, according to the F&S Report.

As for the cost structure, according to the F&S Report, the major costs for K-12 after-school education service in southern China are teaching staff cost and rental cost of education centers. Driven by the increasing demand for K-12 after-school education services, the number of K-12 after-school teachers in southern China increased from 109,000 in 2013 to 136,800 in 2017, and is expected to reach 191,000 in 2022, according to the F&S Report. Meanwhile, due to the increasing labor costs and demand for talented teachers, the average annual salary of K-12 after-school teachers in southern China increased from RMB48,000 in 2013 to RMB69,200 in 2017 at a CAGR of 9.6%, and is expected to reach RMB115,100 in 2022, according to the F&S Report. In addition, the rental cost of education centers has been rising over the past decade due to the rapid growth of investments in commercial real estate. The average monthly rent per sq.m. of commercial property in southern China increased from RMB91.2 in 2013 to RMB110.0 in 2017 at a CAGR of 4.8%, and is expected to reach RMB146.0 in 2022 at a CAGR of 5.8% from 2017 to 2022.

INDUSTRY OVERVIEW

Key Drivers of K-12 After-school Education Service Market in Southern China

The development of the K-12 after-school education service market in southern China is driven primarily by the following factors:

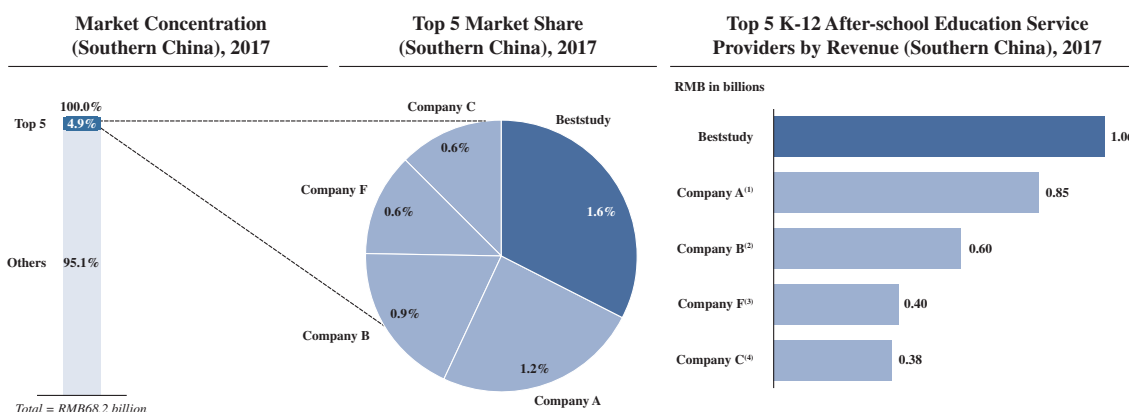
- *Strong economic growth.* The GDP and disposable income per capita of Guangdong, Guangxi and Hainan steadily grew from 2013 to 2017, which has driven increasing household expenditure on education in these provinces. In 2017, Guangdong province ranked first in terms of GDP, and held a leading position nationwide as measured by disposable income per capita. Remarkable economy achievements in Guangdong has significantly driven the development of its after-school education service market. In addition, due to the formulation and implementation of favorable policies relating to the Greater Bay Area, the Hainan Free Trade Zone and the Beibu Bay Economic Zone, the promising economic growth in southern China is expected to continue and to create a favorable macro environment for the after-school education industry.
- *Increasing consumer expenditure on K-12 after-school education.* In line with the increasing affluence of Chinese families, the average annual consumer expenditure on K-12 after-school education in southern China increased from RMB5,800 in 2013 to RMB8,200 in 2017 at a CAGR of 9.0%, and is expected to reach RMB11,500 in 2022 at a CAGR of 7.0% from 2017 to 2022, according to the F&S Report.
- *Large and growing student base.* The number of students enrolled in formal K-12 education in southern China increased from 28.3 million in 2013 to 30.7 million in 2017, and is expected to reach 33.9 million in 2022. Moreover, Guangdong has the second largest number of students enrolled in formal K-12 education and students registered for the Gaokao, only next to Henan in 2017. Given the enormous and growing number of student base, the K-12 after-school education service market in southern China is expected to grow further.
- *Fierce competition among students.* Guangdong has a large number of K-12 schools and higher education institutions. According to the Ministry of Education, as of May 2017, Guangdong had 151 universities and junior colleges, ranked second in China. However, the university acceptance rate in Guangdong was 38.3% in 2017, lower than the national average rate of 39.6%. As a result, students in Guangdong face intense competition for high quality education resources. In an effort to survive the competition, more K-12 students are expected to choose after-school education services aiming to enhance their competitiveness.

Competitive Landscape of the K-12 After-school Education Service Market in Southern China

The K-12 after-school education service market is highly fragmented in southern China. According to the F&S Report, in 2017, the top five players accounted for 4.9% of the total K-12 after-school education service market in southern China in terms of revenue. We were the largest K-12 after-school education service provider in southern China in terms of revenue and total student enrollments, with a market share of 1.6% as measured by revenue and total student enrollments of 435,900 in 2017, respectively, according to the F&S Report. In addition, according to a consumer survey conducted by Frost & Sullivan in May 2018, we ranked first in southern China in terms of brand awareness, number of respondents who purchased our services before, and number of respondents who likely to choose our services in the future, respectively.

INDUSTRY OVERVIEW

The market share in terms of revenue and number of student enrollments of the other top K-12 after-school education service providers in southern China is set out below.

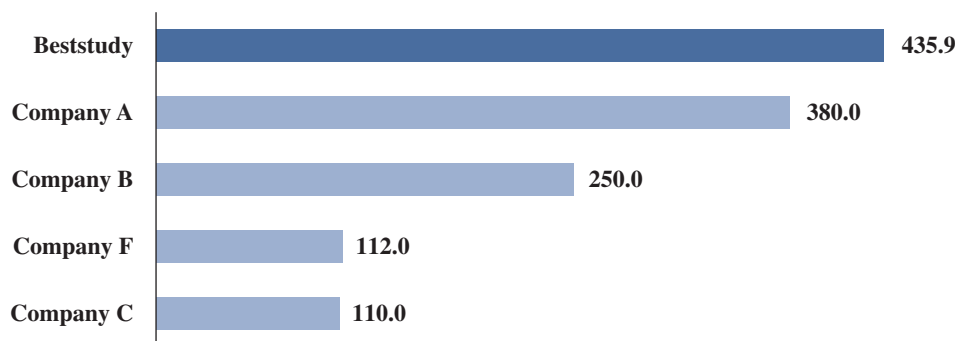


Note: Revenue refers to an after-school education institution's revenue in 2017. For our Group, revenue generated from our Elite Learning Program is not included.

Source: F&S Report

Top 5 K-12 After-school Education Service Providers by Student Enrollments (Southern China), 2017

Thousand persons



Note: Student enrollments refer to the cumulative total number of courses registered and paid for by students during a given period of time. If one student enrolls in multiple courses, this will be counted as multiple student enrollments. For our Group, students enrolled in our Elite Learning Program are not included.

Source: F&S Report

- (1) Company A is a public company listed on the New York Stock Exchange, primarily providing various education service offerings, including pre-school education service, K-12 after-school education service, online education service, and overseas study consulting service.
- (2) Company B is a public company listed on the New York Stock Exchange, primarily providing tutoring services to K-12 students nationwide. It also provides online courses covering various examinations, including Zhongkao and Gaokao.
- (3) Company F is a private company focusing on providing K-12 after-school education services in Guangdong and Fujian.
- (4) Company C is affiliated with a Chinese public company listed on the Shenzhen Stock Exchange, primarily providing personalized tutoring services for primary and secondary school students nationwide.

OTHER EDUCATION SERVICE MARKETS IN CHINA

Retake Course Market

Retake courses refer to full-time test preparation courses for middle and high school graduates who intend to retake the Zhongkao or the Gaokao. Private tutoring service providers play an important role in providing such courses.

The retake course market in China is primarily driven by the following factors:

- *Relatively low acceptance rate of high schools and universities.* High quality education resources are scarce in China and are highly concentrated in a limited number of schools and universities. In 2017, only 56.6% of the total number of students who attended the Zhongkao were admitted to high schools. Moreover, the acceptance rate for first-tier universities in China was only 12.6%, and only 0.2 million students can be admitted into Project 985 universities in 2017, according to the F&S Report. This has led to continuous intense competition among students in admission to high schools and universities.
- *Stronger emphasis on receiving better education.* Education has been taken as a key factor in attaining social and financial success, given the perceived direct link between better education and better career opportunities in China. Therefore, more students and parents nowadays are willing to invest time and money especially in relation to preparation for the Zhongkao and the Gaokao.

According to the F&S Report, the market size of retake courses for the Gaokao increased from approximately RMB7,150 million in 2013 to RMB8,975 million in 2017, representing a CAGR of 5.8%. The market size will continue to grow steadily at a CAGR of 5.0% from 2017 to 2022, reaching RMB11,432 million in 2022.

Tutoring Services for Art Major Candidates

In China, students applying to art schools or art majors in universities must go through a highly competitive application process. They have to first take a practical examination to complete a specified set of art assignments, after which they will participate in the Gaokao. As these art major candidates can only spend limited time in preparing for the Gaokao, there arises great market opportunities to provide effective and efficient Gaokao preparation courses catering to their needs. In Guangdong, the number of art major candidates is projected to increase from 63,300 in 2017 to 87,200 in 2022 at a CAGR of 6.6%, according to the F&S Report.

Extra-curricular Activity Market

Extra-curricular activities refer to activities that fall outside the realm of the normal curriculum of school education and are provided to students outside formal school education. Extra-curricular activities generally focus on nurturing students' all-round development, and nowadays those activities become a critical component of students' application for kindergartens, primary schools and overseas colleges, according to the F&S Report.

Moreover, the Ministry of Education and many provincial education offices have promulgated policies with regard to providing quality after-school services to students. In Guangdong, according to Guiding Opinions of the Education Office of Guangdong Province on Providing After-school Services to Students in Schools (廣東省教育廳關於做好中小學生校內課後服務工作的指導意見), formal primary and middle schools are encouraged to cooperate with private extra-curricular activities providers, while the latter can provide after-school services to students.

Driven by rising demand and favorable policies, total revenue from the extra-curricular activity market grew from RMB168.3 billion in 2013 to RMB311.8 billion in 2017, representing a CAGR of 16.7%. It is projected to reach RMB652.6 billion in 2022 at a CAGR of 15.9% from 2017 to 2022, according to the F&S Report. The total number of students enrolled in extracurricular activities has increased at a CAGR of 9.2% from 2013 to 2017, and is projected to increase at a CAGR of 10.4% from 2017 to 2022.

Online Education Market

Online education is delivered via the Internet to students using their computers, mobile devices or other electronic devices, so that students do not have to come to brick-and-mortar classes. In addition, as online education provides products and services beyond the constraints of time and place, students in remote and less-developed areas can rely on it to enjoy better educational resources from developed regions. As the Internet penetration rate is steadily growing, a large number of private education service providers have become aware of the tremendous market potentials of the online education and are moving forward to synchronize their education services in both offline and online channels.

According to the F&S Report, the market size of China's online education market increased from RMB81.9 billion in 2013 to RMB203.3 billion in 2017, representing a CAGR of 25.5%. Driven by the prevailing trend of Internet technology innovations, the market size is estimated to reach RMB586.2 billion in 2022 at a CAGR of 23.6% from 2017 to 2022.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT IN EDUCATION

Regulation on Operating Sino-foreign Schools of the PRC

Sino-foreign cooperation in operating schools is specifically governed by the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》), which was promulgated by the State Council on March 1, 2003 and became effective from September 1, 2003 and was amended on July 18, 2013, the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》) which was promulgated by the Standing Committee of the National People's Congress on December 28, 2002 and was most recently amended on November 7, 2016 and became effective on September 1, 2017, 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》), which were issued by the MOE on June 2, 2004 and became effective from July 1, 2004.

As advised by our PRC legal advisers, although the Sino-foreign Regulations provide that the establishment and operation of the Sino-foreign Education Institutions in the form of corporate entities are subject to the rules and regulations issued by the State Council, the State Council has not yet issued any such rules as of the Latest Practicable Date. The Amended Law for Promoting Private Education, which came into effect on September 1, 2017, and its Administrative Regulations stipulate that the establishment of a for-profit private school providing cultural education services including K-12 after-school education services in the form of a corporate entity shall first be approved by the education authorities and then be registered with the competent branch of the SAIC. Our PRC legal advisers have advised that based on their current understanding and knowledge, it is also uncertain as to what type of information (including the length and type of experience) a foreign investor must provide to the competent PRC government authority to demonstrate that it meets the qualification requirement.

On June 18, 2012, the MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital into the Education Field and Promoting the Healthy Development of Private Education (《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》, the "Implementation Opinions") to encourage private investment in the education field. According to the Implementation Opinions, the foreign portion of the capital investment in a sino-foreign Education Institution shall be less than 50%.

Pursuant to the Sino-foreign Regulations, foreign investors must establish and operate educational institutions with target students being mainly PRC citizens (the "Sino-foreign Education Institutions," and each a "Sino-foreign Education Institution") through a sino-foreign joint venture with a domestic partner. The Sino-foreign Regulations also provide that all the Sino-foreign Education Institutions shall be approved by the competent education authorities, and the representatives of the domestic party shall make up no less than half of the number of total members of the board of directors, the executive council or the joint administration committee of a Sino-Foreign Education Institution. Besides, the foreign investor in a Sino-Foreign Education Institution shall be a foreign educational institution with the relevant qualification and maintaining high quality of education. However, the Sino-Foreign Regulations are silent on the interpretations of the requirements regarding qualification and high quality of education in relation to such foreign educational institution.

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Foreign Investment Industries Guidance Catalogue (Amended in 2017)

The Foreign Investment Industries Guidance Catalogue (Amended in 2017) (《外商投資產業指導目錄》(2017年修訂)), the “Foreign Investment Catalogue”) was amended and promulgated by the National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會, the “NDRC”) and the Ministry of Commerce of the PRC (中華人民共和國商務部, the “MOFCOM”) on June 28, 2017 and became effective on July 28, 2017. On June 28, 2018, the NDRC and the MOFCOM jointly issued the List of Special Management Measures for the Market Entry of Foreign Investment (《外商投資准入特別管理措施(負面清單)》, the “Negative List”), which became effective on July 28, 2018 and sets forth management measures for the market entry of foreign investors, such as equity requirements and senior manager requirements. According to the Negative List, foreign investors shall comply with such restrictive requirements when engaging in the restricted activities listed in the Negative List. In addition, according to the Negative List, foreign investors shall not engage in the prohibited activities listed in the Negative List. Under the Negative List, the provision of pre-school, ordinary senior high school and higher education services (“學前教育,” “普通高中” and “高等教育,” respectively) in the PRC is under the category of “restricted industries” for foreign investors. Foreign investments in such education institutions are only allowed in the form of sino-foreign cooperative educational institutions in which the domestic party shall play a dominant role. It suggests that the principal or the chief executive officer of an education institutions shall be a PRC national and the representatives of the domestic party shall account for no less than half of the total number of members of the board of directors, the executive council or the joint administration committee of a sino-foreign cooperative educational institution. The Negative List further provides that foreign investors are prohibited from providing compulsory education (義務教育) services. However, the provision of K-12 after-school education services is not expressly included as one of the restricted industries listed in the Negative List.

REGULATIONS ON PRIVATE EDUCATION IN THE PRC

Education Law of the PRC

On March 18, 1995, the National People’s Congress of the PRC (中華人民共和國全國人民代表大會, the “NPC”) enacted the Education Law of the PRC (《中華人民共和國教育法》, the “Education Law”), which was subsequently amended on August 27, 2009. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising kindergarten education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. On December 27, 2015, the Education Law was further amended (the “amended Education Law”), with the further amendments becoming effective on June 1, 2016. The amended Education Law provides that the establishment or operation of schools may be for profit-making purposes, provided however that schools and other educational institutions sponsored wholly or partially by government financial funds and donated assets are prohibited from being established as for-profit organizations.

The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education

The Law for Promoting Private Education of the PRC became effective on September 1, 2003 and was amended on June 29, 2013, and the Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》, the “Implementation Rules”) became effective on April 1, 2004. Under these rules, “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 local need for educational development and the requirements of the Education Law and the relevant laws and regulations. The standards for the establishment of private schools shall be commensurate with those for the establishment of public schools of the same grade and category. In addition, the establishment of private schools providing academic qualifications education, kindergarten education, education for self-study examination and other cultural education shall be subject to approval by the education authorities at or above the county level, while the establishment of private schools engaging in vocational qualification training and vocational skill training shall be subject to approval by the authorities in charge of labor and social welfare at or above the county level. A duly approved private school will be granted a Permit for Operating a Private School (民辦學校辦學許可證) and shall be registered in accordance with relevant laws and regulations. According to the Interim Regulations on Registration Administration of Private Non-enterprise Units (《民辦非企業單位登記管理暫行條例》) promulgated by the State Council and became effective on October 25, 1998, private non-enterprise units, which referred to social organizations which are established by enterprises, institutions, associations or other civil entities as well as individual citizens using non-state assets and conduct not-for-profit social service activities, shall be registered with the Ministry of Civil Affairs of the PRC (中華人民共和國民政部, the “MCA”) or its local counterparts above the county level as a private non-enterprise unit (民辦非企業單位). These rules also provide that the measures for the administration of profit-making privately-run education institutions registered with the administrative department for industry and commerce shall be separately formulated by the State Council.

Under the above regulations, private schools have the same legal status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. The operations of a private school are highly regulated. For example, a private school shall establish an executive council, a board of directors or any other form of decision-making body and such a decision-making body shall meet at least once a year. Teachers employed by a private school shall have the qualifications specified for teachers and meet the conditions provided for in the Teachers Law of the PRC (《中華人民共和國教師法》, the “Teachers Law”) and the other relevant laws and regulations, and there shall be a definite number of full-time teachers in a private school.

The Amendment to the Law for Promoting Private Education

Pursuant to the Decision of the Standing Committee of the National People’s Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) which was promulgated by Order No. 55 of the President of the PRC on November 7, 2016, the Amended Law for Promoting Private Education became effective on September 1, 2017.

Pursuant to the Education Law of the PRC before the Amended Law for Promoting Private Education becoming effective, no organization or individual may establish or operate a school or any other education institution for profit-making purposes and accordingly, no private schools shall be established for profit-making purposes. Pursuant to the Implementation Rules, private schools are classified into three categories, namely, (1) schools established by donations, (2) schools whose sponsors do not require reasonable returns and (3) schools whose sponsors require reasonable returns.

Amendments to the Education Law were made by the Standing Committee of the National People’s Congress on December 27, 2015, which became effective on June 1, 2016. The amended Education Law repudiated the provisions that prohibit any organization or individual from establishing or operating a school for profit-making purposes.

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The Amended Law for Promoting Private Education establishes a new classification system for private schools. Private Schools are now classified by whether they are established and operated for profit-making purposes. Under the Amended Law for Promoting Private Education, sponsors of private schools that are not engaged in compulsory education may choose to establish non-profit or for-profit private schools at their own discretion.

According to the Amended Law for Promoting Private Education, the key features of the aforesaid new classification system for private schools include the following:

- sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law (as defined below) and other relevant laws and regulations. Operation surplus refers to annual net balance of the school after deduction of costs for school operations, donations received government subsidies, reserved development fund and other expenses as required by the regulations;
- sponsors of non-profit private schools are not entitled to any distribution of profits or revenue from the non-profit schools they operate and all operation surplus of non-profit schools shall be used for the operation of the schools;
- for-profit private schools are entitled to set tuition fees and other miscellaneous fees independently without the need to seek prior approvals from or reporting to the relevant government authorities. The collection of fees by non-profit private schools, on the other hand, shall be regulated by the provincial, autonomous regional or municipal governments;
- private schools (for-profit and non-profit) may enjoy preferential tax treatments. Non-profit private schools are entitled to the same tax benefits as are public schools. Taxation policies for for-profit private schools after the Amended Law for Promoting Private Education takes effect are still unclear as more specific provisions are yet to be introduced;
- where there is construction or expansion of a non-profit private school, the school may acquire the required land use rights in the form of allocation by the government as a preferential treatment. Where there is construction or expansion of a for-profit private school, the school may acquire the required land use rights from the government;
- the remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of non-profit schools. The remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law (as defined below); and
- people's governments at or above the county level may support private schools by subscription to their services, provision of student loans and scholarships, and leases or transfers of unused state assets. The governments may further take such support by granting measures as government subsidies, bonus funds and incentives for donation to support non-profit private schools.

In addition, the Amended Law for Promoting Private Education provides that, where an organization or individual establishes or operates a private school without authorization, it/he shall be ordered by the relevant administrative department of the government to cease operation of the school and return the fees collected, and shall be fined not less than one time but not more than five times of the amount of illegal gains. If a sponsor's act is found to have violated the administration of public security, the sponsor shall be imposed a penalty by the public security authority according to the laws. If a sponsor's act constitutes a crime, the sponsor shall be subject to criminal liabilities according to the laws.

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On December 29, 2016, the State Council issued the Several Opinions of the State Council on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》, the “State Council Opinions”), which require, among other things, local people’s governments to relax the conditions on accessing operation of private schools and encourage social forces to enter the education industry. The State Council Opinions also provide that each level of the people’s government shall increase its support to the private schools in terms of financial investment, financial support, autonomous policies, preferential tax treatments, land policies, fee policies, autonomous operation, and protection of teachers’ and students’ rights.

On December 30, 2016, the MOE, the MCA, the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商總局, the “SAIC”), the Ministry of Human Resources and Social Security (中華人民共和國人力資源社會保障部, the “MOHRSS”) and the State Commission Office of Public Sectors Reform (中央機構編制委員會辦公室) jointly issued the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》), reflecting the new classification system for private schools as set out in the Amended Law for Promoting Private Education. Pursuant to these implementation rules, if a private school established before the promulgation of the Amended Law for Promoting Private Education chooses to be registered as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration procedure. If such a private school chooses to be registered as a for-profit school, it shall conduct the financial settlement process, have the property rights of its assets such as lands, school buildings and net balance being authenticated by relevant governmental authorities. In addition, such a private school shall pay the relevant taxes, apply for a new private school operation permit, and apply to be transformed into a limited liability company and registered as a for-profit school and continue its operation.

On December 30, 2016, the MOE, SAIC and the MOHRSS jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》), pursuant to which the establishment, division, merger, termination and other material changes of a for-profit private school shall first be reported by the board of directors of the relevant school to and get approvals from the relevant authorities, and subsequently be registered with the competent branch of SAIC.

On April 24, 2018, the Government of Guangdong Province issued 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 Opinion”), which require, among other things, local people’s governments to encourage social forces to enter the education industry. The Guangdong Opinions also provide that departments of education, human resources, social security, civil affairs, compilation bureau and industry and commerce improve the system of classification and registration of private schools, refine the registration items and processes, and make clear the methods and regulations for the registration of private schools, and each local people’s government shall increase its support to the private schools in terms of financial investment, financial support, autonomous policies, preferential tax treatments, land policies, fee policies, autonomous operation, and protection of teachers’ and students’ rights. Besides, the Guangdong Opinion provides that pre-existing private schools which elect to be registered as for-profit private schools shall deal with their remaining assets in accordance with the Company Law of the PRC after repaying their debts at termination.

On May 28, 2018, the Education Department of Guangdong Province (廣東省教育廳), the Human Resource and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) and the Administration for Industry and Commerce of Guangdong Province (廣東省工商行政管理局) jointly promulgated the Measures for the Supervision and Administration of For-profit Private After-school Education Institutions (《營利性民辦培訓機

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構的監督管理辦法》，the “Guangdong Measures”), and, together with the Civil Affairs Department of Guangdong Province (廣東省民政廳), jointly promulgated the Standards for Setting up Private After-school Education Institutions (《民辦培訓機構的設置標準》，the “Guangdong Standards”), both of which became effective on June 30, 2018 and will be valid for five years. The Guangdong Measures apply to for-profit private after-school education institutions in Guangdong, and, among other things, stipulate that: (1) the establishment of a for-profit private after-school education institution shall meet the demand of local educational development, conditions prescribed by educational laws and other relevant laws and regulations and shall comply with the requirements provided under the Guangdong Standards; (2) the establishment of a for-profit private after-school education institution shall be subject to the pre-approval of its proposed name from the administrative department of industry and commerce and shall complete the approval procedures bearing the pre-approved proposed name with the competent authority where such institution is located for a school operating permit; (3) the competent authority for a cultural and educational for-profit private after-school education institution is the county-level education administrative department where such for-profit private after-school education institution is located. After obtaining the school operating permit, a for-profit private after-school education institution shall register with the administrative department of industry and commerce in accordance with the PRC Company Law and PRC Regulations on the Registration and Administration of Companies (《中華人民共和國公司登記管理條例》). The Guangdong Standards provide the standards for establishing for-profit private after-school education institutions in Guangdong, which among other things, including: (1) the sponsor of a for-profit private after-school education institution should provide premises suitable for its training projects and training scale. If a sponsor operates a for-profit private after-school education institution on its own, the sponsor should provide the certificate of property rights of such premises, whereas if a sponsor operates a for-profit private after-school education institution on premises leased from a third party, the sponsor should provide proofs of property rights of the owner and the lease contract entered into with the owner or its authorized representative, and the lease contract should have a term of no less than three years; (2) the gross area of the premises used to operate a for-profit private after-school education institution shall not be less than 200 sq.m., of which the gross area for the training purpose shall not be less than two thirds of the entire gross area; (3) if the leased premises are not originally used for school operations, such premises shall meet the fire safety requirements prescribed by the PRC laws and regulations and shall obtain corresponding fire safety certification materials; and (4) for-profit after-school education institutions shall have certain number of full-time and part-time teaching staff. According to the Guangdong Measures, teaching staff who teach Chinese, mathematics, foreign language, physics, chemistry and other subjects in the compulsory education stage as well as those related to the entering of a higher school and their extension training shall have the corresponding teacher qualifications. The Guangdong Standards set forth the basic standards for establishing for-profit private after-school education institutions in Guangdong, and municipality cities in Guangdong may issue more specific standards in accordance with the Guangdong Standards.

On May 2, 2018, the Bureau of Education of Guangzhou issued the Practical Guidance of Application for School Operation Permits by After-school For-profit Education Institutions in Guangzhou (Trial) (《廣州市校外培訓機構申請辦理操作指引(試行)》，the “Guangzhou Guidance”). The Guangzhou Guidance, among other things, provides the requirements and procedures for after-school education institutions to apply for the school operation permits.

On December 27, 2017, Shanghai Municipal Government promulgated the Management Methods of Classified Registration of Private Schools (《上海市民辦學校分類許可登記管理辦法》), and on December 29, 2017, the Education Commission of Shanghai, the Department of Industry and Commerce of Shanghai, Department of Human Resources and Social Security of Shanghai and the Department of Civil Affairs of Shanghai promulgated the Setting Standards for Private After-school Education Institutions of Shanghai (《上海市民辦培訓機構設置標準》), the Management Measures for the For-profit Private After-school Education Institutions of Shanghai (《上海市營利性民辦培訓機構管理辦法》), and the Management Methods for the Non-Profit Private After-school Education Institutions of Shanghai (《上海市非營利性民辦培

訓機構管理辦法》) (collectively, the “Shanghai Implementation Regulations”). These Shanghai Implementation Regulations, among other things, provide the requirements and procedures for private after-school education institutions to apply for the school operation permit.

Pursuant to the Management Methods of Classified Registration of Private Schools (《上海市民辦學校分類許可登記管理辦法》), private education intuitions choosing to register as a for-profit private school shall complete the registration before December 31, 2020.

On July 2, 2018, the Guangxi Zhuang Autonomous Region People’s Government promulgated the Implementation Opinions of the Guangxi Zhuang Autonomous Region People’s Government on Encouraging Social Forces to Set up Education and Promote the Healthy Development of Private Education (《廣西壯族自治區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》), which require, among other things, that private education intuitions established before September 1, 2017 shall complete the registration of for-profit private school or non-for profit private school before December 31, 2022.

In addition to the Amended Law for Promoting Private Education and the above regulations, the other details of the operation requirements of non-profit schools and for-profit schools will further be provided in implementation regulations that are yet to be introduced, which include the amendment to the Implementation Rules for the Law for Promoting Private Education of the PRC and the specific measures to be formulated and promulgated by the competent authorities responsible for the administration of private schools.

Opinions on Regulating Development of After-school Education Institutions

On August 22, 2018, the General Office of the State Council (國務院辦公廳) issued the State Council Opinions 80 which provided various guidance on regulating after-school training market for primary and secondary school students, including, among others, the operation standards that after-school education institutions should follow, the requirements and approvals necessary for opening new after-school education institutions, the guidance for daily operation of after-school education institutions, and the regulatory supervision scheme for after-school education institutions.

The operation standards set out in the State Council Opinions 80 include, among others: (1) the average area per student used within any specific training period shall be no less than three square meters; (2) after-school education institutions shall meet the fire safety, environmental protection, and health and food safety requirements; (3) personal safety insurance shall be purchased for students to mitigate risks; and (4) no in-service school teachers shall be employed by after-school education institutions and all the teachers teaching courses in relation to school academic subjects shall obtain relevant teaching qualifications. The State Council Opinions 80 require that after-school education institutions obtain school operation permits and business licenses. For those who have obtained the school operation permits and business licenses, failure to meet the operation standards may cause revocation of their operation permits or business licenses, as well as termination of school operations, unless timely rectification is made. The State Council Opinions 80 further provide that after-school education institutions shall obtain approvals from local education administration authorities to open new branches or learning centers.

The State Council Opinions 80 provide guidance on the daily operation of after-school education institutions, including, among others: (1) for courses on school academic subjects, key course information, including subjects, course schedules, and course syllabi, shall be filed with the local education administration authorities and made public, and the course progress shall not surpass the same-period progress of local primary schools and secondary schools; (2) no training classes shall be arranged in conflict with the regular schooling time in local primary schools and secondary schools; (3) tutoring activities shall not be ended later than 8:30 p.m.; (4) no homework shall be assigned; (5) no scored examination, competition or ranking in

connection with the courses of primary schools or secondary schools shall be arranged; (6) no more than three months of tuition fee can be collected in one time; and (7) no fees other than those that have been made public and no compulsory fund-raising in any name may be made against the students.

The State Council Opinions 80 set out the general regulatory supervision scheme requiring that, among others, education administration authorities shall (1) lead the overall supervision over the after-school training market; (2) implement the annual inspection and annual reporting policy, and require after-school education institutions listed overseas to publish Chinese-language periodic reports and interim reports regarding any material adverse impacts on such after-school education institutions in China; and (3) carry out the “Black List” and “White List” policy to timely publish information of the after-school education institutions and any institution who fails to meet the relevant legal requirements on government websites.

Consistent with the Circular on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Secondary Schools (關於切實減輕中小學生課外負擔開展校外培訓機構專項治理行動的通知, “Circular 3”), the State Council Opinions 80 also prohibit intensive exam-oriented training, advanced training that do not follow the formal school curricula, and any arrangement that correlates students’ examination performance in after-school education institutions to admission into primary and secondary schools.

On August 31, 2018, the General Office of the MOE promulgated the Circular regarding the Truly Implementation of Special Measures and Rectification Work on the Private Education Institutions (《教育部辦公廳關於切實做好校外培訓機構專項治理整改工作的通知》), which provides detailed requirements for the provincial education departments to enforce the State Council Opinions 80.

Laws and Regulations on Qualifications of Teachers

Pursuant to the Implementation Rules for the Law for Promoting Private Education of the PRC, teachers employed by a private school shall have the qualifications specified for teachers and meet the conditions provided for in the Teachers Law and the other relevant laws and regulations, and there shall be a definite number of full-time teachers in a private school.

Pursuant to the Teachers Law issued by Standing Committee of the NPC, the Teachers Law shall apply to teachers specifically engaged in education and teaching at schools of various levels and categories or other institutions of education. “Schools of various levels and categories” refers to the schools that carry out pre-school education, ordinary primary education, ordinary secondary education, vocational education, ordinary higher education, special education or adult education, and “other institutions of education” refers to Shao Nian Gong (少年宮), local teaching, research offices and the institutions that conduct audio-visual education. In addition, pursuant to the Teachers Law, the relevant provisions of the Teachers Law may be applied mutatis mutandis in the light of the actual conditions to the educational and teaching assistants of schools or other institutions of education, as well as teachers and the educational and teaching assistants of schools of other categories.

Pursuant to the State Council Opinions 80, Guangdong Measures and the Guangdong Standards, teaching staff of tutoring institutions shall have relevant teacher qualifications or professional skill qualifications. Teaching staff who teach Chinese, mathematics, foreign language, physics, chemistry and other subjects in the compulsory education stage as well as those related to the entering of a higher school and their extension training shall have the relevant teacher qualifications.

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

Pursuant to the Interim Measures for the Management of the Collection of Private Education Fees (《民辦教育收費管理暫行辦法》), which were promulgated by the NDRC, the MOE and the Ministry of Labor and Social Security (currently known as the Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部)) on March 2, 2005, a private school that provides non-academic qualifications education shall file its pricing standard with the governmental pricing authority and publicly, timely disclose such standard. According to the Interim Measures for the Management of the Collection of Private Education Fees and the Price Law of PRC (《價格法》) promulgated by Standing Committee of the National People's Congress on December 29, 1997 and came into effect on May 1, 1998, if a school raises its tuition levels without obtaining the proper approval or making the relevant filing with the relevant government pricing authorities, the school will be required to return the additional tuition fees obtained through the raise and become liable for compensation of any losses caused to the students in accordance with the relevant PRC laws.

According to the Amended Law for Promoting Private Education, which came into effect on September 1, 2017, the items and rates of fees to be charged by private schools shall be (1) determined based on the costs for running schools, market demand and other factors, (2) made public, and (3) subject to the supervision by the relevant competent departments. The specific measures for non-profit private schools to charge fees shall be formulated by the people's governments of all provinces, autonomous regions and municipalities directly under the central government. The fee-charging rates of for-profit private schools shall be subject to market adjustment, and be decided by the schools on their own. The fees charged by private schools shall mainly be used for carrying out educational and teaching activities, improving school conditions and ensuring the proper treatment of teachers and staff members.

The Administrative Measures for Refund of Education Institutions that Provide Non-Academic Qualifications Education in Guangdong Province (《廣東省民辦非學歷教育機構退費管理辦法》), the “Guangdong Measures for Refund”) were issued by the Education Department of Guangdong Province on August 22, 2003, which provide the rules for refund of private education institutions providing non-academic qualification educations. Pursuant to the Guangdong Measures, the refund of for-profit private after-school education institutions shall be carried out in compliance with the Guangdong Measures for Refund.

Circular on Special Enforcement Campaign Concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools

On February 13, 2018, the General Offices of the MOE, SAIC, the MCA and the MOHRSS jointly promulgated the Circular on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools (《教育部辦公廳等四部門關於切實減輕中小學生課外負擔開展校外培訓機構專項治理行動的通知》, “Circular 3”). Among other things, Circular 3 requires all local bureaux of the MOE, SAIC, the MCA and the MOHRSS to carry out a special enforcement campaign to prohibit extracurricular private training schools and institutions from the following activities: (1) providing courses that do not follow the formal school curricula, and providing trainings to strengthen testing abilities for students; (2) organizing after-school examinations and competitions for primary and middle school students; and (3) any activities linking students' performance in extracurricular private training schools with admission of primary and middle school. In addition, Circular 3 prohibits teachers in primary and middle schools from engaging in part-time jobs to provide tutoring services in after-school education institutions.

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On April 12, 2018, the Education Department of Guangdong Province, the Civil Affair Department of Guangdong Province, the Human Resource and Social Security Department of Guangdong Province, the Administration of Industry and Commerce of Guangdong Province and the Department of Public Security of Guangdong Province jointly promulgated the Proposal on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools (《廣東省教育廳等五部門關於切實減輕中小學生課外負擔開展校外培訓機構專項治理方案》). The proposal stipulates specific rules to enforce Circular 3 within Guangdong province.

Pursuant to the Guangdong Measures, tutoring activities provided by after-school education institutions in relation to the subjects of Chinese, mathematics, foreign language, physics, chemistry and other subjects in the compulsory education stage as well as those related to the entering of a higher school and their extension training should conform to the educational discipline (教育規律) and the characteristics of the physical and mental development of minors and should be based on the relevant curriculum standards. Undue raising of learning requirements, speeding up of learning progress and increase of teaching difficulty in tutoring activities are strictly prohibited.

REGULATIONS ON VALUE-ADDED TELECOMMUNICATIONS SERVICES

According to the Telecommunications Regulations of PRC (《電信條例》) promulgated by the State Council on September 25, 2000 and most recently amended on February 6, 2016, a telecommunication services provider in China must obtain an operating license from the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和資訊化部, the “MIIT”), or its provincial authorities. According to the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》, “Internet Information Measures”) promulgated by the State Council on September 25, 2000 and were amended on January 8, 2011, the commercial Internet content providers (the “ICP”) shall obtain a license for Internet content provider license (the “ICP license”) from the appropriate telecommunications authorities in order to offer any commercial Internet information services in China. Commercial ICPs shall display their ICP license numbers in a conspicuous location on the home page of their websites. In addition, the Internet Information Measures also provide that ICPs that operate in the industries of news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities regulating those industries as well.

PROVISIONS ON THE ADMINISTRATION OF ONLINE PUBLISHING SERVICES

According to the Provisions on the Administration of Online Publishing Services (《網絡出版服務管理規定》) promulgated by the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣播電總局, the “SAPPRFT”) and the MIIT on February 4, 2016 and came into effect on March 10, 2016, entities engaged in publication services through information network shall obtain the Internet Publishing Service License (《網絡出版服務許可證》) from the General Administration of Press and Publication. Foreign-invested enterprises are prohibited from engaging in the business of publication service through information network. “Publication services through information network” refer to the provision of online publications to the public through information network. “Online publications” refer to digitized works with characteristics of publishing such as editing, production and processing provided to the public through information network, which mainly cover: (1) original digitized works such as knowledgeable and thoughtful texts, pictures, maps, games, animation, and audio and video readings in literature, art, science and other fields; (2) digitized works of which the content is consistent with those in published books, newspapers, periodicals, audio and video products, and electronic publications, among others; (3) digitized works such as online literature databases formed in such manners as selecting, compiling and collecting the aforesaid works; and (4) other types of digitized works recognized by the SAPPRFT.

PRC LAWS AND REGULATIONS RELATING TO PROPERTY IN THE PRC

Administrative Measures for the Leasing of Commodity Housing

Pursuant to the Administrative Measures for the Leasing of Commodity Housing (《商品房屋租賃管理辦法》) issued by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) on December 1, 2010, within 30 days after the execution of the housing lease contract, parties to the leasing of housing shall handle the registration and filing procedure of the leasing of housing at the departments in charge of construction (real estate) of the governments in the municipality directly under the Central Government, city and county where the leased housing is located. Parties to the leasing of housing may entrust in writing another party to handle the registration and filing procedure of the leasing. In the event that parties to the leasing of housing fail to handle the registration and filing procedure of the leasing of housing, the department in charge of construction (real estate) of the people's government in the municipality directly under the Central Government, the cities or the counties shall order rectification within a time limit. If rectification is not made by an individual within the time limit, a fine of less than RMB1,000 shall be imposed. If rectification is not made by an entity within the time limit, a fine of more than RMB1,000 but less than RMB10,000 may be imposed.

LAWS AND REGULATIONS RELATING TO FIRE SAFETY

According to the Fire Safety Law of PRC (《消防法》) which was promulgated by the Standing Committee of the National People's Congress on April 29, 1998, amended on October 28, 2008 and became effective on May 1, 2009, the construction of large-scale people-intensive sites or any other special construction projects as prescribed by the fire department of a public security authority require the approval of the fire department of a public security authority, and any other types of construction projects are required to complete a fire safety filing with the competent fire safety authorities upon completion of the construction. According to the Eight Measures Taken by the Fire Department of Public Security to Deepen Reform and Service Economic and Social Development (《公安消防部門深化改革服務經濟社會發展八項措施》) promulgated by the Ministry of Public Security on August 12, 2015, the requirement of fire safety filings on premises with an investment amount for construction works of less than RMB300,000 or with a gross floor area of less than 300 sq.m. is cancelled.

According to the Provisions on the Supervision and Administration of Fire Protection of Construction Projects (《建設工程消防監督管理規定》) promulgated by the Ministry of Public Security on April 30, 2009 and became effective on May 1, 2009, which were last amended on July 17, 2012, any premises of nursery, children's rooms in kindergartens, children's playrooms and other indoor activity areas for children with a gross floor area of more than 1,000 sq.m. are required to obtain a fire design approval from the fire department of a public security authority before commencing the construction and pass fire safety inspection from the relevant fire department of the public security authority after the completion of the construction project. According to the Fire Safety Law of PRC, any construction entity which fails to complete a fire safety filing in accordance with the relevant laws and regulations will be subject to (1) an order to make rectifications within a specified time period, and (2) a fine of not more than RMB5,000; and any construction entity which fails to apply for fire design approval before commencing construction project or a fire safety inspection after the completion of the construction project if required so will be subject to (1) an order to suspend the construction works, or the use of the site, or the operation of the relevant business, and (2) a fine of between RMB30,000 and RMB300,000.

Pursuant to the Guangdong Standards, if the sponsor of a private after-school education institution leases premises not originally used for school operations, such premises should satisfy the fire safety requirements prescribed by the PRC laws and regulations and should obtain corresponding fire safety certification materials.

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PRC LAWS AND REGULATIONS RELATING TO TRADEMARK AND DOMAIN NAME

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》), the “Trademark Law”), which was revised on August 30, 2013 and became effective on May 1, 2014, registered trademarks refer to trademarks that have been approved and registered by the Trademark Office of the State Administration for Industry & Commerce (國家工商行政管理總局商標局). Registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by law.

Domain Name

Pursuant to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》), which was promulgated by the MII on August 24, 2017 and came into effect on November 1, 2017, domain name registration services shall be subject to the principle of “first come, first served.” The domain names registered or used by an organization or individual shall not contain any content prohibited by laws and administrative regulations. A domain name registration applicant shall provide the domain name registration service agency with truthful, accurate and complete identity information on the domain name holder.

PRC LAWS AND REGULATIONS RELATING TO LABOR PROTECTION

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 Standing Committee of the NPC on July 5, 1994 and became effective on January 1, 1995 and was amended on August 27, 2009, an employer shall establish a comprehensive management system to safeguard the rights of its employees, including developing and improving its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conducting labor safety and health education for workers, guarding against labor accidents and reducing occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide employees with the necessary labor protection equipment that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that engage in operations with occupational hazards. Workers who engage in special operations shall have received specialized training and obtained the relevant qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labor Contract Law (《勞動合同法》), which was promulgated by the Standing Committee of the NPC on June 29, 2007 and became effective on January 1, 2008, and was amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law (《勞動合同法實施條例》), which was promulgated and became effective on September 18, 2008, regulate employer and employee relations and contain specific provisions on the terms of the labor contract. Labor contracts must be made in writing. An employer and an employee may enter into a fixed-term labor contract, a non-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labor contracts concluded prior to the enactment of the Labor Law and subsisting within the validity period thereof shall continue to be honored.

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According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans to their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Social Insurance Law (《社會保險法》), which was promulgated on October 28, 2010 and became effective on July 1, 2011, has included pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with the relevant laws and regulations on social insurance. If the employer fails to pay the full amount of social insurance premiums as due, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.

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 were amended on March 24, 2002, employers are required to pay, housing provident funds on behalf of their employees. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration center. The employer shall pay timely and deposit housing provident fund contributions in full. Any employer who violates the above regulations shall be fined and ordered to make good the deficit within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration center shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply with such order after the expiry of such period.

On September 18, 2018, the general meeting of State Council announced that the policies for social insurance shall remain unchanged until the reform has been completed for the transfer of the authority for social insurance from the Ministry of Human Resources and Social Security to the State Administration of Taxation on January 1, 2019. On September 21, 2018, the Ministry of Human Resources and Social Security released an Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilization the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) and required that the policies for both the rate and basis of social insurance contributions shall remain unchanged until the reform on the transfer of the authority for social insurance has been completed. On November 16, 2018, the State Administration of Taxation released the Notice of Certain Measures on Further Supporting and Serving the Development of Private Economy (《關於實施進一步支援和服務民營經濟發展若干措施的通知》), which provided that the policy for social insurance shall remain stable and the State Administration of Taxation will pursue to lower the social insurance contribution rates with the relevant authorities, and ensure the overall burden of social insurance contribution on enterprises will be lowered.

PRC LAWS AND REGULATIONS RELATING TO TAX

Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), the “EIT Law”), which was promulgated on March 16, 2007 and came into effect on January 1, 2008 and was last amended on February 24, 2017, and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated on December 6, 2007 by the State Council and became effective on January 1, 2008 by the State Council, enterprises are classified as either resident enterprises or non-resident enterprises. The income tax rate for resident enterprises, including both domestic and foreign-invested enterprises, shall typically be 25% commencing from January 1, 2008. An enterprise established outside China with its “de facto management body” located in China is considered a “resident enterprise,” which means it can be treated as a domestic enterprise for enterprise income tax purposes. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but whose income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10%.

According to Notice of the Ministry of Finance (中華人民共和國財政部, 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》), “Tax Circular 39”) which came into effect on January 1, 2004 and 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》, “Tax Circular 3”), which came into effect on January 1, 2006, schools are exempt from enterprise income tax on the fees collected by them with the approval from the relevant tax authority which have been included in the government fiscal budget management or the special account management outside the government fiscal budget. Schools are exempt from enterprise income tax on the financial allocations they have received and special subsidies they have obtained from their administrative departments or institutions at higher levels. As of the Latest Practicable Date, we do not enjoy any exemptions under Tax Circular 39 and Tax Circular 3.

According to the Law for Promoting Private Education and the Implementation Rules, a private school that did not require reasonable returns enjoyed the same preferential tax treatment as public schools, whereas the preferential tax treatment policies applicable to private schools that require reasonable returns were separately formulated by the relevant authorities under the PRC State Council.

According to the Amended Law for Promoting Private Education, private schools will be entitled to preferential tax treatments, among which non-profit private schools will be entitled to the same preferential tax treatment as public schools, and taxation policies for for-profit private schools after the Amended Law for Promoting Private Education takes effect are yet to be announced.

Value-added Tax

According to the Temporary Regulations on Value-added Tax (《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 were last amended 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 were last amended on October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax (the “VAT”).

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點方案》), which was promulgated by the MOF and the State Administration of Taxation (國家稅務局, the “SAT”) and came into effect on November 16, 2011, the PRC began to launch taxation reforms in a gradual manner. The collection of value added tax in lieu of business tax was implemented on a trial basis and has not been implemented in education consulting service industries. According to the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》, “Circular 36”), which was promulgated on March 23, 2016 and became effective on May 1, 2016, education services provided by schools engaged in academic qualification education services shall be exempted from VAT. On April 4, 2018, the MOF and SAT promulgated the Circular related to the Adjustment of VAT Rates (《關於調整增值稅稅率的通知》) to adjust certain VAT rates in the PRC. In the fiscal year of 2017 and from January 2018 to April 2018, the VAT rates applicable to Guangzhou Beststudy were 3%, 6%, and 17%, while from May 2018 to June 2018, the VAT rates applicable to Guangzhou Beststudy were 3%, 6%, and 16%.

Other Tax Exemptions

According to Tax Circular 39 and Tax Circular 3, the real properties and land used by schools, nurseries and kindergartens are exempt from house property tax and urban land use tax. Schools and kindergartens which expropriate arable land are exempt from arable land use tax upon approval by the relevant tax authority. Schools and educational institutions that are open to public and are established by any enterprises, government affiliated institutions, social groups or other social organizations or individuals and citizens with non-state fiscal funds for education shall be exempt from deed tax on their ownership of land and houses used for teaching activities upon the approval of the administrative department for education or for labor of the relevant people’s government which also issued the relevant Permit for Operating a Private School. As of the date of this prospectus, we do not enjoy any exemptions under Tax Circular 39 and Tax Circular 3.

Circular on Strengthening the Administration of Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprises

Pursuant to the Circular on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》, the “SAT Circular 698”) promulgated by SAT on December 10, 2009, where a foreign investor transfers the equity interests of a PRC resident enterprise indirectly via disposing of the equity interests of an overseas holding company (an “Indirect Transfer”), and such an overseas holding company is located in a tax jurisdiction that (1) has an effective tax rate less than 12.5%, or (2) does not tax the foreign income of its residents, the foreign investor shall report this Indirect Transfer to the competent tax authority of the location in which the PRC resident enterprise is located. The PRC tax authority will examine the true nature of the Indirect Transfer, and if the tax authority considers that the foreign investor has adopted an “abusive arrangement” in order to avoid PRC tax, it may disregard the existence of the overseas holding company and re-characterize the Indirect Transfer.

On February 3, 2015, SAT issued the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》, the “SAT Bulletin 7”), which terminated the aforementioned articles of the SAT Circular 698. Pursuant to the SAT Bulletin 7, where a non-resident enterprise indirectly transfers properties such as equity in resident enterprises without any justifiable business purposes and with an aim

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to avoid the payment of enterprise income tax, such an indirect transfer must be reclassified as a direct transfer of equity in resident enterprise. To assess whether an indirect transfer of PRC taxable properties has reasonable commercial purposes, all arrangements related to the indirect transfer must be considered comprehensively and factors set forth in the SAT Bulletin 7 must be comprehensively analyzed in light of the actual circumstances.

On October 17, 2017, SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax 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》, the “SAT Bulletin 37”), which came into effect and superseded Circular 698 on December 1, 2017. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

PRC LAWS AND REGULATIONS RELATING TO COMPANIES

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》, the “PRC Company Law”), which was promulgated on December 29, 1993 and amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and limited companies by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment have provided otherwise, such other laws shall prevail.

Pursuant to the PRC Company Law, there is no prescribed timeframe for the shareholders to make full capital contribution to a company, except otherwise provided in other relevant laws, administrative regulations and State Council decisions. Shareholders are only required to state the capital amount that they commit to subscribe in the articles of association of the company. Further, the initial payment of a company’s registered capital is no longer subject to a minimum amount requirement and the business license of a company will not show its paid-up capital. In addition, shareholders’ contribution of the registered capital is no longer required to be verified by capital verification agencies.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》), the “Foreign Exchange Administration Rules”). These were promulgated by the State Council of the PRC on January 29, 1996 and came into effect on April 1, 1996 and were amended on January 14, 1997 and August 5, 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China, unless the prior approval of the State Administration of Foreign Exchange (國家外匯管理局, the “SAFE”) or its local counterparts is obtained. Under the Foreign Exchange Administration Rules, foreign exchange transactions involving overseas direct investment or overseas investment and trading in securities and derivative products are subject to registration with SAFE or its local counterparts and necessary approval from or filing with the relevant PRC government authorities.

In addition, under the Circular of the People’s Bank of China on Issuing the Provisions on the Settlement and Sale of and Payment in Foreign Exchange (《中國人民銀行關於印發〈結匯、售匯及付匯管理規定〉的通知》) promulgated by the People’s Bank of China on June 20, 1996 and became effective on July 1, 1996, foreign-invested enterprises in the PRC may, without the approval of SAFE, make a payment from their foreign exchange accounts at

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designated foreign exchange banks for paying dividends with certain evidencing documents (such as board resolutions, tax certificates), or for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities.

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), “Circular 37”), which was promulgated on July 4, 2014 and came into effect on the same day, domestic residents shall be required to register with the local branch of SAFE for foreign exchange registration of overseas investments before contributing domestic and overseas lawful assets or interests to an SPV (as defined below), and to update such registration in the event of any change of basic information of the registered SPV or major change in the SPV’s capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions. An SPV is defined as an “offshore enterprise directly established or indirectly controlled by a domestic resident (including domestic institution and individual resident) with its legally owned assets and equity of the domestic enterprise, or legally owned offshore assets or equity, for the purpose of investment and financing.” “Round Trip Investments” refer to “the direct investment activities carried out by a domestic resident directly or indirectly via an SPV, i.e. establishing a foreign-invested enterprise or project within the PRC through a new entity, merger or acquisition and other ways, while retaining ownership, control, operation and management and other rights and interests of the entity.” In addition, according to the procedural guidelines attached to the Circular 37, a domestic individual resident is only required to register the SPV directly established or controlled (first level).

Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》, “Circular 13”), which was promulgated on 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, and Circular 13 also simplifies some procedures relating to foreign exchange for direct investments.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》, “Circular 19”), which came into effect on June 1, 2015. According to Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement (“Discretionary Foreign Exchange Settlement”). The Discretionary Foreign Exchange Settlement refers that 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 Discretionary Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily set at 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and proceed with the review process with the banks.

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Furthermore, Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes:

1. directly or indirectly used for payments beyond the business scope of the enterprises or payments as prohibited by relevant laws and regulations;
2. directly or indirectly used for investment in securities unless otherwise provided by the relevant laws and regulations;
3. directly or indirectly used for granting entrust loans in Renminbi (unless permitted by the scope of business), repaying inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to third parties; and
4. directly or indirectly used for expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》, or “Circular 16”), on June 9, 2016, which became effective from the same date. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. Circular 16 provides a unified standard for the conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis which applies to all enterprises registered in the PRC. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

Regulations on Loans to and Direct Investment in the PRC Entities by Offshore Holding Companies

According to the Provisional Regulations on Statistics and Supervision of Foreign Debts (《外債統計監測暫行規定》) promulgated by SAFE on August 27, 1987 and Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt (《外債統計監測實施細則》) promulgated by SAFE on September 24, 1997 and the Interim Provisions on the Management of Foreign Debts (《外債管理暫行辦法》) promulgated by SAFE, the NDRC and the MOF and effective from March 1, 2003, loans by foreign companies to their subsidiaries in China, which accordingly are foreign-invested enterprises, are considered foreign debt, and such loans must be registered with the local branches of SAFE. Under these provisions, the total amount of accumulated medium-term and long-term foreign debt and the balance of short-term debt borrowed by a foreign-invested enterprise cannot exceed the difference between the total investment and the registered capital of the foreign-invested enterprise. Total investment of a foreign-invested enterprise is the total amount of capital that can be used for the operation of the foreign-invested enterprise, as approved by MOFCOM or its local counterpart, and may be increased or decreased upon approval by MOFCOM or its local counterpart. Registered capital of a foreign-invested enterprise is the total amount of capital contributions of the foreign-invested enterprise subscribed to by its foreign holding company or owners, as approved by MOFCOM or its local counterpart and registered at SAIC

or its local counterpart. Pursuant to the Measures for the Registration and Administration of Foreign Debts (《外債登記管理辦法》), which is promulgated by SAFE on April 28, 2013 and came into effect on May 13, 2013, these foreign-invested enterprises must submit the registration application to the local branches of SAFE within 15 days from the date on which the loan agreements for the foreign debt are executed.

According to applicable PRC regulations on foreign-invested enterprises, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered foreign-invested enterprises, may only be made when approval by MOFCOM or its local counterpart is obtained. In approving such capital contributions, MOFCOM or its local counterpart examines the business scope of each foreign invested enterprise under review to ensure it complies with the Foreign Investment Catalogue, which classifies industries in China into three categories: “encouraged foreign investment industries,” “restricted foreign investment industries” and “prohibited foreign investment industries.”

SAFE Regulations on Employee Share Options

The Administration Measures on Individual Foreign Exchange Control (《個人外匯管理辦法》) were promulgated by the People’s Bank of China on December 25, 2006, and their Implementation Rules (《個人外匯管理辦法實施細則》), issued by SAFE on January 5, 2007, became effective on February 1, 2007. Under these regulations, all foreign exchange matters involved in employee stock ownership plans and stock option plans participated in by onshore individuals require, among others, approval from SAFE or its authorized branch. Furthermore, the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》, the “Stock Option Rules”), which were promulgated by SAFE on February 15, 2012, provides that, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges based on the stock incentive plans are required to register with SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed companies or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents’ exercise of the employee share options. The foreign exchange proceeds received by PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file the form for record-filing of information of the domestic individuals participating in the stock incentive plans of overseas listed companies with SAFE or its local branches on a quarterly basis.

REGULATION

REGULATIONS ON PRIVATE SCHOOLS IN THE STATE OF CALIFORNIA

California Education Code

The California Education Code establishes the structure of the school system in the State of California and governs the operations of both public and private educational institutions. Under the California Education Code, private schools are required to file an affidavit with the Superintendent of Public Instruction between the first and fifteenth day of October of each year and there are certain health and safety requirements for private schools.

Voluntary Non-Governmental Accreditation

Accreditation is a voluntary non-governmental review process and an educational institution may apply to an accrediting body for accreditation. In the U.S., there are a limited number of national and regional accrediting bodies recognized by the U.S. Department of Education as reliable authorities concerning the quality of education or training offered by the educational institutions they accredit. For an educational institution, the eligibility criteria to become accredited depend on the specific rules as adopted by the relevant accrediting body.

OUR HISTORY AND DEVELOPMENT

Overview

We are the largest K-12 after-school education service provider in southern China as measured by both student enrollments and total revenue in 2017, according to the F&S Report. Moreover, we are the fifth largest K-12 after-school education service provider nationwide in terms of revenue and student enrollments. Our first education center, Guangzhou Zhuoyue Education Training Center (廣州卓越教育培訓中心) (formerly known as “Guangzhou Beststudy Tuition Center (廣州卓越教育補習中心)” from June 1998 to September 2000), was established in October 1997 with Mr. Junjing Tang as the principal by Guangzhou City Ruiya Advertising Co., Ltd. (廣州市瑞雅廣告有限公司), which is currently known as Guangzhou City Ruiya Cartoon Co., Ltd. (廣州市瑞雅卡通有限公司)) as its sole school sponsor. In August 2000, the sole school sponsor of Guangzhou Zhuoyue Education Training Center was changed to Guangzhou Beststudy, which was established by Mr. Junying Tang and Mr. Guizhou and has been the sole school sponsor of Guangzhou Zhuoyue Education Training Center since then. Our Controlling Shareholders, namely Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou, had over 20 years of experience in the PRC education industry and were the executive Directors as of the Latest Practicable Date. For further biographical details of Mr. Junjing Tang, Mr. Junying Tang and Mr. Guizhou, see “Directors and Senior Management — Board of Directors.”

We have expanded rapidly since the inclusion of Guangzhou Zhuoyue Education Training Center into our Group. We currently offer a comprehensive suite of premium after-school education services and other school subjects related courses for the full spectrum of K-12 student groups ranging from kindergartens to high schools.

Business Milestones

The following illustrate our major development milestones:

Year	Event
1997	Guangzhou Zhuoyue Education Training Center, our first education center, was established in October 1997
2000	We started to provide full-time test preparation courses for high school graduates who wish to retake Gaokao
2005	We started to provide full-time test preparation courses for middle school graduates who wish to retake Zhongkao
2006	Our individualized tutoring business was established
2007	We expanded our business to Foshan

HISTORY AND CORPORATE STRUCTURE

Year	Event
2009	We expanded our business to Shanghai and Dongguan
2010	We expanded our business to Zhuhai
2011	We expanded our business to Shenzhen and Zhongshan
2012	Gaokao and Zhongkao retake courses were integrated to our newly-established full-time business division
2014	“Zhuoyue Macro-Chinese” (卓越大語文) and “Young Learners’ English” (少兒英語) were launched
2015	“Arts of Skillful Questioning” (巧問教育) was launched
2016	“Niu Shi Bang” (牛師幫) was launched
2017	We expanded our business to Nanning and Huizhou

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on August 27, 2010 with an authorized share capital of US\$50,000 divided into 1,000,000,000 shares with par value of US\$0.00005 each. On the same day, one fully-paid Share was transferred from its incorporator, an independent third party, to Texcellence BVI and an aggregate of 429,999,999 Shares were allotted and issued to Elite BVI, Texcellence BVI, Jameson Ying BVI, Dencent Investment Co., Ltd. (“Dencent”), Forest Education Investment Co., Ltd. (“Forest Education”), Orange bear Limited (“Orange Bear”), Commqua Holding Co. Ltd. (“Commqua”) and ChuangSi Education Management Co. Ltd. (“ChuangSi”), credited as fully paid. Upon completion, the shareholding structure of our Company was as below:

Name of Company	Shareholder	Number of Shares	Percentage of the shareholding
Elite BVI	Mr. Junjing Tang	143,491,000	33.37%
Texcellence BVI	Mr. Junying Tang	143,491,000	33.37%
Jameson Ying BVI	Mr. Gui Zhou	71,745,500	16.69%
Dencent	Mr. Liqing Zeng	25,322,700	5.89%
Forest Education	Mr. Hua Wang	12,659,200	2.94%

HISTORY AND CORPORATE STRUCTURE

Name of Company	Shareholder	Number of Shares	Percentage of the shareholding
Orange bear	Mr. Xiaosong Liu	22,157,900	5.15%
Commqua	Mr. Wenhui Xu	3,164,800	0.74%
ChuangSi	Ms. Xiurong Shi	7,967,900	1.85%

On December 27, 2010, Sequoia Capital China entered into a subscription agreement with our Company, its then shareholders and its then ultimate controlling shareholders, pursuant to which Sequoia Capital China subscribed for 68,048,345 Series A preferred shares of our Company which represented 13.66% of the then issued share capital of our Company as enlarged by the issue of such Series A preferred shares of our Company, at a consideration of approximately RMB68.3 million, which was fully settled on January 21, 2011. On December 18, 2015, our Company entered into a share repurchase framework agreement with Sequoia Capital China, pursuant to which our Company repurchased the entire 68,048,345 Series A preferred shares of our Company held by Sequoia Capital China, at a consideration of approximately US\$19.3 million, which was fully settled on January 27, 2016. See “— Previous investment by Sequoia Capital China” for details.

Offshore Group Companies

Bestudy

Bestudy was incorporated as an exempted company with limited liability in the Cayman Islands on August 30, 2010 with an authorized share capital of US\$50,000 divided into 1,000,000,000 shares with par value of US\$0.00005 each. On the same day, one fully-paid share of Bestudy was transferred from its incorporator, an independent third party to our Company and 429,999,999 shares of Bestudy were allotted and issued to our Company as fully-paid at par value. Since then, Bestudy has been wholly-owned by our Company. Bestudy is an investment holding company.

Beststudy Limited

Beststudy Limited was incorporated as a limited liability company under the laws of Hong Kong on September 9, 2010 with 100,000 shares allotted and issued to Bestudy, credited as fully-paid. Since then, Beststudy Limited has been wholly-owned by Bestudy. Beststudy Limited is an investment holding company and our overseas investment platform. See “Business — Our Overseas Business” for details of our overseas business.

HISTORY AND CORPORATE STRUCTURE

Zhuoxue Information Technology

On October 19, 2016, Zhuoxue Information Technology was established in the PRC as a wholly-foreign owned enterprise with a registered capital of US\$2.0 million, which was wholly-owned by Beststudy Limited as of the Latest Practicable Date.

As of the Latest Practicable Date, Zhuoxue Information Technology was principally engaged in the provision of technical and management consultancy services to our PRC Operating Entities.

HISTORY OF OUR MAJOR PRC OPERATING ENTITY

As of the Latest Practicable Date, we had 55 PRC Operating Entities, including 28 companies established with limited liability and 27 private non-enterprise entities. See below further information in relation to the history of Guangzhou Beststudy, our major PRC Operating Entity which is principally engaged in the provision of K-12 after-school education services.

Guangzhou Beststudy

Early development and previous contractual arrangements

Guangzhou Beststudy, formerly known as Guangzhou Beststudy Enterprise Co., Ltd. (廣州市卓越里程企業有限公司), was established on June 2, 2000 under the laws of the PRC with a registered capital of RMB1.0 million. Upon establishment, 80% and 20% of the equity interest in Guangzhou Beststudy was held by Mr. Junying Tang and Mr. Gui Zhou, respectively.

On February 18, 2008, to strengthen the capital base of Guangzhou Beststudy, Shenzhen Daxin Investment Consulting Co., Ltd. (深圳市達鑫投資諮詢有限公司) (“Daxin Investment”), a then independent third party and a company owned by Ms. Wei Zhang (張巍), Ms. Shanshan Liu (劉珊珊) and Mr. Hua Wang (王華), invested RMB16 million in Guangzhou Beststudy, among which RMB176,470 was contributed to its registered capital.

Subsequently, Guangzhou Beststudy was held by Mr. Junying Tang, Mr. Gui Zhou and Daxin Investment as to 68.0%, 17.0% and 15.0%, respectively.

In July 2010, there were a series of shareholding changes in Guangzhou Beststudy:

- To expand our K-12 after-school education business in Zhuhai and introduce the new business of “Ms. Shi’s Miracle Essays (史老師奇趣作文),” Ms. Xiurong Shi (史秀榮), a Shareholder, invested RMB1.1 million in Guangzhou Beststudy, among which RMB22,210 was contributed to its registered capital and the remaining amount was contributed to its capital reserve.

HISTORY AND CORPORATE STRUCTURE

- To centralize management by Mr. Junjing Tang and optimize the shareholding structure of Guangzhou Beststudy, Mr. Junying Tang entered into a share transfer agreement with Mr. Junjing Tang, pursuant to which Mr. Tang Junjing acquired 33.37% of the equity interest in Guangzhou Beststudy held by Mr. Tang Junying. As Mr. Tang Junying and Mr. Tang Junjing are brothers, the consideration was nil.
- To facilitate the establishment of the variable interest entity structure for the purpose of pursuing potential development opportunities in the overseas capital markets, Daxin Investment entered into a share transfer agreement with Mr. Liqing Zeng (曾李青), Mr. Xiaosong Liu (劉曉松), Mr. Hua Wang and Mr. Wenhui Xu, all of them are our Shareholders, pursuant to which Daxin Investment transferred 5.89%, 5.15%, 2.94% and 0.74% equity interest in Guangzhou Beststudy to Mr. Liqing Zeng, Mr. Xiaosong Liu, Mr. Hua Wang and Mr. Wenhui Xu, with considerations of RMB6.4 million, RMB5.6 million, RMB3.2 million and RMB0.8 million, respectively, which were determined on an arm's length basis with reference to the net assets value of Guangzhou Beststudy.

Subsequently, Guangzhou Beststudy was held by Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Mr. Liqing Zeng, Mr. Xiaosong Liu, Mr. Hua Wang, Ms. Xiurong Shi and Mr. Wenhui Xu as to 33.37%, 33.37%, 16.69%, 5.89%, 5.15%, 2.94%, 1.85% and 0.74%, respectively.

During the period from January 2011 to December 2015, Guangzhou Beststudy was controlled by Beststudy Limited by virtue of contractual arrangements made among Guangzhou Beststudy, Beststudy Limited and the then shareholders of Guangzhou Beststudy, as we intend to explore overseas capital raising opportunities. In December 2015, such contractual arrangements were terminated by the respective parties.

2015 share transfers

To optimize the shareholding structure of Guangzhou Beststudy, in November 2015, each of Mr. Junjing Tang and Mr. Junying Tang entered into a share transfer agreement with Mr. Liangchao Ma (馬良超), an independent third party, pursuant to which Mr. Junjing Tang and Mr. Junying Tang respectively transferred approximately 3.12% and 3.12% equity interest in Guangzhou Beststudy to Mr. Liangchao Ma, at an aggregate consideration of RMB18.2 million, which was determined on an arm's length basis with reference to the net assets value of Guangzhou Beststudy. As Mr. Liangchao Ma was not able to fully settle the consideration, he further entered into a share transfer agreement with Mr. Wenhui Xu in February 2016, pursuant to which Mr. Liangchao Ma transferred approximately 6.23% equity interest in Guangzhou Beststudy to Mr. Wenhui Xu at a consideration of approximately RMB18.2 million, which was equivalent to the consideration under his share transfer agreement with Mr. Junjing Tang and Mr. Junying Tang, and was fully settled on April 11, 2017.

HISTORY AND CORPORATE STRUCTURE

Subsequently, Guangzhou Beststudy was held by Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Mr. Liqing Zeng, Mr. Xiaosong Liu, Mr. Hua Wang, Ms. Xiurong Shi and Mr. Wenhui Xu as to 30.25%, 30.25%, 16.69%, 5.89%, 5.15%, 2.94%, 1.85% and 6.97%, respectively.

2016 capital increase by Controlling Shareholders and employees

To further strengthen the capital base and optimize the shareholding structure of Guangzhou Beststudy, in October 2016, the registered capital of Guangzhou Beststudy was increased to approximately RMB43.0 million, with (1) approximately RMB12.1 million of additional registered capital contributed by Tibet Zhuoben Equity Investment Co., Ltd. (西藏卓犇股權投資有限公司) (“Zhuoben Investment”) which was wholly owned by Mr. Junjing Tang, (2) approximately RMB10.1 million of additional registered capital contributed by Tibet Zhuoyan Equity Investment Co., Ltd. (西藏卓焱股權投資有限公司) (“Zhuoyan Investment”) which was wholly owned by Mr. Gui Zhou, (3) approximately RMB10.1 million of additional registered capital contributed by Tibet Zhuomiao Equity Investment Co., Ltd. (西藏卓淼股權投資有限公司) (“Zhuomiao Investment”) which was wholly owned by Mr. Junying Tang, and (4) approximately RMB9.5 million of additional registered capital contributed by Tibet Zhuohe Chuangye Equity Investment Management Co., Ltd. (西藏卓合創業投資管理有限公司) (“Zhuohe Investment”) which was ultimately owned by Ms. Wen Li, Ms. Wei Zhang, Mr. Xiaosong Liu, Ms. Zhou Lu, Ms. Xiurong Shi and Mr. Bei Qi (齊貝).

Upon completion of such capital increase, the equity interest of Guangzhou Beststudy was as set forth below:

Shareholder	Registered share capital (RMB)	Percentage of the equity interest (%)
Mr. Junjing Tang	362,643	0.84
Mr. Junying Tang	362,643	0.84
Mr. Gui Zhou	200,000	0.47
Mr. Liqing Zeng	70,588	0.16
Mr. Hua Wang	35,294	0.08
Mr. Xiaosong Liu	61,764	0.14
Mr. Wenhui Xu	83,538	0.19
Ms. Xiurong Shi	22,210	0.05
Zhuoben Investment	12,071,091	28.07
Zhuomiao Investment	10,062,277	23.40
Zhuoyan Investment	10,133,906	23.57
Zhuohe Investment	9,534,046	22.17

HISTORY AND CORPORATE STRUCTURE

2016 capital increase by Zhuomiao Investment

To further strengthen the capital base of Guangzhou Beststudy, in October 2016, the registered capital of Guangzhou Beststudy was increased to RMB43.6 million, with RMB0.6 million of additional registered capital contributed by Zhuomiao Investment. As of the Latest Practicable Date, approximately 1.37% of the equity interest in Guangzhou Beststudy was held by Zhuomiao Investment on trust for the eligible employees for share incentive purpose.

Upon completion of such capital increase, the equity interest of Guangzhou Beststudy was as set forth below:

Shareholder	Registered share capital (RMB)	Percentage of the equity interest (%)
Mr. Junjing Tang	362,643	0.83
Mr. Junying Tang	362,643	0.83
Mr. Gui Zhou	200,000	0.46
Mr. Liqing Zeng	70,588	0.16
Mr. Hua Wang	35,294	0.08
Mr. Xiaosong Liu	61,764	0.14
Mr. Wenhui Xu	83,538	0.19
Ms. Xiurong Shi	22,210	0.05
Zhuoben Investment	12,071,091	27.66
Zhuomiao Investment	10,709,295	24.54
Zhuoyan Investment	10,133,906	23.22
Zhuohe Investment	9,534,046	21.84

First 2017 capital increase

In recognition of the contributions of our employees and to provide incentive, in August 2011, Bestudy adopted a share option scheme (the “Previous Share Option Scheme”) which was subsequently terminated in February 2017 due to the termination of previous contractual arrangements, whereas the options under the Previous Share Option Scheme granted to 153 employees of our Group were converted into the options over the share capital of Guangzhou Beststudy. Upon the exercise of such options of Guangzhou Beststudy in February 2017, such employees of our Group obtained approximately 1.00%, 0.84%, 0.86% and 0.10% equity interest in Guangzhou Beststudy through Ningbo Meishan Bonded Port Area Zhuoqian Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓前投資管理合夥企業(有限合夥)) (“Zhuoqian Investment”), Ningbo Meishan Bonded Port Area Zhuoqing Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓磬投資管理合夥企業(有限合夥)) (“Zhuoqing Investment”), Ningbo Meishan Bonded Port Area Zhuosi Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓似投資管理合夥企業(有限合夥)) (“Zhuosi Investment”) and Ningbo Meishan Bonded Port Area Zhuoqi Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓祁投資管理合夥企業(有限合夥)) (“Zhuoqi Investment”), respectively, and the register capital of Guangzhou Beststudy was increased to RMB44.9 million.

HISTORY AND CORPORATE STRUCTURE

Upon completion of such capital increase, the equity interest of Guangzhou Beststudy was as set forth below:

Shareholder	Registered share capital (RMB)	Percentage of the equity interest (%)
Mr. Junjing Tang	362,643	0.81
Mr. Junying Tang	362,643	0.81
Mr. Gui Zhou	200,000	0.45
Mr. Liqing Zeng	70,588	0.16
Mr. Hua Wang	35,294	0.08
Mr. Xiaosong Liu	61,764	0.14
Mr. Wenhui Xu	83,538	0.19
Ms. Xiurong Shi	22,210	0.05
Zhuoben Investment	12,071,091	26.88
Zhuomiao Investment	10,709,295	23.85
Zhuoyan Investment	10,133,906	22.57
Zhuohe Investment	9,534,046	21.23
Zhuoqian Investment	447,962	1.00
Zhuoqing Investment	378,642	0.84
Zhuosi Investment	384,503	0.86
Zhuoqi Investment	43,984	0.10

2017 share transfer

To further optimize the shareholding structure of Guangzhou Beststudy, on March 22, 2017, Mr. Liqing Zeng and Zhuohe Investment entered into share transfer agreements with Shenzhen Dezhiqing Investment Co., Ltd. (深圳市德之青投资有限公司) (“Dezhiqing Investment”), a company owned by Ms. Wen Li and Ms. Wei Zhang, respectively, pursuant to which Mr. Liqing Zeng agreed to transfer 0.16% equity interest in Guangzhou Beststudy held by him to Dezhiqing Investment at a consideration of RMB70,588, the book value of such equity interest, and Zhuohe Investment agreed to transfer approximately 6.49% equity interest in Guangzhou Beststudy held by it to Mr. Wenhui Xu at a consideration of approximately RMB2.91 million, being the book value of such equity interest. The considerations of such transfers were fully settled on July 10, 2017.

HISTORY AND CORPORATE STRUCTURE

Upon completion of such share transfer, the equity interest of Guangzhou Beststudy was as set forth below:

Shareholder	Registered share capital (RMB)	Percentage of the equity interest (%)
Mr. Junjing Tang	362,643	0.81
Mr. Junying Tang	362,643	0.81
Mr. Gui Zhou	200,000	0.45
Mr. Hua Wang	35,294	0.08
Mr. Xiaosong Liu	61,764	0.14
Mr. Wenhui Xu	2,996,670	6.67
Ms. Xiurong Shi	22,210	0.05
Zhuoben Investment	12,071,091	26.88
Zhuomiao Investment	10,709,295	23.85
Zhuoyan Investment	10,133,906	22.57
Zhuohe Investment	6,620,914	14.75
Zhuoqian Investment	447,962	1.00
Zhuoqing Investment	378,642	0.84
Zhuosi Investment	384,503	0.86
Zhuoqi Investment	43,984	0.10
Dezhiqing Investment	70,588	0.16

Proposed A share initial public offering

In June 2017, Guangzhou Beststudy filed with Guangdong Securities Bureau of the China Securities Regulatory Commission (中國證券監督管理委員會廣東監管局), and the filing materials for tutoring in preparation for A share listing application (“Possible A Share Listing Application”) has been accepted. We had appointed Huatai United Securities Co., Ltd.* (華泰聯合證券有限責任公司) as the sponsor in relation to the Possible A Share Listing Application. To facilitate the Possible A Share Listing Application, in May 2017, the then shareholders of Guangzhou Beststudy carried out the joint-stock reform of Guangzhou Beststudy and on June 27, 2017, Guangzhou Beststudy received a new business license from Guangzhou Administration for Industry and Commerce (廣州市工商行政管理局).

HISTORY AND CORPORATE STRUCTURE

However, due to then prolonged and uncertain listing timetable in light of the overall A share vetting process, and considering that listing on the Stock Exchange would provide our Group with an international platform to gain access to foreign capital and to promote our Group to overseas investors, in around January and February 2018, we changed our plan and decided not to proceed our tutoring in preparation for the Possible A Share Listing Application and to seek a listing of our Shares on the Stock Exchange to expedite our listing plan. The “tutoring” period in preparation for the Possible A Share Listing Application was not completed as of the time where we decided not to proceed our tutoring and we terminated our tutoring in May 2018. During our tutoring period in preparation for the Possible A Share Listing Application, save for the commercial reason as disclosed above, we did not encounter any material difficulties or legal impediments which led us to exit the Possible A Share Listing Application. As of the Latest Practicable Date, we did not file any A share listing application with the China Securities Regulatory Committee. We do not plan to proceed with the Possible A Share Listing Application in the near future.

To the best of our Directors’ knowledge, our Directors are not aware of (1) any other matters relating to the Possible A Share Listing Application that are relevant to the Listing and should be reasonably highlighted in this prospectus for investors to form an informed assessment of our Company; (2) any enquiries from the China Securities Regulatory Committee relating to the Possible A Share Listing Application that would affect our Company’s suitability for listing on the Stock Exchange; (3) any other matters relating to the Possible A Share Listing Application that may have implications on our Company’s suitability for listing on the Stock Exchange or on the truthfulness, accuracy and completeness of information disclosed in this prospectus; and (4) any other matters that need to be brought to the attention of the Stock Exchange and investors in Hong Kong in relation to the Possible A Share Listing Application.

In respect of the Possible A Share Listing Application, the Sole Sponsor has performed the following independent due diligence:

1. conducted independent interviews with the professional parties appointed by Guangzhou Beststudy for the Possible A Share Listing Application, namely Huatai United Securities Co., Ltd.* (華泰聯合證券有限責任公司), the then sponsor, and Tian Yuan Law Firm, the PRC legal advisers of Guangzhou Beststudy;
2. conducted a search on the website of Guangdong Securities Bureau of the China Securities Regulatory Commission which showed a notice dated June 19, 2017 on the filing of Guangzhou Beststudy for the tutoring (輔導) in preparation for the Possible A Share Listing Application;
3. conducted a search on the list of applicants for A share listing with the China Securities Regulatory Commission;

HISTORY AND CORPORATE STRUCTURE

4. ascertained with the Sole Sponsor's PRC legal advisers that a company which has registered for the tutoring in preparation for A share listing with the China Securities Regulatory Commission is able not to proceed with its tutoring and/or its listing plan, and no formal approval is required to be granted by the China Securities Regulatory Commission;
5. conducted legal due diligence with the assistance of our PRC legal advisers on the appointment and cessation of the then sponsor for the Possible A Share Listing Application and the tutoring in preparation for A share listing including the obtaining of the relevant engagement letter, the agreement for the tutoring in preparation for A share listing and the agreement for terminating the tutoring in preparation for A share listing; and
6. conducted an interview with the representative of Guangzhou Beststudy on the Possible A Share Listing Application to understand the circumstances and reasons for changing of the listing plan.

Based on the above, the Sole Sponsor is of the view that our Directors' representations above regarding the Possible A Share Listing Application are reasonably made.

Second 2017 capital increase

To further strengthen the capital base of Guangzhou Beststudy, in June 2017, Guangzhou Beststudy entered into a capital increase agreement with Ningbo Meishan Bonded Port Area Zhuofu Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區卓扶投資合夥企業(有限合夥)) ("Zhuofu Investment," together with Zhuoqian Investment, Zhuoqing Investment, Zhuosi Investment and Zhuoqi Investment as the "ESOP Platforms"), a partnership established and owned by 18 employees of Guangzhou Beststudy, pursuant to which Zhuofu Investment invested approximately RMB12.1 million in Guangzhou Beststudy, among which approximately RMB2.5 million was contributed to the registered capital of Guangzhou Beststudy and the remaining amount was contributed to the capital reserve of Guangzhou Beststudy.

HISTORY AND CORPORATE STRUCTURE

Upon completion of such capital increase, the equity interest of Guangzhou Beststudy was as set forth below:

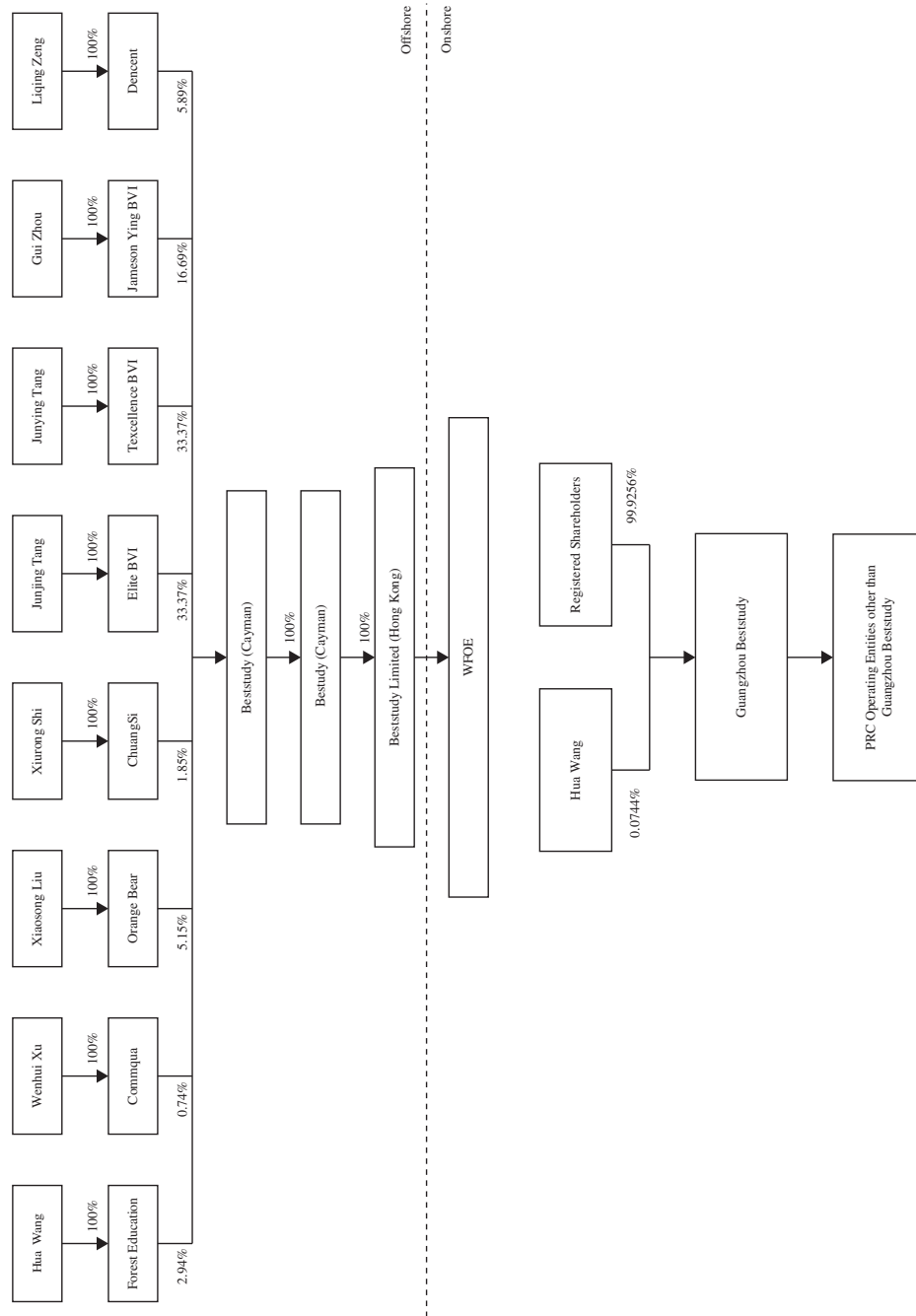
Shareholder	Registered share capital (RMB)	Percentage of the equity interest (%)
Mr. Junjing Tang	362,643	0.76
Mr. Junying Tang	362,643	0.76
Mr. Zhou Gui	200,000	0.42
Mr. Hua Wang	35,294	0.07
Mr. Xiaosong Liu	61,764	0.13
Mr. Wenhui Xu	2,996,670	6.32
Ms. Xiurong Shi	22,210	0.05
Zhuoben Investment	12,071,091	25.44
Zhuomiao Investment	10,709,295	22.57
Zhuoyan Investment	10,133,906	21.36
Zhuohe Investment	6,620,914	13.96
Zhuoqian Investment	447,962	0.94
Zhuoqing Investment	378,642	0.80
Zhuosi Investment	384,503	0.81
Zhuoqi Investment	43,984	0.09
Dezhiqing Investment	70,588	0.15
Zhuofu Investment	2,540,302	5.35

Limited-liability Reform

As we do not plan to proceed with the Possible A Share Listing Application in the near future, in March 2018, the then shareholders of Guangzhou Beststudy resolved to convert Guangzhou Beststudy into a limited liability company and on April 2, 2018, Guangzhou Beststudy received a new business license from Guangzhou Yuexiu District Administration for Industry and Commerce (廣州市越秀區工商行政管理局).

CORPORATE REORGANIZATION

The following chart sets forth our corporate structure immediately prior to the commencement of the Corporate Reorganization.



HISTORY AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

In preparation for the Global Offering, we underwent the following Corporate Reorganization:

1. Shareholding Changes of the ESOP Platforms

In April 2018, some of our former employees and the then shareholders of the ESOP Platforms who did not intend to hold interest in our Company transferred their entire equity interest in the ESOP Platforms to Ms. Huojuan Zhou (周火娟), a current employee, Mr. Gui Zhou's sister and a connected person of our Company, at an aggregate consideration of RMB395,970 which was determined on an arm's length basis with reference to the net assets value of Guangzhou Beststudy. On April 25, 2018, to involve more employees in the development of our Group, Ms. Huojuan Zhou transferred some of equity interest in the ESOP Platforms to our certain employees under the instructions from our Company, at a consideration of RMB991,200, which was determined with reference to the net assets value of Guangzhou Beststudy.

As of the Latest Practicable Date, all of such transfers have been completed, and Ms. Huojuan Zhou indirectly holds approximately 2.82% of equity interest in Guangzhou Beststudy through the ESOP Platforms on trust for the eligible employees as of the Latest Practicable Date for share incentive purpose.

Since April 2018, the ESOP Platforms changed their general partner to Ms. Huojuan Zhou to facilitate the Corporate Reorganization.

2. Transfers of equity interest of our Company

As the equity interest of Guangzhou Beststudy directly held by Mr. Hua Wang was frozen by a court as pre-judgement property attachment, to avoid any uncertainty of our Company's shareholding structure, on May 20, 2018, Forest Education, a company wholly owned by Mr. Hua Wang, entered into a share transfer agreement with Bingoos Limited, a company wholly owned by Ms. Zhou Lu, a then independent third party and our Shareholder, pursuant to which Mr. Hua Wang agreed to transfer 2.94% equity interest in our Company held by Forest Education to Bingoos Limited at a consideration of HK\$876,352.39, the book value of such equity interest. The consideration was fully settled on May 25, 2018.

On May 2, 2018, Mr. Liqing Zeng transferred his entire equity interest in Dencent, which held approximately 5.89% equity interest in our Company, to Ms. Wei Zhang, his wife, with a consideration of US\$1.00. Dencent subsequently transferred its entire equity interest in our Company to Agile Gain Limited, another company wholly owned by Ms. Wei Zhang, with a consideration of nil.

HISTORY AND CORPORATE STRUCTURE

3. Incorporation of GDC Global Limited and allotment and issue of new Shares to offshore holding companies

On May 16, 2018, the shareholders of the ESOP Platforms incorporated GDC Global Limited in the BVI. As of the Latest Practicable Date, the entire equity interest in GDC Global Limited was held by the shareholders of the ESOP Platforms.

On May 20, 2018, our Company adjusted the shareholding proportion by allotting and issuing an aggregate of 223,100,000 new Shares for cash at par value to all the offshore holding companies as listed in the table below, based on the following principles:

- (i) Mr. Junjing Tang's and Mr. Gui Zhou's proportions in the shareholding of our Company reflect their proportions in the shareholding of Guangzhou Beststudy, respectively;
- (ii) Mr. Wenhui Xu has a larger proportion in the shareholding of our Company, compared with his proportion in the shareholding of Guangzhou Beststudy, in recognition of his contributions to our Company as a Shareholder and a Director;
- (iii) the aggregate proportion of Ms. Wei Zhang, Ms. Zhou Lu and Mr. Xiaosong Liu in the shareholding of our Company was diluted to facilitate the increase of Mr. Wenhui Xu's proportion in the shareholding of our Company;
- (iv) Ms. Xiurong Shi's proportion in the shareholding of our Company reflects the aggregate proportion of the equity interest (a) directly held by her and (b) indirectly held by her and Mr. Bei Qi, her son, through Zhuohe Investment in Guangzhou Beststudy;
- (v) the proportion of GDC Global Limited in the shareholding of our Company reflects the aggregate proportion of the equity interest in Guangzhou Beststudy held by (a) the ultimate beneficial owners of the ESOP Platforms (other than Ms. Huojuan Zhou), and (b) Ms. Huojuan Zhou on her own behalf, through the ESOP Platforms;
- (vi) in recognition of the contributions of our employees and to provide incentive, the new Shares issued to Soarise Bulex Limited were reserved for the vesting of RSUs granted under the RSU Scheme, and the proportion of Soarise Bulex Limited in the shareholding of our Company reflects the aggregate proportion in the equity interest in Guangzhou Beststudy held by Ms. Huojuan Zhou and Mr. Junying Tang on trust. See note 2 to the table below, "— History of Our Major PRC Operating Entity — 2016 capital increase by Zhuomiao Investment" and "— Corporate Reorganization — 1. Shareholding changes of the ESOP Platforms" for details; and
- (vii) Mr. Junying Tang's proportion in the shareholding of our Company reflects the proportion of the equity interest held by him on his own behalf in Guangzhou Beststudy.

HISTORY AND CORPORATE STRUCTURE

Upon completion, the shareholding structure of our Company is set out as below:

Name of Company	Shareholder	Number of Shares	Percentage of the shareholding
Elite Education Investment Co. Ltd.	Mr. Junjing Tang	171,165,101	26.21%
Texcellence Holding Company Limited	Mr. Junying Tang	143,510,888	21.97%
Jameson Ying Industrial Co. Ltd.	Mr. Gui Zhou	142,258,242	21.78%
Agile Gain Limited	Ms. Wei Zhang	31,373,879	4.80%
Bingoose Limited	Ms. Zhou Lu	15,683,999	2.40%
Orange bear Limited	Mr. Xiaosong Liu	27,452,732	4.20%
Commqua Holding Co. Ltd.	Mr. Wenhui Xu	49,531,366	7.58%
ChuangSi Education Management Co. Ltd.	Ms. Xiurong Shi	10,968,815	1.68%
GDC Global Limited	certain employees of our Group ⁽¹⁾	33,862,582	5.18%
Soarise Bulex Limited ⁽²⁾	Ms. Huojuan Zhou ⁽²⁾	27,292,396	4.18%

Note:

- (1) See “— History of Our Major PRC Operating Entity — Guangzhou Beststudy — First 2017 capital increase” for details.
- (2) In recognition of the contributions of our employees and to provide incentive, on December 3, 2018, we adopted the RSU Scheme, pursuant to which, (i) 27,292,396 existing Shares (representing approximately 4.18% of the total issued share capital of our Company immediately upon the completion of the Corporate Reorganization) were reserved and (ii) 43,540,000 new Shares to be allotted and issued at par value to Soarise Bulex Limited on the Listing Date will be reserved for the vesting of RSUs granted under the RSU Scheme. Ms. Huojuan Zhou has been appointed as the trustee of the RSU Scheme and Soarise Bulex Limited has been appointed as the nominee of the RSU Scheme. To the extent permitted under applicable laws and regulations, the trustee shall procure the nominee to exercise the voting rights attached to the underlying Shares in accordance with the instructions of our Board. As of the Latest Practicable Date, no RSU has been granted under the RSU Scheme.

4. Restructuring of non-restricted businesses, non-core businesses and the subsidiaries with no substantive business

As part of the Corporate Reorganization to transfer the businesses which are not subject to any foreign investment restriction to ensure that the Structured Contracts are narrowly tailored in accordance with the requirements of the Stock Exchange, two subsidiaries⁽¹⁾ and investments in our associates were transferred from our PRC Operating Entities to the WFOE and Guangzhou Yizhi Siwei Education Technology Co., Ltd. (廣州益智思維教育科技有限公司) (“Yizhi Siwei”), a non-wholly-owned subsidiary of the WFOE, was established in 2018.

We also transferred (1) the businesses which are not education-related and (2) the kindergarten operation and investment business and the overseas study consultation business to the parties outside of our Group, as we do not consider such businesses our core businesses. See “Relationship with the Controlling Shareholders” for details of the kindergarten operation and investment business, the overseas study consultation business and the Deed of Non-competition. In addition, certain subsidiaries of our PRC Operating Entities with no substantive business completed voluntary winding up in 2018 as part of the Corporate Reorganization.

5. Entering into the Contractual Arrangement to Control Our PRC Operating Entities

On June 18, 2018, the WFOE entered into various agreements with/among our PRC Operating Entities that constitute the Structured Contracts, pursuant to which, all economic benefits arising from the business and operation of our PRC Operating Entities are transferred to the WFOE by means of services and consultation fees payable by our PRC Operating Entities to the WFOE. For further details of the Structured Contracts, see “Structured Contracts” in this prospectus.

COMPLIANCE WITH PRC LAWS AND REGULATIONS

Our PRC legal advisers confirmed that the establishment of our PRC Operating Entities and their subsequent shareholding changes have complied with the relevant laws and regulations in all material respects. Our Directors confirmed that all the shareholdings changes of our PRC Operating Entities were legally and duly settled.

Our PRC legal advisers confirmed that all necessary approvals, permits and licenses required under PRC laws and regulations in connection with the Corporate Reorganization have been obtained, and the Corporate Reorganization has complied with all applicable PRC laws and regulations in all material respects.

(1) Such subsidiaries are Guangzhou Zhuoye Information Technology Co., Ltd. (廣州市卓業信息技術有限公司) (“Guangzhou Zhuoye”) and Guangzhou Beststudy Wendao Travel Service Co., Ltd. (廣州卓越問道旅行社有限公司) (“Guangzhou Wendao”).

HISTORY AND CORPORATE STRUCTURE

PREVIOUS INVESTMENT BY SEQUOIA CAPITAL CHINA

On December 27, 2010, our Company, the then shareholders and the then ultimate individual shareholders of our Company entered into a share subscription agreement with Sequoia Capital China, pursuant to which Sequoia Capital China subscribed for 68,048,345 Series A preferred shares of our Company, at a consideration of RMB68.3 million. Such share subscription was completed and settled on January 21, 2011. Immediately following the completion of such share subscription, the Series A preferred shares of our Company held by Sequoia Capital China represented 13.66% of the then issued share capital of our Company.

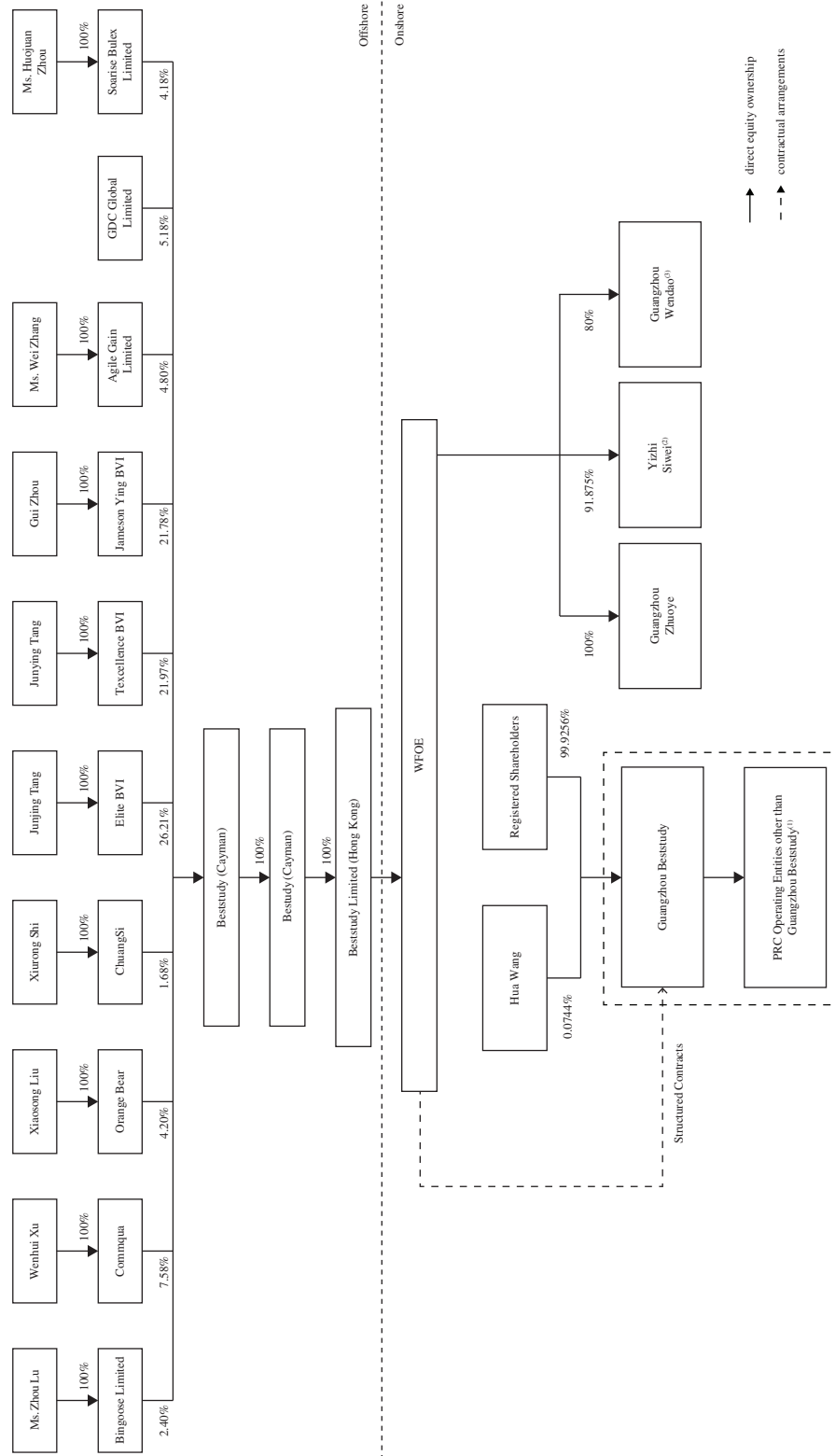
The proceeds from the previous investment by Sequoia Capital China were utilized to fund the business operation of our Company and such proceeds were not fully utilized before the exit by Sequoia Capital China.

Exit by Sequoia Capital China

As a part of the reorganization to facilitate the Possible A Share Listing Application and due to the foreign ownership restriction on the education industry under the applicable PRC laws and regulations, on December 18, 2015, our Company entered into a share repurchase framework agreement with Sequoia Capital China, certain then foreign shareholders of our Company, pursuant to which our Company repurchased the entire 68,048,345 Series A preferred shares of our Company held by Sequoia Capital China, at a consideration of US\$19.3 million, which was fully settled on January 27, 2016. Accordingly, Sequoia Capital China has no special rights following their exit.

GROUP STRUCTURE UPON THE CORPORATE REORGANIZATION

The following chart sets forth our corporate structure immediately after the Corporate Reorganization and immediately prior to the RSU Allotment and the Global Offering:



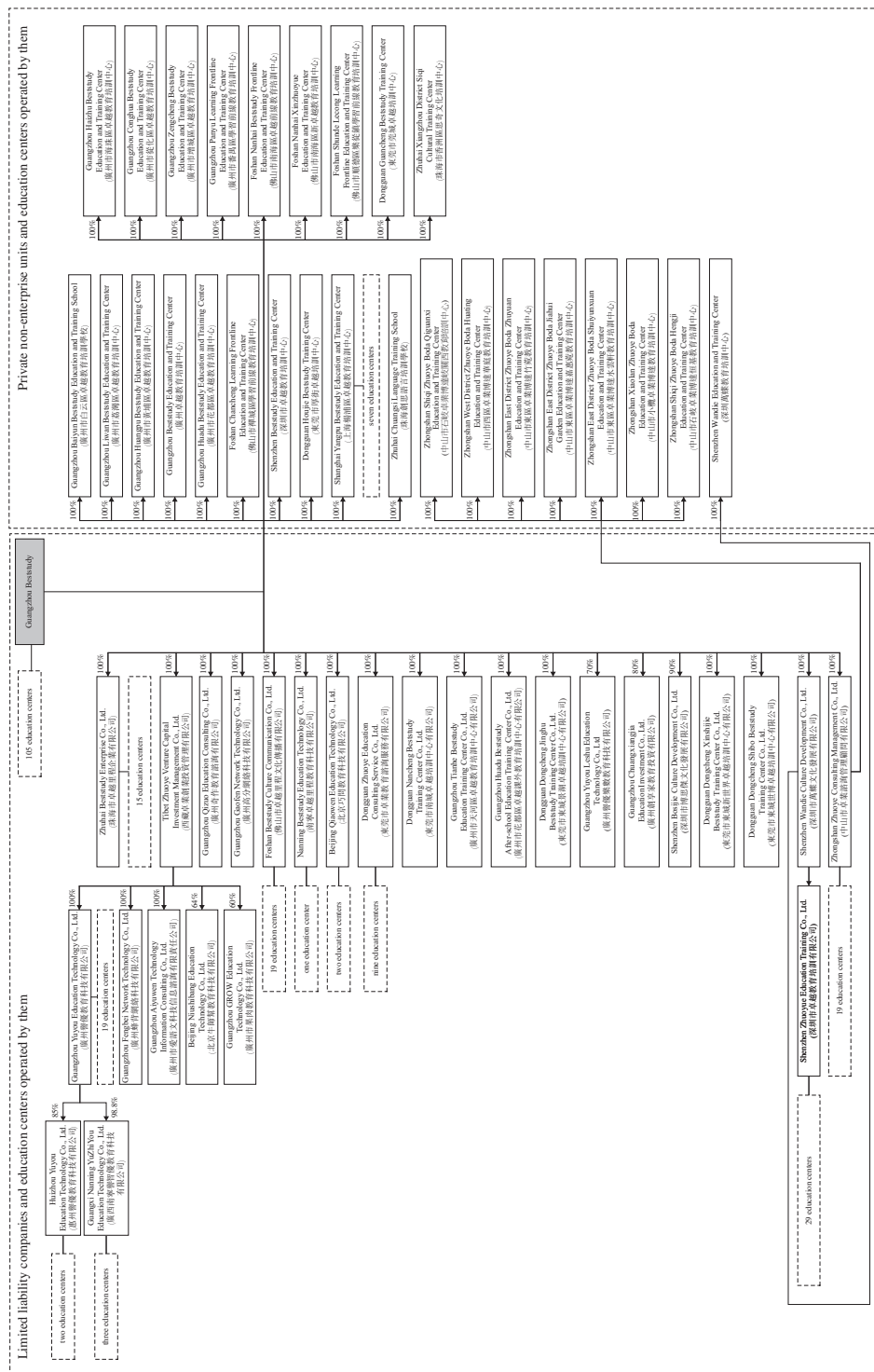
(1) Correspond to the 54 subsidiaries of Guangzhou Beststudy, including seven non-wholly owned subsidiaries as of the Latest Practicable Date. See the structure chart of our PRC Operating Entities on page 150 and “Statutory and General Information — A. Further information about our Company, subsidiaries and PRC Operating Entities — 6. Our PRC Operating Entities” in Appendix IV to this prospectus for details of our PRC Operating Entities.

(2) Yizhi Siwei is a non-wholly-owned subsidiary, which is held as to 91.875% by the WFOE and 8.125% by Zheng Xu (徐誨), an independent third party of the Company.

(3) Guangzhou Wendao is a non-wholly-owned subsidiary, which is held as to 80% by the WFOE and 20% by Qishi Long (龍啓石), an independent third party of the Company.

HISTORY AND CORPORATE STRUCTURE

The following chart sets forth the structure of our PRC Operating Entities⁽¹⁾ immediately after the Corporate Reorganization and immediately prior to the Global Offering:

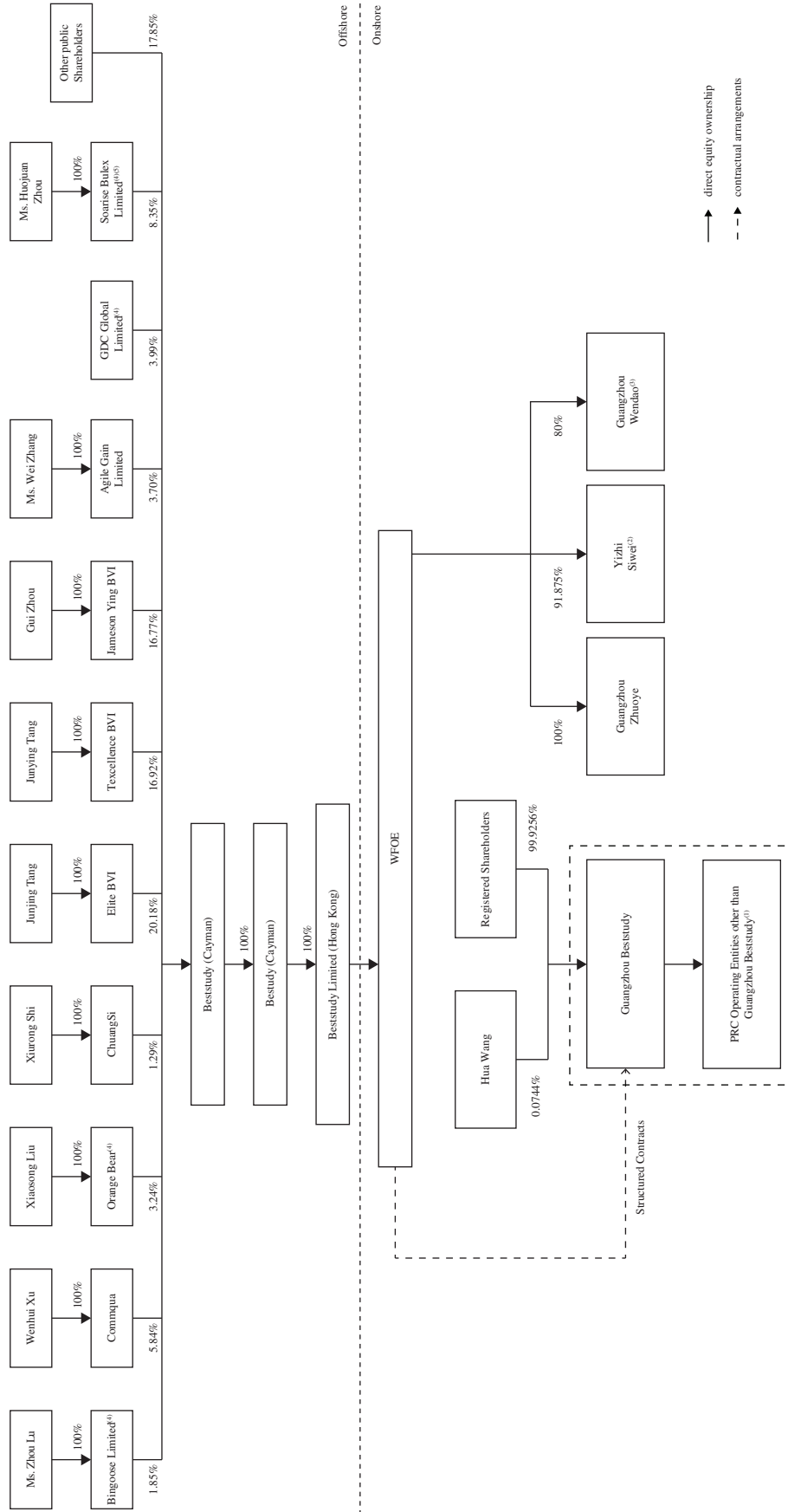


Note:

(1) See “Statutory and General Information — A. Further information about our Company, subsidiaries and PRC Operating Entities — 6. Our PRC Operating Entities” in Appendix IV to this prospectus for the nature, owners of the equity interest or sponsorship interest and the principal business of each of our PRC Operating Entities.

GROUP STRUCTURE UPON THE LISTING

The following chart sets forth our corporate structure immediately after the completion of the RSU Allotment and the Global Offering, without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme:



(1)(2)(3) See notes to the above chart as set out in the “— Group Structure upon the Corporate Reorganization.”

- (4) The Shares held by Bingoos Limited, Orange Bear and Soarise Bulex Limited are counted as the public float of the Company under Rule 8.08 of the Listing Rules. 46.98% of the Shares held by GDC Global Limited, representing (i) the equity interest in the Company ultimately owned by the independent third parties through GDC Global Limited and (ii) 1.88% of the enlarged issued share capital upon the completion of the RSU Allotment and the Global Offering and without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, are counted as the public float of the Company under Rule 8.08 of the Listing Rules.
- (5) The Shares held by Soarise Bulex Limited reserved for the vesting of RSUs granted under the RSU Scheme comprise (i) 27,292,396 existing Shares and (ii) 43,540,000 new Shares to be allotted and issued at par value on the Listing Date. In the event that certain RSUs are granted to the core connected persons of the Company in the future, the underlying Shares represented by such RSUs will not be counted as the public float of the Company under Rule 8.08 of the Listing Rules.

HISTORY AND CORPORATE STRUCTURE

SAFE REGISTRATION

Pursuant to the Circular of 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 from 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 change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of 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 branch to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC legal advisers, all PRC residents who are the shareholders of the Overseas SPVs in our Group have completed the registration under the SAFE Circular No. 13 and SAFE Circular No. 37 as of the Latest Practicable Date.

M&A RULES

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, SAIC, the China Securities Regulatory Commission 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 from September 8, 2006, and was amended on June 22, 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (1) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (2) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise (the “Regulated Activities”).

HISTORY AND CORPORATE STRUCTURE

Given that (1) the WOFE 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 (2) no Regulated Activities were involved in the Corporate Reorganization under the M&A Rules, as advised by our PRC legal advisers, the establishment of the WOFE and the Corporate Reorganization are not subject to the M&A Rules, and the Listing of our Company does not require approvals from the China Securities Regulatory Commission and MOFCOM under the M&A Rules.

OVERVIEW

We were the largest K-12 after-school education service provider in southern China and the fifth largest nationwide as measured by total student enrollments and revenue in 2017, according to the F&S Report. We offer a diverse spectrum of K-12 after-school education services and products, including the Premium Learning Program and the Elite Talent Program. We also provide other school subject-related courses, including the Full-time Test Preparation Program.

Our Premium Learning Program is designed to improve students' academic performance in schools, and covers all key academic subjects taught in primary schools, middle schools, and high schools in China. Our Elite Talent Program offers courses designed to nurture the all-round development of our students and make the learning process more engaging and enjoyable. Our Full-time Test Preparation Program is designed to help middle school and high school graduates achieve admission to their preferred schools through Zhongkao and Gaokao.

We do not only focus on academic performance and quantitative learning results, but also aim to stimulate students' overall interest in learning, help them develop effective learning capabilities and nurture their all-round development. We maintain our education quality powered by strong research and development capabilities. As of June 30, 2018, we had an in-house development team of 501 employees focusing on developing, updating and improving our curricula and teaching materials.

We also made efforts to establish a highly qualified teaching team. We hired teachers primarily on a full-time basis to guarantee the consistent quality of our services. As of June 30, 2018, we had 2,750 full-time teachers. We place strong emphasis on providing comprehensive and systematic training for our teachers. We also established a training and career development department, which we named "Zhuoyue Academy," to develop and provide comprehensive training programs for our teachers.

We experienced significant growth during the Track Record Period. The number of our education centers increased from 136 as of December 31, 2015 to 180 as of December 31, 2017 at a CAGR of 15.0%, and further to 213 as of June 30, 2018. Our total student enrollments grew from approximately 313,000 for the year ended December 31, 2015 to approximately 500,000 for the year ended December 31, 2017 at a CAGR of 26.4%. For the six months ended June 30, 2017 and June 30, 2018, our total student enrollments were approximately 250,000 and 289,000, respectively. The total tutoring hours we delivered increased from approximately 7,472,000 in 2015 to approximately 11,180,000 in 2017 at a CAGR of 22.3%. For the six months ended June 30, 2017 and 2018, the total tutoring hours we delivered were approximately 4,814,000 and 6,003,000, respectively. Our revenue increased from RMB760.0 million in 2015 to RMB896.1 million in 2016, and further to RMB1,141.7 million in 2017. Our revenue increased from RMB561.3 million in the six months ended June 30, 2017 to RMB723.1 million in the six months ended June 30, 2018. Our gross profit increased from

RMB315.6 million in 2015 to RMB376.3 million in 2016, and further to RMB482.8 million in 2017. Our gross profit increased from RMB244.9 million in the six months ended June 30, 2017 to RMB305.9 million in the six months ended June 30, 2018.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success and differentiated us from our competitors.

Largest K-12 after-school education service provider in southern China with substantial growth potential

We were the largest K-12 after-school education service provider in southern China and the fifth largest nationwide as measured by both total student enrollments and revenue in 2017, according to the F&S Report. As of June 30, 2018, we operated a total of 213 education centers across 10 cities in China. We offer a diverse spectrum of K-12 after-school education services, including small group and individualized tutoring courses designed to help students reinforce their standardized school curricula and extra-curricular education programs aimed at nurturing students' all-round development. In addition, we provide a Full-time Test Preparation Program to help students improve their examination results of the Zhongkao and Gaokao. During the Track Record Period, we had approximately 1.5 million student enrollments. In addition, we delivered approximately 6.6 million tutoring hours for our individualized tutoring services.

The K-12 after-school education market in China is rapidly evolving, benefiting from demographic, economic and cultural drivers. According to the F&S Report, the national market is expected to grow from RMB465.3 billion in 2017 to approximately RMB768.9 billion in 2022, representing a CAGR of 10.6%. The Chinese K-12 after-school education market is also highly fragmented. The top five market players accounted for 4.7% of the national K-12 after-school education market in terms of revenue in 2017.

We believe we are well positioned to benefit from the large and fast-growing market and increase our market share nationally by leveraging our leading market position in southern China, strong brand, proprietary curricula and teaching materials, as well as strong technological capabilities.

Strong brand recognition

We have been committed to building a unique and recognizable “Zhuoyue Education” (卓越教育) brand by offering high quality, student-centric K-12 after-school education services. According to a consumer survey conducted by Frost & Sullivan in May 2018, we ranked first in the southern China market in terms of both brand awareness and the number of respondents who will choose our services in the future.

Our “Zhuoyue Education” brand and reputation have also contributed to the recognition and popularity we have gained from students and parents. We leverage our influential brand to recruit students primarily through word-of-mouth referrals, which effectively lowers our marketing expenses and allows us to maintain a strong and stable student pipeline. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our student retention rate was 64.8%, 71.4%, 75.0%, 70.7% and 74.5%, respectively.

We have received numerous awards and recognition, including the “Outstanding After-school Education Institution (優秀培訓機構)” awarded by the Private Education Association of Guangdong Province in 2016, and the “Most Trusted After-School Education Institutions among Parents (中國好教育家長信賴課外輔導品牌)” awarded by China Internet News Center in 2015. In addition, we have been recognized as an “Influential Education Brand (影響力教育品牌)” by Tencent in 2016 and 2017. We believe our well-recognized brand is essential to our success in the highly fragmented K-12 after-school education market in China and will continue to drive our future growth.

Comprehensive and innovative service offerings

We offer a comprehensive suite of premium after-school education services for the full spectrum of K-12 student groups ranging from kindergarten to high school. Our distinctive education programs not only focus on academic performance and quantitative learning results, but also aim to stimulate students’ overall interest in learning, help them develop effective learning capabilities and nurture their all-round development. We currently offer three flagship education modules, namely Premium Learning Program, Elite Talent Program and Full-time Test Preparation Program, through which we satisfy diversified education needs of students and their parents. The breadth of our service offerings has provided us with a number of reliable, diverse and stable income streams.

- *Premium Learning Program.* Our Premium Learning Program is mainly designed to improve students’ academic results and cover all core academic subjects taught at the primary schools, middle schools and high schools in China. Our Premium Learning Program is conducted in the forms of small group and individualized tutoring courses.
- *Elite Talent Program.* Our Elite Talent Program consists primarily of extra-curricular special interest courses aimed at nurturing the all-round development of our students. With the aim of making the learning process more engaging and enjoyable, we have developed and launched a variety of proprietary educational products, including “Zhuoyue Macro-Chinese,” “Arts of Skillful Questioning,” and “Young Learners’ English.” Through our Elite Talent Program, we satisfy parents’ rapidly increasing demand of their children’s all-round development.

- *Full-time Test Preparation Program.* Our Full-time Test Preparation Program is designed for middle school and high school graduates who wish to achieve admission to ideal high schools and universities by taking the Zhongkao and Gaokao. We are specialized in providing tailored courses to students retaking the examinations. We have also started to provide Gaokao preparation courses to art major candidates since 2017.

Highly qualified teaching team underpinned by rigorous teacher training and well-established career pathway

We believe the quality of our teachers is paramount to the high quality and standards of the K-12 after-school education services we provide. We have cultivated a highly qualified teaching team by making teacher recruitment and career development one of our top priorities. We adopt stringent teacher recruitment standards and a selective hiring process. Moreover, we hired teachers primarily on a full-time basis to guarantee the consistent quality of our education services. As of June 30, 2018, we had 2,750 full-time teachers, of which approximately 85.6% had a bachelor's degree or above.

We place strong emphasis on providing comprehensive and systematic training for our teachers. We established a training and career development department, which we named “Zhuoyue Academy,” to develop and provide comprehensive training programs for our teachers. We offer training programs for newly hired teachers to help them understand the needs of students at different levels and equip our teachers with necessary teaching techniques and skills. We also offer continuing training programs for existing teachers so that they can improve their teaching and communication skills. In addition, we have designed a well-established career pathway for our teachers. We implement a sophisticated performance rating scale for our teachers. We also place great emphasis on their contributions to our research and development, as well as how they devote themselves to training our new hires. We encourage our teachers to take more responsibilities as they progress to a higher ranking.

Effective and quality teaching powered by our strong research and development capabilities and innovative high-tech tools

In order to ensure the quality of our teaching, we had a dedicated team of 501 employees focusing on development, updating and improvement of our course materials and teaching methods as of June 30, 2018. Substantially all our course materials are designed and developed in-house. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, we incurred research and development expenses of RMB64.0 million, RMB83.7 million, RMB140.1 million, RMB60.9 million and RMB78.7 million, respectively, representing 8.4%, 9.3%, 12.3%, 10.8% and 10.9% of our revenue for the same period, respectively.

We also emphasize the use of modern technology in providing our education services. As of June 30, 2018, we had a team of 136 employees focusing on the development of various technologies used in our education services and operations. We utilize a number of innovative tools supported by advanced information technology systems. For example, with relentless

efforts on enhancing our individualized tutoring services, we designed and developed “Niu Shi Bang,” an interactive tutoring service platform that seamlessly connects students and parents with our teachers. The platform encompasses a variety of unique features that are easily accessible to students and parents through computers and mobile devices, such as course registration and teacher selection and evaluation, thereby greatly improving customer experience.

Professional and experienced management team with proven track record

We have a high-caliber and stable management team with in-depth industry expertise and extensive operational experience. Our management team consists of our executive Directors and senior management. Each of our executive Directors has at least 20 years of hands-on management experience in the education industry. Our three executives, Mr. Tang Junjing, Mr. Tang Junying and Mr. Zhou Gui, have partnered with each other for over 20 years. Mr. Tang Junjing, our CEO and chairman, is a passionate educator and pioneer in providing premium K-12 after-school education services in China. Mr. Tang Junjing is primarily responsible for the overall development, operation and management of our Company. Mr. Tang Junjing was recognized as an outstanding leader of education enterprises (教育企業傑出領袖) by Tencent in 2011. Mr. Tang Junying, our executive Director, has over 20 years’ experience in the education industry. He is primarily responsible for operation and management of our Premium Learning Program. He has been recognized as an outstanding private educator in Guangzhou (廣州市民辦教育先進辦學者) by Guangzhou Private Education Association (廣州民辦教育協會) in 2015. Mr. Zhou Gui, our executive Director, is primarily responsible for the management of certain departments engaging in policy study, governmental public relations, investments and strategic alliance, internet management and procurement. Mr. Zhou was recognized as a national leader of youth extracurricular education (全國青少年課外教育領軍人物) in 2008. He currently serves as the vice president of the Professional Committee for Training & Education of the China Association for Non-Government Education (中國民辦教育協會培訓專業委員會).

OUR BUSINESS STRATEGIES

Our goal is to maintain and strengthen our established leading position in China’s K-12 after-school education market. We intend to pursue the following strategies to achieve our goal and further grow our business.

Continue to optimize and diversify our service offerings

We believe the breadth and quality of our service offerings are critical to our continued success and future growth. We plan to optimize and diversify our service offerings by launching the following initiatives to broaden our student base and enhance our profitability.

- *Enrich and optimize our present education program offerings.* Leveraging our success and experience in developing courses focusing on students’ all-round development, we plan to expand the scope of subjects of our education service offerings to include new curricula and educational products in humanities and

natural sciences. We plan to leverage our leading position in delivering our Chinese courses and continue to optimize and promote such courses in the future. We also plan to expand one-on-three course offerings under our individualized tutoring program. We believe these courses will help generate a potential source of student supply with diverse education needs for us. Moreover, we expect that we will further customize and digitalize our teaching process, thereby optimizing our teaching results and improving students' learning experience.

- *Develop online course offerings.* We plan to further develop and promote our online course offerings to extend our market reach and maximize the potential of our education resources. We recently launched online one-on-one tutoring, which we believe could provide students and parents with more convenient and flexible tutoring solutions. We established a dedicated product development team, focusing on the design, research, development and promotion of our online education products. We believe online course offerings will complement our existing in-class education programs and help us establish an even broader and increasingly diversified student pool.
- *Exploit the art major candidate market.* We started to provide Gaokao preparation courses to art major candidates from 2017, and we plan to further exploit the market given an increasingly growing student base of art major candidates in Guangzhou. Drawing upon our previous experience, we plan to customize our Gaokao preparation courses for art major candidates who can only spend limited time in Gaokao preparation. These students have to first take a practical examination to complete a specified set of art assignments before being able to focus on Gaokao preparation.

We expect to incur approximately RMB94.0 million for developing new education products and services, which we will primarily finance by the proceeds of the Global Offering, with the remainder to be financed by cash generated from our operations and retained earnings. By optimizing and expanding our service offerings on an ongoing basis, we expect to permeate every stage of our students' educational progression, academic subject needs and education model preference in the K-12 age group. In addition, we believe a more diverse selection of courses and services, together with our efforts to attract new students, will help fuel our cross-selling capabilities, lower our cost for student recruitment, and further strengthen our economies of scale.

Increase existing market penetration and expand our geographic coverage

The K-12 after-school education market has experienced significant growth in recent years and is expected to continue to grow in the future. According to the F&S Report, the total student enrollments in K-12 after-school education in China increased from approximately 173.4 million in 2013 to 224.6 million in 2017, representing a CAGR of 6.7% from 2013 to 2017. This number is expected to increase to 322.7 million by 2022, representing a CAGR of 7.5% from 2017. In southern China, the total student enrollments in K-12 after-school

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education increased from approximately 24.5 million in 2013 to 32.4 million in 2017, representing a CAGR of 7.2% from 2013 to 2017. According to the F&S Report, this number is expected to increase to 47.7 million by 2022, representing a CAGR of 8.0% from 2017.

In response to the increasing demand for K-12 after-school education services, we plan to continue to penetrate our existing markets where we already have established presence and improve our existing education centers' performance. Leveraging our influential brand and reputation, we plan to significantly increase our market share in these markets by opening additional education centers. We also plan to enhance the quality of our education services by upgrading the teaching equipment and facilities in our existing education centers. In addition, we plan to extend our education service network into additional geographic markets in China. We will primarily focus on major cities in southern China. We will also seek to identify and selectively enter into new geographic markets outside Guangdong province that are economically developed and exhibit strong enrollment potential. We plan to conduct comprehensive market research, apply rigorous market and location selection processes and implement our unified teaching and operation approach in these new markets in order to maintain consistent quality of our services and achieve organic growth.

In particular, within the next three years, we plan to establish approximately 150 new education centers spanning across a number of major cities in Guangdong province and elsewhere in southern China and nationwide. The following table sets forth certain key information regarding our expansion plan to establish new education centers:

Geographic coverage	Expected total number of new education centers to be established as of December 31,	Expected number of new education centers to be established in the year ending December 31,		
	2020	2018	2019	2020
Guangdong	126	44	41	41
Guangxi	5	3	1	1
Fujian	4	—	2	2
Beijing	5	1	2	2
Shanghai	6	2	2	2
Jiangsu	4	—	2	2
Total	150	50	50	50

The expected average annual revenue generated from each new education center is approximately RMB2.0 million to RMB3.0 million per annum by taking into account the average tuition per tutoring hour we charge and the total number of tutoring hours we expect to deliver each year for our education services under the Premium Learning Program and Elite

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Talent Program to be offered at these new education centers. We estimate that the average tuition fee per tutoring hour we charge at the new education centers will be in the range of RMB60 to RMB76 for small group tutoring, RMB214 to RMB273 for individualized tutoring, and RMB75 to RMB83 for our Elite Talent Program. We expect to deliver a total of approximately 1.0 million tutoring hours for our small group tutoring, 300,000 tutoring hours for individualized tutoring and 86,000 tutoring hours for our Elite Talent Program at all 50 new education centers to be established in the year ending December 31, 2020. The expected investment payback period for each new education center is approximately 18 to 24 months. The expected investment payback period refers to the period of time required to recover our expected total investment, during which our total future net cash flow generated from operating activities equals to the expected total investment. The expected investment payback period is calculated primarily based on our expected revenue generated from and cost of sales related to our new education centers. The total student enrollments for all 150 new education centers to be established are expected to reach approximately 360,000 to 450,000 as of December 31, 2020, with an average student enrollments of 2,400 to 3,000 for each new education center as of the same date.

We believe there will be sufficient demand for our expansion plan due to the increasing market size of and the exit of small-sized market players from the K-12 after-school education markets in China and southern China in particular, which provides us with an enormous pool of potential students. According to the F&S Report, the student enrollments in the K-12 after-school education market in southern China are expected to increase by 9.0 million from 32.4 million as of December 31, 2017 to 41.4 million as of December 31, 2020, primarily driven by a large and growing K-12 student base and increasing consumer expenditure on K-12 after-school education in this region. In addition, according to the F&S Report, the K-12 after-school education service market in China is still highly fragmented. As a result of key market players' rapid business expansion and the exit of small-sized market players caused by tightening education regulations, there is a growing consolidation trend as reflected by the market dominance of the top five market players whose market shares in the K-12 after-school education service market are constantly increasing.

We expect to incur a total investment cost of approximately RMB548.0 million (including a total budgeted capital expenditure of approximately RMB97.6 million) for the establishment of the proposed 150 new education centers by the end of 2020. In particular, our investment will primarily be used for teacher recruitment, lease of new premises, and development of new teaching materials. We expect to primarily fund our expansions using the proceeds of the Global Offering, with the remainder to be financed by cash generated from our operations and retained earnings. The information relating to our current expansion plans is prepared based on our management's present expectation, which is subject to various risks, assumptions and uncertainties. There is no assurance that our actual expansion plans will not deviate from our current expansion plans. In the interest of our Company and our Shareholders as a whole, our management will consider making various adjustments to our expansion plans based on commercial grounds, including but not limited to, delaying or suspending our expansion plans and increasing our debt and/or equity financing if our working capital or business performance would be materially and adversely affected.

We have a proven track record and have accumulated significant experience in operating education centers in Guangdong province and the rest of China. See “— Our Education Service Network” for details. As we expand rapidly in the relevant markets, we believe our brand name has achieved wide recognition among parents and students. We believe our reputation, our well-established presence and our familiarity with the local markets, together with our extensive operating experience, provide us with significant advantages over our competitors in achieving successful business growth.

In addition, the PRC government authorities have promulgated a number of laws, regulations and implementation rules governing the education industry and the after-school tutoring service market, including the Amended Law for Promoting Private Education, the MOJ Draft, Circular 3 and Guangdong Plan, the State Council Opinions 80, the Opinions on the Development of the Pre-school Education, as well as Circular 10. See “Business — New Education Regulations” for further details. We plan to strictly comply with these new education regulations for the operations of our proposed new education centers. Our Directors are of the view that these new education regulations do not have any material adverse impact on our expansion plan.

Further integrate information technology into our services and operation management

We intend to upgrade our information technology platforms to further optimize our teaching and management efficiency. For example, to enhance students’ learning experience, we plan to bring data analytics capabilities into our “Niu Shi Bang,” which will be able to perform valuable analysis on the data gathered through the platform, including the performance, behaviors, needs and preferences of our students and teachers. As a result, it generates and accumulates a tremendous wealth of learning data and content that are continuously being updated, which in turn enriches our course offerings beyond what would be possible for traditional teaching. In addition, we will invest in artificial intelligence and intelligent learning tools which can collect and analyze data of students and generate accurate profiles of the students. For example, we started to use digital pens to digitalize real-time response and exercise results from our students and written notes from our teachers. We will leverage our upgraded data analytics capabilities to design more effective and personalized education plans and suitable delivery approach for each student, thereby achieving adaptive teaching and learning to address students’ diverse needs. Moreover, we will continue to optimize our teaching management system to improve operational efficiency by further integrating and centralizing the management of all aspects of our daily operation. We expect to incur approximately RMB93.0 million for investments in new technologies and development of information technology platforms, which we will primarily finance by the proceeds of the Global Offering, with the remainder to be financed by cash generated from our operations and retained earnings.

Pursue selective strategic alliances and acquisitions

There is a consolidation trend in the highly fragmented K-12 after-school education service market. We intend to seize the opportunity by pursuing selective strategic alliances and acquisitions to diversify our service offerings, complement our business strategies and enhance

our growth potential. We plan to acquire or make strategic investments in certain regionally renowned K-12 after-school education service providers, namely those with competitiveness and ranked highly in the local market, to increase market coverage into some of our targeted local markets.

We will also carefully explore strategic partnership, alliances and investments and consider opportunities that complement or enhance our existing operations and are strategically beneficial to our long-term goals to establish an integrated K-12 education ecosystem. In addition, we intend to invest in or partner with third-party education technology companies to further develop innovative technologies and tools that bring revolutionized changes to our service offerings. For example, we plan to invest in technology related education programs to further diversify our service offerings to nurture the all-round development of our students. We also intend to cooperate with education technology companies with strong artificial intelligence and data analytics capabilities to optimize our service offerings. For example, we previously invested in an Internet company primarily engaged in the development of artificial intelligence based learning technologies and systems to improve students' learning efficiency. In addition, we plan to cooperate with companies specialized in the development of teaching management system to upgrade our existing IT infrastructure and teaching management system.

We will primarily consider the following factors when analyzing and selecting a potential investment and acquisition target: (1) being ranked among the top three K-12 education service providers in the local market; (2) concentrating its business in Guangdong province, southern China and/or other first-tier cities in China; (3) profit-generating or with potential for generating profits; (4) ability to create synergies with our existing education centers and business development strategies; (5) having an experienced and visionary management team with strong initiatives, credibility, as well as sound execution capabilities; (6) possessing technologies and education resources that complement our existing businesses; (7) competitiveness of the relevant market in which the target operates; and/or (8) growth potential of the target's business. The potential investment and acquisition targets will be assessed and analyzed on a case-by-case basis and our management may not strictly adhere to these criteria when selecting the potential targets.

Upon completion of the acquisitions or investments, we plan to leverage our scalable business model to optimize the operations of the investees and/or acquirees and increase our financial returns. We believe our reputation, investment capabilities and our extensive operating experience in the K-12 after-school education industry will give us competitive advantages in bidding for suitable targets. All of the funds to be used for acquiring and investing in third party K-12 education service providers will come from the proceeds of the Global Offering. Where appropriate, we will also consider raising bank financing and using cash generated from operations to support our investment and acquisition activities. As of the Latest Practicable Date, we had not identified any specific target for acquisition or investment.

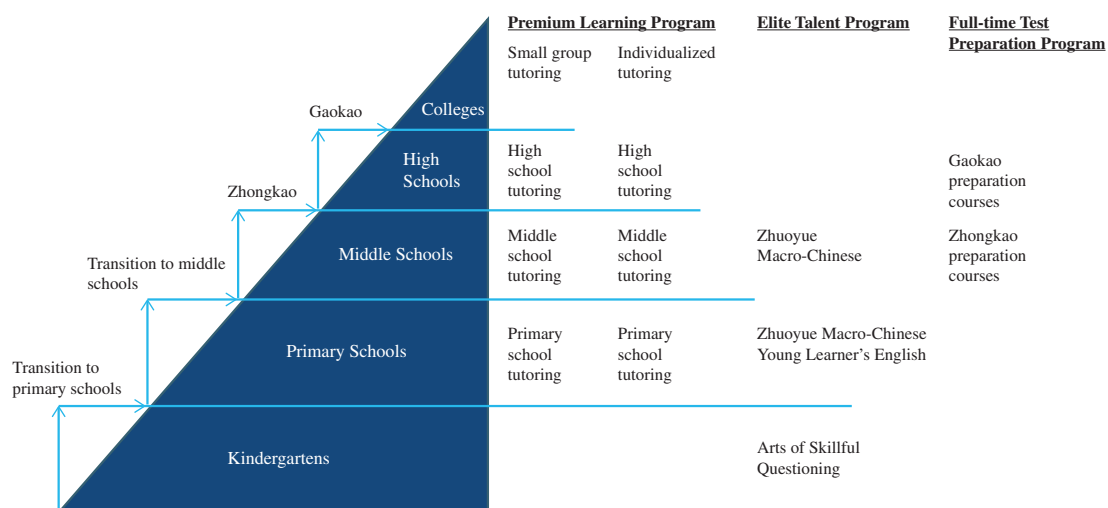
OUR EDUCATION SERVICES AND PRODUCTS

As the largest K-12 after-school education service provider in southern China in terms of revenue and student enrollments, we have built a comprehensive education platform that encompasses a wide variety of after-school education services and educational products to address the diverse needs of our students.

- *Premium Learning Program.* Our Premium Learning Program is designed to improve students' academic performance in schools, and covers all key academic subjects taught in primary schools, middle schools and high schools in China, such as Chinese, English, mathematics, physics and chemistry.
- *Elite Talent Program.* Our Elite Talent Program offers courses designed to nurture the all-round development of kindergarten, primary school and middle school students. We take the initiative to develop a variety of proprietary educational products with the aim of making the learning process more engaging and enjoyable. Our key products include “Zhuoyue Macro-Chinese,” “Arts of Skillful Questioning,” and “Young Learners' English.”
- *Full-time Test Preparation Program.* We provide full-time test preparation courses for middle school and high school graduates who intend to take the Zhongkao and Gaokao. We aim to help our students achieve admission to their preferred schools.

The following diagram illustrates our key after-school education service offerings and products.

Our After-school Education Services and Products



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The following table provides a list of subjects covered by our education service offerings and products.

		Primary School						Middle School			High School		
	K	1	2	3	4	5	6	7	8	9	10	11	12
Mathematics	•	•	•	•	•	•	•	•	•	•	•	•	•
English	•	•	•	•	•	•	•	•	•	•	•	•	•
Chinese	•	•	•	•	•	•	•	•	•	•	•	•	•
Physics	–	–	–	–	–	–	–	•	•	•	•	•	•
Chemistry	–	–	–	–	–	–	–	•	•	•	•	•	•
Biology	–	–	–	–	–	–	–	–	–	–	•	•	•
Politics	–	–	–	–	–	–	–	–	–	•	–	•	•
Geography	–	–	–	–	–	–	–	–	•	–	•	•	•
History	–	–	–	–	–	–	–	–	–	–	–	•	•

•: Currently offered.

–: Not available yet.

The following table sets forth a breakdown of our revenue by type of education services for the periods indicated.

	Year ended December 31,						Six months ended June 30,					
	2015		2016		2017		2017		2018			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Premium Learning Program												
– <i>Small group tutoring</i> . . .	341,665	45.0	417,254	46.6	554,769	48.6	246,379	43.9	339,718	47.0		
– <i>Individualized tutoring</i> . .	319,767	42.0	368,208	41.1	458,694	40.2	243,176	43.3	295,817	40.9		
Elite Talent Program	6,137	0.8	13,719	1.5	26,695	2.3	9,935	1.8	17,848	2.5		
Full-time Test Preparation												
Program	92,422	12.2	96,850	10.8	99,981	8.8	61,295	10.9	67,421	9.3		
Others ⁽¹⁾	–	–	100	0.0	1,562	0.1	513	0.1	2,312	0.3		
Total	<u>759,991</u>	<u>100.0</u>	<u>896,131</u>	<u>100.0</u>	<u>1,141,701</u>	<u>100.0</u>	<u>561,298</u>	<u>100.0</u>	<u>723,116</u>	<u>100.0</u>		

(1) Our revenue from other services mainly represents revenue generated from Feng Bei app. See “— Other Education Service Offerings.”

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We also provide contractual classes for small group tutoring under our Premium Learning Program and Full-time Test Preparation Program, as preferred by some students, which generally allow a refund of tuition fees as prescribed in the contracts if the students fail to achieve the pre-determined examination results. See “— Our Education Services and Products — Refund of Tuition Fees.” The following table sets forth our student enrollments by type of course model for the periods indicated:⁽¹⁾

	Year ended December 31,			Six months ended June 30,
	2015	2016	2017	2018
Non-contractual classes	293,117	344,246	474,764	277,150
Contractual classes				
– <i>Small group tutoring</i>	16,296	18,377	22,608	10,415
– <i>Full-time Test Preparation Program</i>	3,214	3,148	3,037	1,639
Total	<u>312,627</u>	<u>365,771</u>	<u>500,409</u>	<u>289,204</u>

(1) Our student enrollments by type of course model for the periods indicated were based on the internal records and calculations of our Group.

The following table sets forth the revenue we generated from tuition fees by course model for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Non-contractual classes . . .	677,727	89.2	802,584	89.6	1,023,089	89.6	495,087	88.2	647,712	89.6
Contractual classes										
– <i>Small group tutoring</i> . . .	28,014	3.7	34,246	3.8	59,904	5.3	24,028	4.3	33,364	4.6
– <i>Full-time Test Preparation Program</i>	54,250	7.1	59,301	6.6	58,708	5.1	42,183	7.5	42,040	5.8
Subtotal	<u>82,264</u>	<u>10.8</u>	<u>93,547</u>	<u>10.4</u>	<u>118,612</u>	<u>10.4</u>	<u>66,211</u>	<u>11.8</u>	<u>75,404</u>	<u>10.4</u>
Total	<u>759,991</u>	<u>100.0</u>	<u>896,131</u>	<u>100.0</u>	<u>1,141,701</u>	<u>100.0</u>	<u>561,298</u>	<u>100.0</u>	<u>723,116</u>	<u>100.0</u>

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Premium Learning Program

Our Premium Learning Program provides high-quality small group and individualized after-school tutoring courses to primary school, middle school and high school students, through which they can receive adequate individual attention from teachers and are able to learn in an interactive environment. We strive to tailor-make our courses to accommodate the specific learning needs of individual students. Our teachers also make close interactions with parents during the courses to discuss their questions, address their concerns and provide timely feedback on their children's progress.

We mainly deliver our small group tutoring courses and individualized tutoring courses in traditional in-class setting. The following table sets forth the student enrollments and the number of tutoring hours delivered for our Premium Learning Program by type of tutoring services for the periods indicated.⁽¹⁾

	Year ended December 31,						Six months ended June 30,	
	2015		2016		2017		2018	
	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours
Small group tutoring	229,561	5,800,174	275,212	6,843,040	383,592	8,725,190	205,200	4,562,742
Individualized tutoring	74,861	1,581,010	78,317	1,739,748	98,802	2,027,882	74,555	1,216,945
Total	<u>304,422</u>	<u>7,381,184</u>	<u>353,529</u>	<u>8,582,788</u>	<u>482,394</u>	<u>10,753,072</u>	<u>279,755</u>	<u>5,779,687</u>

(1) The student enrollments and the number of tutoring hours delivered for our Premium Learning Program by type of tutoring services for the periods indicated were based on the internal records and calculations of our Group.

The following table sets forth the average tuition fee per tutoring hour of our small group tutoring and individualized tutoring courses for the periods indicated.

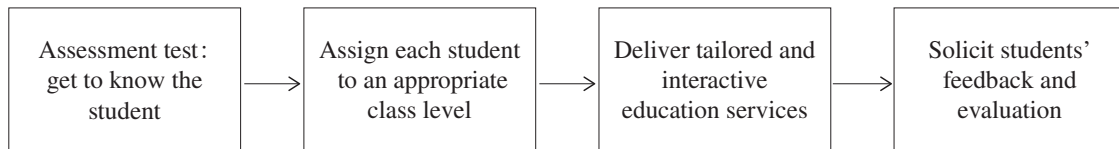
	Year ended December 31,			Six months ended June 30,
	2015	2016	2017	2018
	(RMB)			
Small group tutoring	59	61	64	74
Individualized tutoring	202	212	226	243

Small Group Tutoring

Our small group tutoring class typically consists of not more than 20 students. We provide small group tutoring courses in every spring and fall school semester which closely align with students' school schedule, as well as during summer and winter breaks which enable students to fill in the gaps of their academic knowledge.

We also divide small group tutoring courses into contractual classes and non-contractual classes. For contractual classes, students are entitled to obtain a refund of tuition fees if after completing the courses, they fail to achieve their targeted Zhongkao or Gaokao examination scores or be admitted to the specified category of schools as pre-agreed upon in our agreements with them. Students enrolled in non-contractual classes are not entitled to obtain refund of tuition fees on the same ground as no predetermined examination results were agreed between the parties. For details, see “— Refund of Tuition Fees.”

Our small group tutoring courses are delivered as seminars rather than lectures, in order to spark our students' intellectual curiosity, improve their learning habits and enhance their learning capabilities. We offer different levels of courses with different academic focus and density of knowledge. Before enrollment, each student will take part in an assessment test and be assigned to a specific level according to the assessment results. The following diagram illustrates the service model of our small group tutoring.



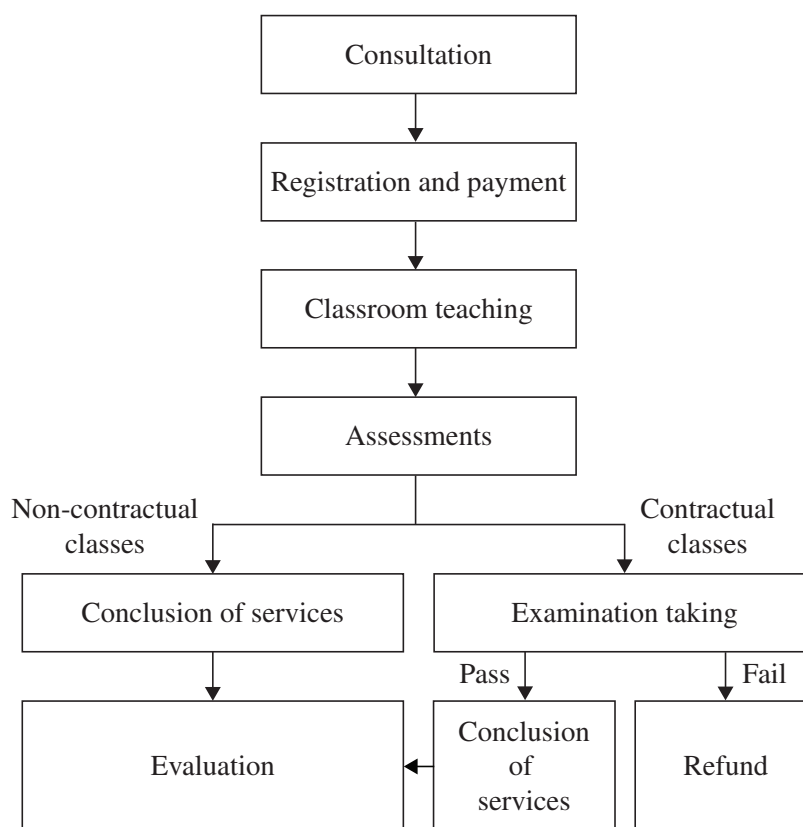
Conducting assessment test. We commence our education services with a written assessment test, which consists of questions designed to evaluate the student's academic knowledge and test-taking skills. We use the assessment test to analyze the students' academic strengths and weaknesses, based on which we assign each student to a suitable class level to help them progress to the best of their ability and achieve their academic objectives.

Grouping of students. We deliver our small group tutoring courses by grouping students based on their learning abilities and potential. We offer different levels of classes with different academic focus and density of knowledge. Each student, after taking the assessment test, will be assigned to a suitable class level. The benefit of grouping students together is that they can progress at the same pace without anyone feeling that he or she is falling behind. It also facilitates the formulation of a tailored teaching plan for each group.

Delivering tailored and interactive education services. We design curricula, teaching materials and teaching methods catering to different educational requirements and needs of our students at different levels. We deliver our courses as a seminar, utilizing multiple interactive teaching methodologies to facilitate the learning process. For example, during classes, we divide students into several mini study groups to encourage interactive discussions.

Soliciting students' feedback and evaluation. We solicit students' feedback and evaluation on our tutoring courses through surveys and online platforms to refine our curriculum design and educational contents. Students can communicate with their teachers regarding their needs and problems over the course of the program.

The following chart illustrates the service process of our small group tutoring:

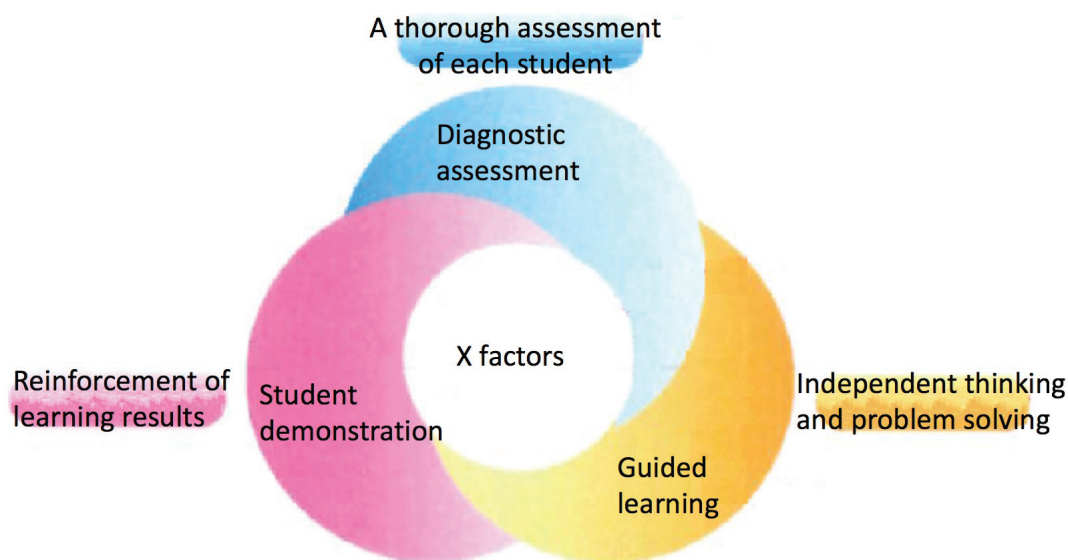


Individualized Tutoring

Our individualized tutoring courses provide fully customized tutoring services to cater to each student's educational focus on a one-on-one or, to a lesser extent, one-on-three basis. We provide individualized tutoring courses to meet the specific needs of our students, such as addressing weaknesses and filling in the gaps in a particular subject or topic.

Our students in our individualized tutoring courses have access to a large pool of experienced teachers. Teachers are selected by students and their parents based on the specific interests and needs of each student.

We provide our individualized tutoring courses using a “3+X” teaching strategy which comprises four main components: diagnostic assessment, guided learning, student demonstration and an overall consideration of each student’s unique and diverse learning habits, capabilities and personality, namely the X factors.



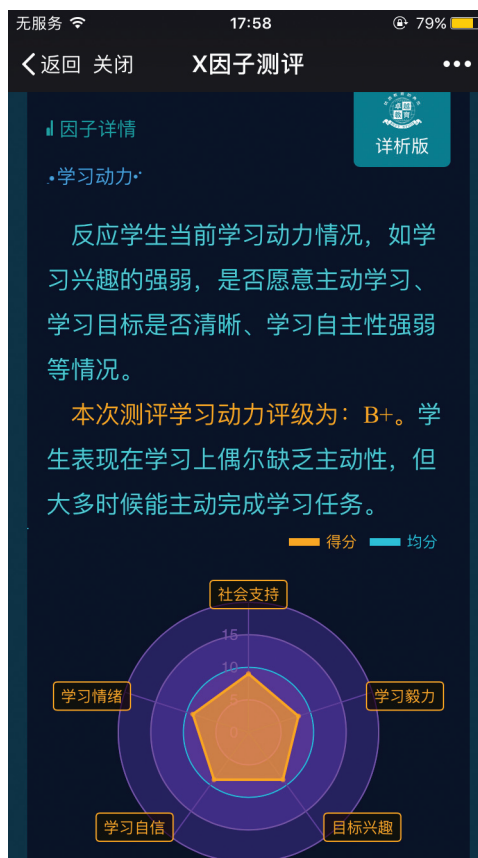
X factors: Each student’s unique and diverse learning habits, capabilities and personality.

Diagnostic assessment. Our students enrolled in our individualized tutoring courses are assigned learning planners who oversee the process of staffing and administering an individualized tutoring course schedule for that student, monitoring students’ learning progress and liaising with teachers and parents on an on-going basis. For new students, we commence our services with consultation and diagnostic assessment. During the consultation among the learning planner, the relevant student and his or her parents, we discuss the students’ past and current academic performance, future academic goals, specific tutoring needs regarding particular subjects, and any pertinent personal circumstances. The learning planner will then identify the problems that need to be addressed, advise the student on the number of sessions needed, and formulate a customized tutoring plan compatible with the students’ personal learning needs. Over the course of the tutoring program, learning planners will keep the students’ parents informed about the students’ progress.

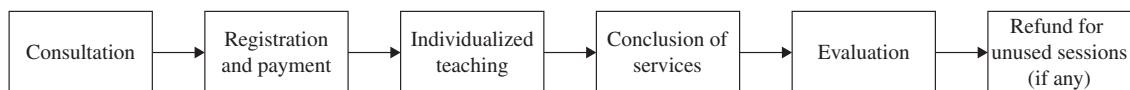
Guided learning. Our guided learning process aims to cultivate the ability of students to think independently and develop problem-solving abilities. We adopt a variety of distinctive teaching methodologies in the guided learning process. For instance, we use mind maps to represent the relationship between different concepts at the beginning of our course materials to facilitate our students’ understanding. We believe guided learning can effectively help students develop the ability to comprehend and solve new problems on their own, endowing them with important life skills that go far beyond the rote memorization and testing skills traditionally emphasized.

Student demonstration. During the courses, our teachers regularly shift their teaching roles with our students by encouraging students to take the lead in explaining specific topics and problems that have been discussed. We believe this teaching method is particularly useful in helping students reinforce their learning results through active demonstration.

Consideration of students' X factors. Our teachers adjust their teaching strategies to accommodate each student's unique and diverse learning habits, capabilities and personality. The following screenshot presents the analysis report of a student's X factors:



The following chart illustrates the service process of our individualized tutoring:



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Elite Talent Program

With the aim of making the learning process more enjoyable and engaging and fostering the all-round development of our students, we develop and offer a variety of proprietary educational products under our Elite Talent Program, including “Zhuoyue Macro-Chinese,” “Arts of Skillful Questioning” and “Young Learners’ English.” We believe that these innovative products can effectively and efficiently cultivate students’ interest in learning and improve their overall learning experience, which in turn will help students improve academic performance and achieve academic goals.

The following table sets forth the student enrollments and the number of tutoring hours delivered of our Elite Talent Program by type of education products for the periods indicated.⁽¹⁾

	Year ended December 31,						Six months ended June 30,	
	2015		2016		2017		2018	
	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours	Student enrollments	Tutoring hours
Zhuoyue Macro-Chinese	2,717	65,280	5,729	137,218	8,983	204,350	4,825	102,936
Arts of Skillful Questioning	250	15,754	1,239	88,034	2,165	180,650	1,154	101,016
Young Learners’ English	282	10,074	546	15,388	2,021	41,484	893	19,760
Total	<u>3,249</u>	<u>91,108</u>	<u>7,514</u>	<u>240,640</u>	<u>13,169</u>	<u>426,484</u>	<u>6,872</u>	<u>223,712</u>

(1) The student enrollments and the number of tutoring hours delivered for our Elite Talent Program by type of education products for the periods indicated were based on the internal records and calculations of our Group.

In 2015, 2016 and 2017 and the six months ended June 30, 2018, the average tuition fee per tutoring hour of our Elite Talent Program was RMB67, RMB57, RMB63 and RMB80, respectively.

Zhuoyue Macro-Chinese

We launched our “Zhuoyue Macro-Chinese” course in July 2014, which focuses on stimulating students’ overall interest in Chinese learning. The course is divided into three modules for primary school students, namely ancient Chinese literature, Chinese and foreign modern literary masterpieces, and new school essays. The ancient Chinese literature module guides students to feel the beauty of language and historical context of ancient Chinese works. The Chinese and foreign modern literature masterpiece module conveys knowledge of geography and history of the East and the West, thereby fostering students’ abilities to

appreciate comparative literature. The new school essay module enhances students' creative writing skills, and translates the knowledge of literature and history into beautiful articles. We pick different literature works for students of different grades as we deem suitable to their appreciation level.

As of the Latest Practicable Date, we provided our Zhuoyue Macro-Chinese courses mainly in Guangzhou and Shenzhen.

Arts of Skillful Questioning

Our “Arts of Skillful Questioning” prepares kindergarten students for their transition into primary schools by helping them develop disciplined and sustainable learning habits and abilities. We target students between four to eight years old. The course now covers several subjects such as Chinese, mathematics and English. Our teachers make great efforts to nurture students' abilities of concentration, expression, and adaptation to collective life, as well as their reading habits.

As of the Latest Practicable Date, we provided our “Arts of Skillful Questioning” courses through seven flagship education centers, covering Beijing, Shanghai, Guangzhou and Shenzhen. We operate both full-time courses and after-school courses under this program. We also authorize other independent education institutions to use our proprietary “Arts of Skillful Questioning” curriculum materials and provide them with teacher training services in relation to use of the materials at a licensing fee.

Young Learners' English

Our “Young Learners' English” primarily targets students in primary schools. Different from traditional English education service providers who typically focus on vocabulary, syntax and grammar, our program is designed by incorporating scenario-based teaching context to make the instructional process more efficient, and integrate story scenarios, role play and team work into the classroom to stimulate the students' learning interest and motivation in English throughout the learning experience. For example, we use a variety of role play scenarios such as “animal world” and “under the sea” as the medium for English teaching to help students master real-life and skillful use of English.

Full-time Test Preparation Program

Our Full-time Test Preparation Program consists of test preparation courses designed for the Zhongkao and the Gaokao. The program covers the subjects that will be tested in the Zhongkao or the Gaokao. We are specialized in providing such services to middle and high school graduates who wish to retake such examinations. We also started providing Gaokao preparation courses to art major candidates from 2017. We customize our Gaokao preparation courses for art major candidates to accommodate their needs, as they have to first take a practical examination to complete a specified set of art assignments before being able to focus on Gaokao preparation.

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During the courses, we have periodic assessments to help students gradually achieve their goals. We make great efforts to ensure that our students would be able to have a good command of subject content knowledge and test skills.

We currently operate our Full-time Test Preparation Program in 11 education centers in Guangzhou, Shenzhen and Shanghai. Our full spectrum of test preparation courses helps our students acquire and improve their knowledge and skills for the admission tests, thereby helping them achieve higher scores.

We also provide contractual classes under our Full-time Test Preparation Program. Students are entitled to obtain a refund of tuition fees if after completing the courses, they fail to achieve their targeted Zhongkao or Gaokao examination scores or get admitted to the specified category of schools as pre-agreed upon in our agreements with them. For details, see “— Refund of Tuition Fees.”

The following table sets forth the student enrollments of our Full-time Test Preparation Program by type of examinations for the periods indicated.⁽¹⁾

	Year ended December 31,			Six months ended June 30,
	2015	2016	2017	2018
Retake courses for Zhongkao	2,610	2,533	2,208	936
Retake courses for Gaokao	2,346	2,195	2,218	1,108
Gaokao preparation courses for art major candidates	—	—	420	533
Total	<u>4,956</u>	<u>4,728</u>	<u>4,846</u>	<u>2,577</u>

(1) The student enrollments of our Full-time Test Preparation Program by type of examinations for the periods indicated were based on the internal records and calculations of our Group.

In 2015, 2016 and 2017 and the six months ended June 30, 2018, the average tuition fee per student enrollment per semester of our Full-time Test Preparation Program was RMB18,649, RMB20,484, RMB20,632 and RMB21,928, respectively.

Other Education Service Offerings***Other Service Offerings***

In 2015, we launched Feng Bei app, a mobile application providing pre-taped broadcasts covering various subjects of the K-12 education system. Students can use their fragments of time by listening to the broadcasts and gradually build up their knowledge base.

Our Feng Bei app is still at trial stage. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, we generated a revenue from such course offerings of nil, RMB0.1 million, RMB1.6 million, RMB0.5 million and RMB2.2 million, respectively.

Other Discontinued Services

During the Track Record Period, we operated some other lines of business, including oversea study tours, kindergartens, high schools and animation business, which have been discontinued on June 1, 2018.

Pricing

We charge our students tuition fees based on the type of services and products or the number of tutoring hours. We require our students to pay the full amount of tuition fees prior to the commencement of the first tutoring session, which are initially recorded as deferred revenue. We generally recognize revenue after we have delivered the tutoring services. See “Financial Information — Significant Accounting Policies and Estimates — Revenue Recognition” for details.

For our Premium Learning Program, we determine the tuition for small group tutoring and individualized tutoring mainly based on the level of class. For our Elite Talent Program, we determine the tuition fees mainly based on the type of education products. In addition, the head of marketing department, the head of teaching department and the principal of each city may determine the discount policy for a certain semester for promotion purpose.

- (1) The pricing range of our education services and products excludes that of promotional courses. In order to attract students to subscribe for our education services, we occasionally provide promotional courses under our Premium Learning Program and Elite Talent Program. A promotional course usually lasts for a shorter period of time comparing to a regular course, or is charged less than a regular course or free of charge.
- (2) The fluctuation in the lower end of the pricing range of Young Learner's English which varies significantly between 2015 and 2016 was due to a reform of the course in 2016.
- (3) For the six months ended June 30, 2018, we only calculated the price range of all education services for winter and spring semesters, whereas Arts of Skillful Questioning and Young Learners' English usually charge higher in summer and fall semesters due to different lengths of courses. Therefore, the price range of the two programs for the six months ended June 30, 2018 is much lower than that of the previous years.

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Refund of Tuition Fees

Generally, we allow our students to withdraw from our tutoring courses and we would refund tuition fees for any undelivered tutoring sessions.

For our Full-time Test Preparation Program and small group tutoring under the Premium Learning Program, students can sign up for contractual classes, which generally allow a refund of tuition fees as prescribed in the contracts if the students fail to achieve their targeted Zhongkao or Gaokao examination scores or to be admitted to the specified category of schools as pre-agreed upon in our agreements with them. To obtain a refund of tuition fees, a student, if failed to achieve the targeted examination scores in Zhongkao or Gaokao or be admitted to the specified category of schools, has to submit a written refund application from the date of the announcement of the examination scores. After we receive the refund application and the supporting materials and confirm the facts, we will refund all or part of the tuition fees to such student according to the contract. We are entitled to reject a refund application if such student fails to achieve the targeted Zhongkao or Gaokao examination scores or to be admitted to the specified category of schools due to his or her own fault, such as failure to complete our courses, no-show at the examinations or misconduct during the examinations. In determining whether a student is entitled to receive the refund of tuition fees, we ensure impartial assessments on the refund request by relying on official records available to us.

The following table sets forth the tuition fee refunds only for our contractual classes for the periods indicated. We have not incurred any tuition fee refunds for the six months ended June 30, 2018.

Year ended December 31,						
2015		2016		2017		
Refund amount	Refund rate ⁽¹⁾	Refund amount	Refund rate ⁽¹⁾	Refund amount	Refund rate ⁽¹⁾	
(RMB except for refund rate)						
Full-time test						
Preparation program	1,138,379	2.1%	858,396	1.4%	471,699	0.8%
Small group tutoring	2,018,833	7.2%	1,629,276	4.8%	555,720	0.9%

- (1) The calculation of the refund rate is based on dividing total refund amount of each year for each program by the recognized revenue for each program of our contractual classes during the same period and multiplied by 100.0%.

OUR OVERSEAS BUSINESS

To further diversify our business portfolio, we have started to seek overseas opportunities, aiming to create synergies with our business in China.

We plan to establish and operate an officially recognized high school with after-school tutoring services in California, the United States. We have engaged a private school consultant who has experience in high school education to assist us in establishing the high school. We have established an entity, named China Bestudy Education Inc., to operate our proposed high school in California. Furthermore, we have entered into a lease agreement with an independent

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third party for a location to be used as the school office premises. For details, see “Structured Contracts — PRC Laws and Regulations Relating to Foreign Ownership in the Education Industry — Actions and Plan to Comply with the Qualification Requirement.”

We expect to incur approximately US\$375,000 in expenses in connection with our plan in California. Our planned expenditure includes, among others, expenses of leasing and site decoration, purchase of equipments, marketing and advertising expenses, and consulting fees.

We also sought business opportunities in Australia. We entered into a joint venture agreement with Hyperproperty Pty Ltd (“Hyperproperty”) in June 2017 for purpose of expanding Red Rock Christian College (“Red Rock”) and developing and implementing future programs at Red Rock at our request. The development activities of Red Rock will be conducted by Gowise Education Pty Ltd, Hyperproperty’s wholly owned subsidiary. Expected profits generated from such activities will be divided equally between the venturers. Pursuant to the joint venture agreement, we made a capital contribution of AUD\$1 million to the joint venture from cash generated from our operating activities. As of the Latest Practicable Date, we have not had a concrete and detailed development plan, including expected investment cost, capital expenditure, and development timeline in relation to our joint venture investment.

OUR EDUCATION SERVICE NETWORK

We provide students with education services through our extensive network of education centers. As of June 30, 2018, we operated a network of 213 education centers across 10 cities in China. Our geographical network strategically covers major cities in southern China, including Guangzhou, Shenzhen and Zhuhai and some other tier-1 cities such as Beijing and Shanghai. The following table sets forth the number of our education centers as of the dates indicated.

	As of December 31,			Six months ended
	2015	2016	2017	June 30, 2018
Total number of education centers	136	149	180	213
Number of newly opened education centers	7	14	39 ⁽¹⁾	34 ⁽²⁾
Number of closed education centers	9 ⁽³⁾	1 ⁽⁴⁾	8 ⁽⁵⁾	1 ⁽⁶⁾

(1) Include 22 newly established education centers and 17 education centers that had been split from existing education centers and managed independently thereafter.

(2) Include 31 newly established education centers and three education centers that had been split from existing education centers and managed independently thereafter.

(3) We closed nine education centers in 2015 primarily due to (1) our withdrawal from Jiangmen, a prefectural-level city in Guangdong province, as a result of our strategic adjustment, (2) low utilization rate of certain education centers, and (3) earlier termination of the lease.

(4) We closed one education center in 2016 primarily due to its results of operations falling short of our expectation.

(5) We closed eight education centers in 2017 primarily due to (1) earlier termination of the lease, (2) our strategic adjustment, and (3) lack of relevant approvals and permits as to the use of the property.

(6) We closed one education center in the first half of 2018 primarily due to its results of operations falling short of our expectation.

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The following table sets forth the geographic coverage of our education centers as of the dates indicated.

Location	As of December 31,			As of
	2015	2016	2017	June 30, 2018
Southern China				
– Guangzhou	71	79	97	115
– Shenzhen	18	20	22	27
– Zhongshan	11	13	17	19
– Zhuhai	12	12	13	15
– Foshan	10	9	12	13
– Dongguan	5	7	6	7
– Huizhou	–	–	2	2
– Nanning	–	–	1	4
Beijing	1	1	1	2
Shanghai	8	8	9	9
Total	<u>136</u>	<u>149</u>	<u>180</u>	<u>213</u>

We select the locations for our education centers based on a variety of factors, including the size of the residential population, the income level and trend, demographics factors, accessibility by transportation, local regulations, rules and implementations relating to after-school tutoring, as well as the presence of competing offerings in the area. We typically prefer locations that are close to dense residential areas and primary schools, middle schools and high schools.

Our existing education centers maintained steady growth during the Track Record Period, primarily due to increases in our student enrollments and the number of tutoring hours delivered during the Track Record Period. In addition, our tuition fees slightly increased during the Track Record Period. The following table sets forth the same center growth rate of our existing education centers for the periods indicated.

Total number of education centers existing and in operation in both years/periods	Revenue in the preceding year/period	Revenue in the current year/period	Growth rate ⁽¹⁾
	(RMB in millions)		%

Six Months ended June 30, 2018 Compared to Six Months ended June 30, 2017

142	556.0	642.8	15.6%

Year ended December 31, 2017 Compared to Year ended December 31, 2016

133	893.2	1,057.1	18.3%

Year ended December 31, 2016 Compared to Year ended December 31, 2015

127	788.2	881.3	11.8%

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Note:

- (1) The same center growth rate of our existing education centers for the periods indicated was based on the internal records and calculations of our Group.

The following table sets forth the same center growth rate of our newly established education centers for the periods indicated.

	For the year ended December 31,				For the six months ended June 30,	
	2015	2016	2016	2017	2017	2018
Same center revenue⁽¹⁾ (RMB)						
7 education centers opened in 2015	5,367,748	13,558,004	13,558,004	21,989,653	10,858,838	14,854,207
10 education centers opened in 2016	N/A	6,001,118	6,001,118	21,345,843	9,134,474	14,387,574
37 education centers opened in 2017	N/A	N/A	N/A	57,937,557	2,180,515 ⁽²⁾	59,632,604 ⁽²⁾
13 education centers opened in the six months ended June 30, 2017	N/A	N/A	N/A	13,139,363	2,180,515	15,406,167
34 education centers opened in the six months ended June 30, 2018	N/A	N/A	N/A	N/A	N/A	17,881,052
Same center revenue growth⁽¹⁾ (%)						
7 education centers opened in 2015	152.6% ⁽³⁾		62.2% ⁽³⁾		36.8% ⁽³⁾	
10 education centers opened in 2016	N/A		255.7% ⁽³⁾		57.5% ⁽³⁾	
37 education centers opened in 2017	N/A		N/A		N/A ⁽²⁾	
13 education centers opened in the six months ended June 30, 2017	N/A		N/A		606.5%	
34 education centers opened in the six months ended June 30, 2018	N/A		N/A		N/A	

Notes:

- (1) Include seven education centers established in 2015, 10 education centers established in 2016, 37 education centers established in 2018, 34 education centers established in the first half of 2018, and exclude six education centers that were closed during the Track Record Period due to the results of operations falling short of our expectation.
- (2) We established a total of 37 new education centers in 2017, including 13 opened in the first half of 2017 and another 24 opened in the second half. Our revenue of RMB2.2 million in the six months ended June 30, 2017 was derived from the 13 new education centers opened in the first half of 2017, while revenue of RMB59.6 million in the six months ended June 30, 2018 was derived from all 37 new education centers opened in 2017. As a result, the same center growth rate from June 30, 2017 to June 30, 2018 is not applicable to new education centers established in 2017. Accordingly, we supplemented the same center growth rate from June 30, 2017 to June 30, 2018 for the 13 new education centers established in the first half of 2017.

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- (3) The same center growth rate of our newly established education centers in 2015 and 2016 decreased during the Track Record Period primarily due to the following reasons: (1) Our newly established education centers typically have a relatively high same center growth rate at the initial stage of operations in the first two years upon establishment, primarily because the revenue in the first year is only derived from a few months' operation of the relevant new education centers, while the revenue in the second year is derived from the entire year of operation of the relevant new education centers. As a result, mathematically the growth rate for the first two years is significantly higher than that of the subsequent periods. (2) We start to experience a stable growth in our revenue in line with the increased scale of operations, resulting in a decline in our same center growth rate.

During the Track Record Period, our newly established education centers experienced fast growth primarily due to increases in utilization rate, student enrollments and the number of tutoring hours delivered, but not due to the average tuition fee per tutoring hour. The increases in utilization rate, student enrollments and the number of tutoring hours delivered for our newly established education centers were primarily due to the new markets we captured with our newly established education centers and the marketing activities we conducted to promote our new education centers. The average tuition fee per tutoring hour for our new education centers, on the other hand, remained relatively stable.

According to the F&S Report, the industry average utilization rate of new education institutions providing K-12 after-school education service is approximately 40%, 45% and 50% in the first, second and third year since their establishment, respectively. The following table sets forth the average utilization rate of our newly established education centers offering small group tutoring courses under Premium Learning Program and Elite Talent Program for the periods indicated.⁽¹⁾⁽²⁾

	Year ended December 31,			Six months ended
	2015	2016	2017	June 30, 2018
New education centers established in 2015	44.9%	65.0%	79.6%	72.6%
New education centers established in 2016	—	53.0%	50.4%	55.1%
New education centers established in 2017	—	—	57.9%	62.6%
New education centers established in the six months ended June 30, 2018	—	—	—	58.7%

Notes:

- (1) Exclude six education centers that were closed during the Track Record Period due to their results of operations falling short of our expectation.
- (2) The utilization rate is calculated by dividing actual student enrollments of each period for small group tutoring courses under Premium Learning Program and Elite Talent Program by the capacity of each program during the same period and multiplied by 100%.

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The following table sets forth the student enrollments of our newly established education centers for the periods indicated.⁽¹⁾

	Year ended December 31,			Six months ended June 30, 2018
	2015	2016	2017	
New education centers established in 2015	1,079	2,582	4,794	3,068
New education centers established in 2016	—	3,350	9,229	5,472
New education centers established in 2017	—	—	11,868	35,842
New education centers established in the six months ended June 30, 2018	—	—	—	10,073

Note:

- (1) Exclude six education centers that were closed during the Track Record Period due to their results of operations falling short of our expectation.

The following table sets forth the number of tutoring hours delivered by our newly established education centers for the periods indicated.⁽¹⁾

	Years ended December 31,			Six months ended June 30, 2018
	2015	2016	2017	
New education centers established in 2015	28,089	61,960	108,623	58,098
New education centers established in 2016	—	74,217	220,487	122,114
New education centers established in 2017	—	—	281,749	821,597
New education centers established in the six months ended June 30, 2018	—	—	—	224,806

Note:

- (1) Exclude six education centers that were closed during the Track Record Period due to their results of operations falling short of our expectation.

We expect to continue to open new education centers in areas where we currently have a presence such as Guangzhou and Shenzhen, as these areas exhibit strong enrollment potential. We also expect to continue our expansion into to new geographic locations with unserved or underserved demand for K-12 after-school education services. Within the next three years, we plan to establish approximately 150 new education centers spanning a number

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of major cities in Guangdong province and certain major cities in southern China and nationwide. During 2018 and up to the Latest Practicable Date, we have opened 51 new education centers in Guangdong, Guangxi, Shanghai, and Beijing. As of the Latest Practicable Date, we also have entered into lease agreements for another four new education centers and are preparing for their grand opening within 2018. The aggregate revenues of our new education centers for the six months ended June 30, 2018 were approximately RMB17.9 million.

We believe the expansion plan is viable considering the increasing demand for K-12 after-school education services and our extensive experience in the K-12 after-school education service industry, including our ability to attract and retain sufficient qualified teachers. However, we may still face challenges and uncertainties in implementing our expansion plan. See “Risk Factors — Risks Relating to Our Business and Our Industry — We cannot assure you that we will be able to manage our business expansion effectively, failure of which could harm our financial condition and results of operation.”

In addition to our geographical expansion, we plan to expand some of our existing education centers to accommodate our growing student base there.

OUR TEACHERS

As of December 31, 2015, 2016 and 2017 and June 30, 2018, we had a total of 1,734, 2,148, 2,719 and 2,750 full-time teachers, respectively. As of the Latest Practicable Date, we had a total of 3,323 full-time teachers. We believe that our teachers are critical to maintaining the high quality and standards of our K-12 after-school education services. Therefore, we maintain rigorous qualification standards when selecting and training our teachers to ensure that we can provide consistent and high-quality education services to our students.

The following table sets forth the number of our teachers by type of our education services as of the Latest Practicable Date.

	Number of employees	Percentage of total
Premium Learning Program	3,018	90.8%
Elite Talent Program	119	3.6%
Full-time Test Preparation Program	186	5.6%
Total	3,323	100.0%

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The following table sets forth the number of our teachers by subject as of the Latest Practicable Date.

	Number of teachers	Percentage of total
Chinese	713	21.5%
Mathematics	1,241	37.4%
English	769	23.1%
Physics	260	7.8%
Chemistry	195	5.9%
Biology	18	0.5%
Politics	25	0.8%
Geography	21	0.6%
History	14	0.4%
Others ⁽¹⁾	67	2.0%
Total	3,323	100.0%

(1) Include teachers who are specialized in physical education, attention training, learning capability training, as well as our custodian teachers.

The student-teacher ratio for our Full-time Test Preparation Program was 30 to 1, 28 to 1, 29 to 1, and 17 to 1 in 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively. The student-teacher ratio for our Premium Learning Program and our Elite Talent Program was 196 to 1, 183 to 1, 194 to 1, and 110 to 1 in 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

As of the Latest Practicable Date, we had one foreign teacher under our Elite Talent Program, and we are in the process of applying for his work permit.

Teacher Recruitment

We adopt stringent recruitment standards and a selective multi-step process, including a series of tests of subjects to be taught, interviews and mock lectures. We seek to hire teachers who (1) possess the necessary competence; (2) have a strong command of the subject areas to be taught; (3) have strong communication skills; and (4) are capable of effectively using inspirational teaching methods.

We generally target to recruit teachers with bachelor's degree or higher in China through campus recruiting, as well as teachers with a solid track record and extensive teaching experience from other education institutions. We recruit new teachers from time to time to ensure that our teaching staff resources are sufficient to support our growing business.

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As of June 30, 2018, we had 2,750 full-time teachers, approximately 85.6% of which obtain bachelor's degree or above. The following table sets forth a breakdown of our teachers in terms of education qualification as of June 30, 2018.

	As of June 30, 2018	
Education Qualification		
Master's degree or above	123	4.4%
Bachelor's degree	2,232	81.2%
Others ⁽¹⁾	395	14.4%
Total	2,750	100.0%

- (1) As our Art of Skillful Questioning course focuses on preparing kindergarten students for their transition into primary schools, we have hired some teachers from pre-school teacher colleges which only issue junior college diploma or below.

In general, we do not conduct independent background check on our new teacher candidates, unless we deem a background check is necessary to further evaluate his or her suitability. We believe that we are able to screen candidates through our stringent recruitment process, including a pre-employment test.

In addition, according to the Amended Law for Promoting Private Education and other related administrative rules, teaching staff who teach Chinese, mathematics, English, physics, chemistry and other subjects in compulsory education stage should have the relevant teacher qualifications. According to the Regulations on Teacher Qualification (《教師資格條例》) promulgated by the State Council of PRC on December 12, 1995, to obtain teacher qualifications, the teaching staff are required to participate and pass the Elementary and Secondary School Teacher Qualification Examination (中小學教師資格考試). As of the Latest Practicable Date, approximately 71.8%, or 2,385 of our full-time teaching staff have obtained teacher qualifications issued by competent governmental authorities or China Education for Non-government Association (中國民辦教育協會). See “Risk Factors — Risks Relating to Our Business and Our Industry — New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects.” We have required the remaining 28.2%, or 938 of our full-time teaching staff who have not obtained relevant teacher qualifications to participate in the teacher qualification examinations. The teacher qualification examination is generally held twice a year, and consists of a written test, an interview, a Mandarin Chinese proficiency test and a physical examination. We will reimburse our teaching staff for their teacher qualification examination fees if they successfully obtain the teacher qualifications. If such teaching staff fail to obtain the teacher qualifications, we will cease their engagement in the tutoring of Chinese, mathematics, English, physics, chemistry and other subjects in compulsory education stage, and we will recruit new qualified teaching staff as supplement. In addition, going forward, we will only recruit teaching staff with teacher qualifications for Chinese, mathematics, English, physics, chemistry and other subjects in compulsory education stage. We do not foresee difficulties in relation to our recruitment plan as there is a sufficient supply of teachers for the K-12

after-school education market in southern China. According to the F&S Report, the number of K-12 after-school teachers in southern China reached 136.8 thousand in 2017, and is expected to increase to 191.0 thousand by 2022 at a CAGR of 6.9%. Therefore, we believe that the teaching qualification requirement would not impose any material adverse impact on our business and results of operations.

Teacher Training

We have in place a standardized teacher training system across our network. We require our new hires from campus recruitment to participate in a standardized extensive training program. We provide on-the-job training on instructional and communication skills to all our teachers from time to time through workshops. In addition, we pay close attention to the professional development and personal growth of our teachers. Upon their completion of the training program, we will assign to newly hired teachers an experienced teacher as mentor to provide necessary guidance and monitor his/her performance and progress. In addition, our teachers can rotate among different education centers to explore various opportunities. We also promote an enterprise culture accommodating personal learning, individual development, and happiness and opportunities. As a result, our teachers have demonstrated high loyalty as evidenced by our annual retention rate of such personnel of approximately 73.8%, 78.1%, 76.9% and 86.9% in 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively, much higher than the industry average of approximately 65.0%, according to the F&S Report.

We established a training and career development department which we named “Zhuoyue Academy” to integrate our training resources, standardize our training programs and foster a sense of pride among teachers. It develops our stringent training standards and materials. As part of our training system, we have implemented a Training Instructor Development Plan. We designate a select group of teachers ranked four-star or above as our training instructors. They are responsible for implementing our comprehensive training programs. For details of teachers’ ratings, see “— Our Teachers — Teacher Performance Evaluation.” “Zhuoyue Academy” is in charge of training our training instructors, and monitors their work on an on-going basis.

Teacher Performance Evaluation

We have established a system to evaluate and incentivize our teachers to improve their teaching skills, service quality and teaching results. Among other things, we use a five-level performance rating scale for our teachers where they begin as “one-star teachers” and eventually progress to “five-star teachers” after meeting relevant criteria at each stage. We rate teachers based on a set of criteria, including, among others, their teaching skills, research capabilities, student retention rate, as well as students’ feedback on the teaching quality.

Our teachers rated three-star or above may, at their own discretion, apply for promotion as directors of our operations in certain education centers, and may be invited to participate in our curriculum and education material development and even considered for senior management positions.

As a private education service provider, we believe we offer relatively competitive compensation to our teachers. Our teachers' compensation typically includes a base salary and a performance-based bonus.

OUR STUDENTS

We mainly target students between the first grade and the twelfth grade of the K-12 system. We experienced significant growth in student enrollments during the Track Record Period. The growth of our student enrollments has been driven by both new students and existing loyal students. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our student retention rate was 64.8%, 71.4%, 75.0%, 70.7% and 74.5%, respectively. In addition, we have benefited and are expected to continue to benefit through word-of-mouth referrals from our student network built over the years. According to a consumer survey conducted by Frost & Sullivan in May 2018, we ranked first in southern China in terms of brand awareness, number of respondents who purchased our services before, and number of respondents who are likely to choose our services in the future, respectively.

CURRICULUM AND TEACHING MATERIAL DEVELOPMENT

Our curriculum and education content are based on the philosophy and ultimate goal of improving our students' study capabilities, knowledge and academic performance. As different programs and courses within each program target students with diversified age groups and needs, we customize the teaching materials accordingly.

- *Premium Learning Program.* Parents and students choose our Premium Learning Program with the expectation that our program would improve the students' academic performance at public schools. We update our teaching materials from time to time so that our courses closely track the standard K-12 curricula of China's K-12 education system and cover all core K-12 subjects. We communicate with local teaching and research office from time to time to facilitate the update and development of our curriculum materials.
- *Elite Learning Program.* We have developed a variety of proprietary educational products as a complement to our K-12 after-school course offerings. We design those products aiming to nurture the all-round development of our students beyond the standard K-12 education system. The process of our product development generally includes (1) a feasibility study of market demands, (2) determination of key feature of the product to be developed, (3) establishment of a research and development team, (4) development of the product, (5) trial usage and data collection, (6) analysis of trial data and adjustment of the product, and (7) official launch of the product. The research and development cycle differs for each product, depending on the complexity of the product.

- *Full-time Test Preparation Program.* We update our course materials from time to time to keep up with the ongoing changes in the Zhongkao and Gaokao. We also study past papers to update our course materials.

We are committed to continually developing, updating and improving our curricula and teaching materials. As of June 30, 2018, we had an in-house development team of 501 employees. Our research and development activities in relation to curriculum and teaching material development primarily consisted of establishment of our teaching training system, improvement of teaching methodologies, establishment of teaching resources database, and standardization of our curricula and teaching materials. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, we incurred research and development expenses of RMB54.7 million, RMB72.8 million, RMB111.3 million, RMB47.9 million and RMB61.2 million, respectively, in relation to curriculum design and R&D of teaching methodologies. In 2017, to cope with our growing business, we significantly increased our investments in research and development of curriculum and teaching material development, aiming to improve our teaching methodologies and reform our teaching curricula.

OUR INFORMATION TECHNOLOGY PLATFORMS

We have implemented a number of robust information technology systems to facilitate effective teaching. For example, we have developed and implemented “Niu Shi Bang” and a teaching management system for our individualized and small group tutoring programs, respectively.

Our goal is to reliably and securely maintain our technology platform. We have assigned employees to maintain our websites and mobile applications. At present, our websites are all hosted at cloud servers.

Our in-house information technology department has a team specialized in the maintenance, update and development of our technology platform. As of June 30, 2018, our information technology department had 136 employees. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, we incurred expenses in relation to our information technology system of RMB9.3 million, RMB10.9 million, RMB28.7 million, RMB13.0 million and RMB17.5 million, respectively. Our expenses in relation to our information technology system primarily comprised our research and development expenses to improve our information technology system. In 2017, to meet our growing business needs, we significantly increased our investments in the development of our information technology systems with the aim of upgrading and advancing our teaching platforms. Our research and development activities in relation to information technology systems primarily consisted of development of teaching assistance tools, such as digital pens and attendance system, as well as development of teaching management systems, such as the office automation system.

Niu Shi Bang

We designed and developed “Niu Shi Bang,” an interactive one-on-one tutoring service platform, which is accessible to our teachers, students and their parents, for real-time progress tracking and interactions, learning plan adjustment and class management.

On user’s end, our students and their parents can review the rating and schedule of every teacher and choose whoever meets their specific needs. During the courses, Niu Shi Bang helps students track their learning progress and the status of their day-to-day assignments. Students and parents can send free virtual gifts to their teachers as appreciation. We take into consideration the amount of virtual gifts that our teachers have received in determining their annual performance-based bonus.

On teacher user’s end, Niu Shi Bang collects and keeps track of each student’s learning results, which will be used by our teachers to evaluate the overall learning progress of the students. It also provides teachers with access to numerous teaching notes and guidance. By allowing parents to give feedback to teachers through its platform, Niu Shi Bang facilitates the communication between teachers and students’ parents.

The following is a screenshot illustrating the user interface of Niu Shi Bang on user’s end.



The following is a screenshot illustrating the user interface of Niu Shi Bang on teacher user's end.



In addition, we grant access to Niu Shi Bang to teachers from other independent education institutions at a fixed licensing fee. They can use Niu Shi Bang to manage their course schedule, prepare teaching notes and get access to teaching guidance.

Teaching Management System (“TMS”)

We adopt a teaching management system for our small group tutoring courses which improves the efficiency of how we expand and operate our course offerings. The system efficiently schedules courses and allocates students to classes. The system also tracks important aspects of each education center's operations, such as student enrollments and revenue. In addition, our TMS incorporates a customer relationship management system and a financial management system. Such an integrated system significantly improves our operation and management efficiency.

Our Proprietary Database

Our proprietary online teaching resources database contains numerous teaching notes and test questions for K-12 after-school education courses. Our online database enables our teachers to gain access to vast teaching resources and further develop and design customized teaching notes and selectively choose practice questions for our students. It also enables our teachers and research and development team to collaboratively design, develop and improve curricula and share know-how and useful teaching materials efficiently.

The following screenshot illustrates the user interface of our online database.



图示：题库功能：通用版题库+各校区、学科、学段的个性化题库

CUSTOMERS AND SUPPLIERS

Our customers consist primarily 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 2015, 2016 and 2017 and the six months ended June 30, 2018.

Our suppliers consist primarily of advertising service providers, rental service providers, decoration service providers and construction service providers. Our top five suppliers accounted for 16.8%, 12.3%, 11.2% and 17.2%, respectively, of our total purchases for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018. Our single largest supplier, being an independent third party and our rental service provider, accounted for 5.8%, 4.6%, 3.4% and 6.4%, respectively, of our total purchases for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018. Our relationship with top five suppliers ranges from two years to seven years. Our relationship with our single largest supplier has lasted for seven years.

During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their associates or our Shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital had any interest in any of the five largest suppliers.

BUSINESS PARTNERSHIP

We have established collaborative relationship with a number of strategic partners. Over the years, we have made investments in companies operating in a range of related industries. The key criteria we would apply in selecting acquisition or investment targets include, among others, whether they can supplement our business development strategies. For example, we invested in Guangzhou Xieke Education & Technology Ltd. (廣州蟹殼教育科技有限公司), a company primarily engaged in providing education courses on artificial intelligence robots for

teenagers in order to gain access to its vast student base. We also invested in Hainan Yunjiang Technology Co., Ltd. (海南雲江科技有限公司, “Yunjiang Technology”), a company primarily engaged in the research and development of artificial intelligence education technology, in order to empower us with advanced Internet education technologies.

We underwent a one-off change of the accounting treatment for our investment in Yunjiang Technology due to loss of significant influence during the Track Record Period. Before June 2017, we appointed a director of Yunjiang Technology and was thus required to adopt the equity method of accounting to record the share of losses of the associate. After June 2017, we no longer had the right to appoint any director of Yunjiang Technology following the dilution of its investment by other investors and the resignation of such director appointed by us. As such, we derecognized the investment in associates because we were deemed to have lost significant influence over Yunjiang Technology. Yunjiang Technology thus became a financial asset at fair value through profit or loss afterwards. Although Yunjiang Technology incurred losses during the Track Record Period, its valuation continued to increase. As a result, we recorded fair value gains on equity investment. See “Financial Information — Description of Major Components of Our Consolidated Statements of Profit or Loss — Share of Losses of Associates” and “Financial Information — Discussion of Certain Items from the Consolidated Balance Sheet — Investment in a Joint Venture, Associates and Equity Investments at Fair Value through Profit or Loss” for details.

BRANDING, SALES AND MARKETING

We have engaged in a range of marketing activities to enhance our brand recognition among prospective students. We incurred selling expenses of RMB64.2 million, RMB79.0 million, RMB95.1 million, RMB47.4 million and RMB54.9 million in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively. We primarily employ the following marketing and recruiting methods to attract prospective students and retain existing students.

Referrals. We believe that a significant contributor to our success in student recruitment has been word-of-mouth referrals by parents of our students who share the students’ learning experiences with others. Over the years of our operations, we have built an extensive student alumni network, which has been a useful platform to promote referrals. Our student enrollment has benefited and will be expected to continue to benefit through referrals from our extensive student network and growing student base, as well as advantages derived from our reputation and brand.

Social Events. We have sponsored a series of academic competitions such as the CCTV Star of Outlook Competition (CCTV希望之星英語大賽), and the Chinese Culture Competition (中華之星國學大賽). We have held a series of panels named “I am a Master (我是高手)” on which we invited scholars, scientists and writers to share their experiences and insights. We believe that these activities enhance our public image and our influence among both students and their parents.

BUSINESS

Media Advertisement. We place online and mobile advertisements on major news websites in China. We also place our advertisements in traditional media at outdoor advertising venues that attract the attention of our prospective students and parents, such as public transportation terminals.

Promotional courses. We launch promotional courses from time to time, which work effectively to attract new students. Through our promotional courses, we provide prospective students and their parents with opportunities to learn about the products and services that we offer.

COMPETITION

The K-12 after-school education market in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this industry to persist and intensify. According to the F&S Report, the top five market players accounted for 4.7% of the national K-12 after-school education market in terms of revenue in 2017. We face competition mainly from national and local K-12 after-school education service providers.

We believe our principal competitive advantages include:

- the scope and quality of course offerings and services;
- our brand recognition;
- the overall interactive, engaging and customized students' learning experience;
- the price-to-value factor;
- the ability to train high-quality teachers;
- the ability to effectively tailor our course offerings and services to accommodate specific needs of our students; and
- the ability to effectively market course offerings and services to a broad base of prospective students.

We believe that we are well-positioned to effectively compete in markets in which we operate on the basis of our comprehensive course offerings, well-known “Zhuoyue Education” brand, ability to deliver education services with consistently high quality across our network, strong course content development capabilities and experienced management team. However, some of our current or future competitors may have greater access to financing more resources than we do, and a longer operating history than us. See “Risk Factors — Risks Relating to Our Business and Our Industry — We face intense competition in the PRC education industry which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departure of qualified employees and increased capital expenditures if we are unable to compete effectively.”

BUSINESS

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business. We have developed some of the key technologies supporting our tutoring services as well as proprietary teaching materials for our tutoring services and products. We protect our intellectual property rights through a combination of copyright, trademark and other intellectual property laws, as well as confidentiality provisions in employment contracts.

Despite our precautions, third parties may obtain and use intellectual property rights that we own or license without our consent. However, unauthorized use of our intellectual property rights by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Our Industry — If we fail to protect our intellectual property rights or prevent the loss or misappropriation of our intellectual property rights, we may lose our competitive edge, and our brand, reputation and operations may be materially and adversely affected.”

As of the Latest Practicable Date, we owned 159 trademarks, 125 registered domain names, and 39 registered copyrights.

We did not have any material disputes or any other pending legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

For details of our material intellectual property rights, see “Appendix IV — Statutory and General Information — B. Future Information about Our Business — 2. Intellectual property rights.”

EMPLOYEES

We had 5,278 employees as of June 30, 2018. The following table sets forth the breakdown of our employees by function as of June 30, 2018.

Function	Number of Employees	% of Total
Executive directors and senior management	22	0.4%
Full-time teachers	2,750	52.1%
Sales and marketing	156	3.0%
Teaching methodology development	343	6.5%
Course material development	158	3.0%
Education center operation management	1,293	24.5%
Technology development	136	2.6%
General administrative	420	8.0%
Total	5,278	100.0%

BUSINESS

We plan to hire additional teachers and other employees as we expand. Our recruiting channels include referrals, on-campus recruiting, online recruiting and professional recruiters.

Our employees' compensation includes base salary and performance-based bonuses. In general, we determine employee compensation based on each employee's performance and qualifications. In addition, we provide interest-free housing loans to certain qualified full-time teachers and other employees who, as first-time home buyers, have demonstrated strong commitment to our Company and achieved good annual performance evaluation for at least two consecutive years. In 2015, 2016 and 2017, we granted housing loans of RMB8.1 million, RMB4.9 million and RMB7.3 million to 81, 51 and 69 employees, respectively. We did not grant housing loans to any employee in the six months ended June 30, 2018.

We also provide co-investment opportunities to certain employees. We encourage our employees to lead or to participate in startup projects that are compatible with our development strategies and ideas. Depending on the scale and complexity of the proposed project, we would partner with our employees and make co-investments; alternatively, we may provide financial support for our employees to act as the manager of the project.

As required under PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, maternity, pension, medical, work-related injury and unemployment benefit plans. We are required under PRC laws to make contributions to employee benefit plans at specified percentages of the salaries.

We believe that we have maintained a good working relationship with our employees and we had not experienced any strikes or material labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements.

AWARDS AND RECOGNITION

We have received a number of awards in recognition of the quality and popularity of our services. The following table sets forth some of the awards and recognition we received during the Track Record Period.

Awarding Year	Award/Accreditation	Awarding Organization
2018	2018 Outstanding Private Education Institution of Guangdong (2018年度廣州民辦教育先進集體)	Private Education Association of Guangdong Province
2018	Top 10 Education Institution in the 2018 Shenzhen 3-15 Net Promoter Score Ranking (2018年3-15消費者NPS口碑指數排行榜深圳市教育培訓行業前十名)	Shenzhen Consumer Council

BUSINESS

Awarding Year	Award/Accreditation	Awarding Organization
2017	2017 Valuable After-school Education Institution Brand in China (2017中國品牌價值課外輔導機構)	Sina
2016	Most Trusted After-school Education Institutions among Parents (家長信賴教輔品牌)	Tencent
2016	Outstanding After-school Education Institution (優秀培訓機構)	Private Education Association of Guangdong Province
2015	Golden Education Brand in Southern China (2015華南金質教育品牌)	Guangzhou Daily
2015	Most Trusted After-school Education Institutions among Parents (中國好教育家長信賴課外輔導品牌)	China Internet News Center

INSURANCE

In line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain insurance covering damages to our properties. Except for our Full-time Test Preparation Program, we also do not maintain any third-party liability insurance. During the Track Record Period, we did not make any material insurance claims in relation to our business.

PROPERTIES

As of the Latest Practicable Date, we operated our businesses through 245 leased properties in Beijing, Shanghai, Guangzhou and various other cities in China. Our leased properties in China mainly serve as our education centers and offices.

As of the Latest Practicable Date, our leased properties had a total gross floor area of approximately 223,819.84 square meters, and each leased property ranges from a gross floor area of approximately seven square meters to 14,513.8 square meters.

Our lease agreements in respect of the abovementioned 245 properties mainly have a term ranging from approximately one year to 13 years. We plan to renew our leases or negotiate new terms when the existing leases expire. Save as disclosed in “— Our Education Service Network,” we did not experience material difficulties in negotiating renewal of our leases with our landlords during the Track Record Period.

As of June 30, 2018, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings.

Title Defects

As of the Latest Practicable Date, among our 245 leased properties, 53 of which have title defects that may adversely affect our ability to continue to use them in the future. The aggregate leased area of these defective properties is approximately 57,088.10 square meters, representing 25.51% of our aggregate leased area. The existence of title defects is mainly due to the failure of those lessors to provide property ownership certificates regarding their legal right to lease such properties. Should disputes arise due to title encumbrances to such properties or government action, we may encounter difficulties in continuing to lease such properties and may be required to relocate. We do not expect to incur significant time for identifying, or incur significant cost to relocate our operations to, comparable alternative properties in proximity.

As of the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority on the titles of any of these leased properties that might affect our current occupation. Our Directors believe that relocation will not have a material adverse impact on our business, financial position and results of operation.

According to relevant PRC laws and regulations, the lessee has the right to claim compensation if the lease agreement is invalid due to the lessor's fault. In case our ability to continue leasing such properties is affected by a third-party objection, we may seek indemnity from the lessor in accordance with relevant PRC laws and regulations.

Internal control measures

We have adopted the following internal control measures to prevent reoccurrence of such non-compliance:

- we have assigned designated personnel to follow up with the relevant parties to retrieve the ownership certificates or other ownership documents or consents to sublease from property owners of the existing defective properties as soon as possible;
- we will conduct our due diligence and reviews more prudently when we lease additional premises, particularly on title certificates for such properties; and

- we have revised our internal control procedures as recommended by our internal control consultant to prevent the leasing of properties with title defects.

Non-registration

As of the Latest Practicable Date, lease agreements of our 130 leased properties had not been registered and filed with relevant land and real estate management departments in China. Under the relevant PRC laws and regulations, the parties to a lease agreement have the obligation to register and file the executed lease agreement. As advised by our PRC legal advisers, the validity and enforceability of the lease agreements are not affected by the failure to register or file the lease agreements with the relevant government authorities. According to the relevant PRC regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we did not receive any such request or suffered any such fine from the relevant government authorities. We are in the process of preparing for the registration of these lease agreements with relevant land and real estate management departments. Our Directors confirm that due to the following reasons, we may be unable to complete the registration for such lease agreements in a timely manner or at all: (1) some relevant land and real estate management departments fail to handle our applications of registration timely due to the lack of local specific procedures or guidance; (2) some lessors are reluctant to cooperate with us to file the applications for registration by providing us with the application materials; and (3) some lessors fail to provide the property ownership certificates that are necessary for the applications of registration. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

APPROVALS, LICENSES AND PERMITS

Our PRC legal advisers have advised that during the Track Record Period and up to the Latest Practicable Date, except as disclosed in “— Legal Proceedings and Compliance” and “— New Education Regulations — The Amended Law for Promoting Private Education,” we had obtained all licenses, permits, approvals and certificates necessary to conduct our operations in all material respects from the relevant government authorities in the PRC, and such licenses, permits, approvals and certificates remained in full effect.

NEW EDUCATION REGULATIONS

Overview

Under the regime of the Law on the Promotion of Private Education of the PRC, which came into effect on June 29, 2013 (the “Former Law for Promoting Private Education”), private education institutions operated by non-enterprise units were required to obtain the school operation permit, while private education institutions operated by limited liability companies were not explicitly required to obtain school operation permit.

To promote the development of the private education industry, the Standing Committee of the National People's Congress promulgated the Amended Law for Promoting Private Education on November 7, 2016, effective on September 1, 2017 and followed by various administrative rules issued by the PRC central government, including Several Opinions of the State Council on Encouraging Social Resources to Invest in Education and Promote Sound Development of Private Education (國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見), the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》) and the Implementation Rules on the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》) (collectively, the "Administrative Regulations"). The Amended Law for Promoting Private Education and the Administrative Regulations have amended the Former Law for Promoting Private Education in many respects.

Under the Amended Law for Promoting Private Education and Administrative Regulations, private schools are classified by whether they are established and operated for profit-making purposes. In particular, for the first time, the for-profit education institutions are explicitly required to be established in form of limited liability company and are required to obtain the school operation permit. Private schools, except for those engaged in compulsory education, may choose to establish non-profit or for-profit private schools at their own discretion. The existing private schools registered as non-enterprise units can apply to transform into a limited liability company by completing the required procedures.

Further, on August 10, 2018, the Ministry of Justice of the PRC (中華人民共和國司法部, the "MOJ") issued the Revised Draft of 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") and an explanatory note soliciting public comments on the MOJ Draft till September 10, 2018, which intended to revise the existing implementation rules. As of the Latest Practicable Date, the date on which the MOJ Draft can be finalized and published remains uncertain.

In addition, a number of implementation rules regulating the development of the after-school education market have been promulgated following the issuance of the Amended Law for Promoting Private Education. On February 13, 2018, the General Offices of the MOE, SAIC, the MCA and the MOHRSS jointly issued the Circular on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools (《教育部辦公廳等四部門關於切實減輕中小學生課外負擔開展校外培訓機構專項治理行動的通知》, "Circular 3"), and soon after, the Proposal on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools of Guangdong Province (《廣東省教育廳等五部門關於切實減輕中小學生課外負擔開展校外培訓機構專項治理方案》, the "Guangdong Plan") was issued jointly by Education Department of Guangdong Province (廣東省教育廳), Human Resource and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳), the Civil Affairs Department of Guangdong Province (廣東省民政廳), the Public Security Department of Guangdong (廣東省公安廳) and Administration for Industry and Commerce of Guangdong Province (廣東省工商行政管理局) to provide detailed implementation rules of Circular 3 in Guangdong. Further, on

August 22, 2018, the General Office of the State Council (國務院辦公廳) released the State Council Opinions 80, which provide various guidance on regulating the after-school education market for primary and secondary school students. Moreover, on November 15, 2018, the Xinhua News Agency published Certain Opinions of the Central Committee of the Communist Party of China and the State Council on Strengthening the Reform of, and Regulating the Development of, the Pre-school Education (《中共中央國務院關於學前教育深化改革規範發展的若干意見》), which provide guidance on regulating the pre-school education market. Furthermore, on November 20, 2018, the General Office of the MOE (中華人民共和國教育部辦公廳), the General Office of the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局辦公廳) and the General Office of the Ministry of Emergency Management of the PRC (中華人民共和國應急管理部辦公廳) jointly issued the Notice on Improving the Specific Governance and Rectification Mechanisms of After-school Education Institutions (《關於健全校外培訓機構專項治理整改若干工作機制的通知》, “Circular 10”), which provides specific requirements for the local people’s governments at all levels in the implementation of the State Council Opinions 80.

The Amended Law for Promoting Private Education

Overview

On November 7, 2016, the Standing Committee of the National People’s Congress promulgated the Decision on Amending the Law on the Promotion of Private Education of the PRC, which became effective on September 1, 2017. The Amended Law for Promoting Private Education amended, in many respects, the original Law on the Promotion of Private Education of the PRC (the “Former Law for Promoting Private Education”), which became effective on September 1, 2003. Under the Former Law for Promoting Private Education, the administration of for-profit private tutoring institutions that were registered with the local administrative departments for industry and commerce shall be separately promulgated by the State Council. The State Council had never promulgated such administrative measures and prior to the effectiveness of the Amended Law for Promoting Private Education, as advised by our PRC legal advisers, the administration of such for-profit private education institutions was subject to the general procedures and regulations promulgated by the local administrative departments for industry and commerce.

Prior to July 30, 2017, we operated our education centers either in the form of private non-enterprise unit or limited liability company under the regime of the Former Law for Promoting Private Education. All of our education centers in the form of non-enterprise unit possess school operation permits (two of which have expired and we are in the process of renewing the same or applying for de-registration). However, as advised by our PRC legal advisers, since school operation permits were not explicitly required for companies with limited liabilities under the Former Law on the Promotion of Private Education, our education centers in the form of limited liability company only possess business licenses issued by the competent administrations for industry and commerce.

Impact on Our Business

In light of the promulgation of the Amended Law for Promoting Private Education and the Administrative Regulations from November 2016 and in order to increase the flexibility of our operations, we decided to choose to register all our education centers operated in the form of private non-enterprise units as for-profit private after-school education institutions and will make appropriate applications, if and when feasible, subject to the detailed implementation rules to be released by competent local authorities. We have started restructuring our business by transferring our business operated by our PRC Operating Entities in the form of private non-enterprise unit to those in the form of limited liability company prior to July 30, 2017. As of the Latest Practicable Date, except for Shanghai Yangpu Beststudy Education and Training Center (上海楊浦區卓越教育培訓中心, the “Yangpu Center”), all of the business of our then 29 PRC Operating Entities in the form of private non-enterprise unit have been transferred to our seven PRC Operating Entities in the form of limited liability company. The following chart sets forth the PRC Operating Entities in the form of limited liability company to which the business of those operated in the form of private non-enterprise unit was transferred.

BUSINESS

Number of the PRC Operating Entities in the form of private non-enterprise unit with their business transferred to the PRC Operating Entities in the form of limited liability company	The PRC Operating Entities in the form of private non-enterprise unit with their business transferred to the PRC Operating Entities in the form of limited liability company
1 Guangzhou Beststudy Education and Training Center (廣州卓越教育培訓中心)	Guangzhou Haizhu Beststudy Education and Training Center (廣州市海珠區卓越教育培訓中心) Guangzhou Baiyun Beststudy Education and Training School (廣州市白雲區卓越教育培訓學校) Guangzhou Huadu Beststudy Education and Training Center (廣州市花都區卓越教育培訓中心) Guangzhou Panyu Learning Frontline Education and Training Center (廣州市番禺區學習前線教育培訓中心) Guangzhou Zengcheng Beststudy Education and Training Center (廣州市增城區卓越教育培訓中心) Guangzhou Huangpu Beststudy Education and Training Center (廣州市黃埔區卓越教育培訓中心) Guangzhou Liwan Beststudy Education and Training Center (廣州市荔灣區卓越教育培訓中心) Guangzhou Conghua Beststudy Education and Training Center (廣州市從化區卓越教育培訓中心)
8 Guangzhou Beststudy	Dongguan Dongcheng Beststudy Second Training Center (東莞市東城卓越第二培訓中心) Dongguan Dongcheng Learning Frontline Training Center (東莞市東城學習前線培訓中心) Dongguan Guancheng Beststudy Training Center (東莞市莞城卓越培訓中心) Dongguan Houjie Beststudy Training Center (東莞市厚街卓越培訓中心) Dongguan Dongcheng Beststudy Training Center (東莞市東城卓越培訓中心)
5 Dongguan Zhuoyue Education Consulting Service Co., Ltd. (東莞市卓業教育諮詢服務有限公司)	Foshan Chancheng Learning Frontline Education and Training Center (佛山市禪城區學習前線教育培訓中心) Foshan Nanhai Xinzhuoyue Education and Training Center (佛山市南海區新卓越教育培訓中心) Foshan Nanhai Beststudy Frontline Education and Training Center (佛山市南海區卓越前線教育培訓中心) Foshan Shunde Lecong Learning Frontline Education and Training Center (佛山市順德區樂從鎮學習前線教育培訓中心)
4 Foshan Beststudy Culture Communication Co., Ltd. (佛山市卓越里程文化傳播有限公司)	

BUSINESS

Number of the PRC Operating Entities in the form of private non-enterprise unit with their business transferred to the PRC Operating Entities in the form of limited liability company The PRC Operating Entities in the form of limited liability company with their business transferred from the PRC Operating Entities in the form of private non-enterprise unit	The PRC Operating Entities in the form of private non-enterprise unit with their business transferred to the PRC Operating Entities in the form of limited liability company
2 Shenzhen Beststudy Education and Training Center (深圳市卓越教育培训中心) Shenzhen Wandie Education and Training Center (深圳萬蝶教育培训中心)	2 Shenzhen Zhuoyue Education Training Co., Ltd. (深圳市卓越教育培训有限公司)
Zhongshan East District Zhuoye Boda Jiahui Garden Education and Training Center (中山市東區卓業博達嘉苑教育培训中心) Zhongshan East District Zhuoye Boda Shuiyunxuan Education and Training Center (中山市東區卓業博達水雲軒教育培训中心) Zhongshan East District Zhuoye Boda Zhuyuan Education and Training Center (中山市東區卓業博達竹苑教育培训中心) Zhongshan Shiqi Zhuoye Boda Hengji Education and Training Center (中山市石岐卓業博達恒基教育培训中心) Zhongshan Shiqi Zhuoye Boda Qiguanxi Education and Training Center (中山市石岐卓業博達岐關西教育培训中心) Zhongshan West District Zhuoye Boda Huating Education and Training Center (中山市西區卓業博達華庭教育培训中心) Zhongshan Xiaolan Zhuoye Boda Education and Training Center (中山市小欖卓業博達教育培训中心)	7 Zhongshan Zhuoye Consulting Management Co., Ltd. (中山市卓業諮詢管理顧問有限公司)
Zhuhai Xiangzhou District Siqi Cultural Training Center (珠海市香洲區思奇文化培訓中心) Zhuhai Chuangsi Language Training School (珠海創思語言培訓學校)	2 Zhuhai Beststudy Enterprise Co., Ltd. (珠海市卓越里程企業有限公司)

BUSINESS

While Yangpu Center is still engaged in K-12 after-school education service with a valid private school operation permit, we have started the application to transform Yangpu Center and register it as a for-profit private after-school education institution in due course. Our Directors are of the view that such transfer of business between operating entities in different legal forms did not have material adverse impact on our business and results of operations.

Although 29 of our then PRC Operating Entities in the form of private non-enterprise unit had transferred their business to the respective PRC Operating Entities in the form of limited liability company, they still possess certain assets as required by law upon such business transfer. Among these 29 PRC Operating Entities, based on our business needs, we have decided to maintain 27 PRC Operating Entities in the form of private non-enterprise unit but to deregister Foshan Shunde Lecong Learning Frontline Education and Training Center (佛山市順德區樂從鎮學習前線教育培訓中心, “Lecong Center”) and Dongguan Houjie Beststudy Training Center (東莞市厚街卓越培訓中心, “Houjie Center”) due to the termination of their leases of the properties. We are in the process of the deregistration application for Lecong Center and Houjie Center. When the local administrative measures regarding the registration of for-profit private after-school education institutions are released, we will register the remaining 27 PRC Operating Entities in the form of private non-enterprise unit as for-profit private after-school education institutions. To cater to our business expansion in the future, we may apply to transform these PRC Operating Entities in the form of private non-enterprise unit and registered as for-profit private after-school education institutions into the form of limited liability company in accordance with the relevant PRC laws and regulations to conduct our business. As of the Latest Practicable Date, we have transformed and registered our existing Dongguan Dongcheng Beststudy Training Center (東莞市東城卓越培訓中心), Dongguan Dongcheng Learning Frontline Training Center (東莞市東城學習前線培訓中心) and Dongguan Dongcheng Beststudy Second Training Center (東莞市東城卓越第二培訓中心) as for-profit private after-school education institutions in the form of limited liability companies, namely Dongguan Nancheng Beststudy Training Center Co., Ltd. (東莞市南城卓越培訓中心有限公司), Dongguan Dongcheng Jinghu Beststudy Training Center Co., Ltd. (東莞市東城景湖卓越培訓中心有限公司) and Dongguan Dongcheng Xinshijie Beststudy Training Center Co., Ltd. (東莞市東城新世界卓越培訓中心有限公司), respectively. In addition, we have obtained the approval from Dongguan Education Bureau to register our existing Dongguan Guancheng Beststudy Training Center (東莞市莞城卓越培訓中心) as a for-profit private after-school education institution and our application to transform it into a limited liability company was approved. We are in the process of obtaining its business license.

In addition, the Amended Law for Promoting Private Education requires our PRC Operating Entities both in the forms of private non-enterprise units and limited liability companies which operate education centers to obtain private school operation permits. According to the Several Opinions of the State Council on Encouraging Social Resources to Invest in Education and Promote Sound Development of Private Education (國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見), after the Amended Law for Promoting Private Education came into force, the provincial governmental authorities must issue their own implementation rules and licensing measures for the Amended Law for Promoting Private Education based on the local conditions. Our PRC legal advisers have advised us that, as of the

Latest Practicable Date, Beijing, Shanghai, Guangdong and Guangxi where our schools are in operation have issued implementation rules, in which Shanghai provides a transition period of one year ending December 31, 2018; Guangxi provides a transition period of five years ending December 31, 2022; Beijing provides a transition period of two years ending September 1, 2019 for private schools engaged in pre-school education and after-school education services; while Guangdong has not provided a transition period. With the assistance of our PRC legal advisers, we consulted the education authorities in Guangdong, Shanghai, Guangxi and Beijing, being the competent educational government authorities in the respective areas to provide confirmation in respect of matters relating to the requirements of applications for private school operation permits. We have been advised by the Beijing and Guangdong educational government authorities that (1) Beijing and all the cities where we operate within Guangdong (other than Guangzhou and Dongguan) have not issued implementing measures for private education institutions in the form of limited liability company to apply for private school operation permits; and (2) before they issue such implementing measures or begin to accept application for private school operation permits, they will not impose penalties on the private education institutions in the form of limited liability company due to lack of private school operation permits. We were also advised by the Shanghai and Guangxi educational government authorities that they will not impose penalties on us for our lack of school operation permits so long as we had applied for the same.

As of the Latest Practicable Date, we have obtained or are in the process of applying for private school operation permits for 19 of our PRC Operating Entities in the form of limited liability company engaging in K-12 after-school education service in Guangzhou, Dongguan, Nanning, Huizhou and Shanghai in which we are currently operating or will operate education centers directly. The following chart sets forth further details of our choice and the application status of our registration as a for-profit private school for the PRC Operating Entities engaging in K-12 after-school education service:

No.	Name of PRC Operating Entities	Whether			Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit	Progress of obtaining private school operation permit as of the Latest Practicable Date	
1.	Guangzhou Beststudy	Yes	Yes	Has obtained the in-principle approval for establishment of a private school	Limited liability company
2.	Dongguan Zhuoye Education Consulting Service Co., Ltd. (東莞市卓業教育諮詢服務有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company
3.	Zhongshan Zhuoye Consulting Management Co., Ltd. (中山市卓業諮詢管理顧問有限公司)	Yes	Yes	Has obtained the pre-approval of change of name and submitted the application documents	Limited liability company

BUSINESS

No.	Name of PRC Operating Entities	Whether		Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit		
4.	Shenzhen Zhuoyue Education Training Co., Ltd. (深圳市卓越教育培训有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company
5.	Zhuhai Beststudy Enterprise Co., Ltd. (珠海市卓越里程企業有限公司)	Yes	Yes	Has obtained the pre-approval of change of name and submitted the application documents	Limited liability company
6.	Foshan Beststudy Culture Communication Co., Ltd. (佛山市卓越里程文化傳播有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company
7.	Beijing Qiaowen Education Technology Co., Ltd. (北京巧問教育科技有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company
8.	Shenzhen Wandie Culture Development Co., Ltd. (深圳市萬蝶文化發展有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company

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No.	Name of PRC Operating Entities	Whether		Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit		
9.	Nanning Beststudy Education Technology Co., Ltd. (南寧卓越里程教育科技有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company
10.	Dongguan Nancheng Beststudy Training Center Co., Ltd. (東莞市南城卓越培訓中心有限公司)	Yes	Yes	Has obtained a valid private school operation permit	Limited liability company
11.	Guangzhou Yuyou Education Technology Co., Ltd. (廣州譽優教育科技有限公司)	Yes	Yes	Has obtained the pre-approval of change of name and in the process of preparing the application documents in accordance with the implemented detailed rules	Limited liability company
12.	Shenzhen Bosijie Culture Development Co., Ltd. (深圳市博思傑文化發展有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company
13.	Guangxi Nanning YuZhiYou Education Technology Co., Ltd. (廣西南寧譽智優教育科技有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company

BUSINESS

No.	Name of PRC Operating Entities	Whether		Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit		
14.	Huizhou Yuyou Education Technology Co., Ltd. (惠州譽優教育科技有限公司)	Yes	Yes	Pending promulgation of the detailed rules for applying for the school operation permit	Limited liability company
15.	Guangzhou Tianhe Beststudy Education Training Center Co., Ltd. (廣州市天河區卓越教育培訓中心有限公司)	Yes	Yes	Has obtained a valid private school operation permit	Limited liability company
16.	Guangzhou Huadu Beststudy After-school Education Training Center Co., Ltd. (廣州市花都區卓越課外教育培訓中心有限公司)	Yes	Yes	Has obtained a valid private school operation permit	Limited liability company
17.	Dongguan Dongcheng Jinghu Zhuoyue Training Center Co., Ltd. (東莞市東城景湖卓越培訓中心有限公司)	Yes	Yes	Has obtained a valid private school operation permit	Limited liability company
18.	Dongguan Dongcheng Xinshijie Beststudy Training Center Co., Ltd. (東莞市東城新世界卓越培訓中心有限公司)	Yes	Yes	Has obtained a valid private school operation permit	Limited liability company
19.	Dongguan Dongcheng Shibo Beststudy Training Center Co., Ltd. (東莞市東城世博卓越培訓中心有限公司)	Yes	Yes	Has obtained a valid private school operation permit	Limited liability company
20.	Shanghai Yangpu Beststudy Education and Training Center (上海楊浦區卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit

BUSINESS

No.	Name of PRC Operating Entities	Whether		Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit		
21.	Guangzhou Beststudy Education and Training Center (廣州卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
22.	Guangzhou Haizhu Beststudy Education and Training Center (廣州市海珠區卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
23.	Guangzhou Baiyun Beststudy Education and Training School (廣州市白雲區卓越教育培訓學校)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
24.	Guangzhou Huadu Beststudy Education and Training Center (廣州市花都區卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
25.	Guangzhou Panyu Learning Frontline Education and Training Center (廣州市番禺區學習前線教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
26.	Guangzhou Zengcheng Beststudy Education and Training Center (廣州市增城區卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
27.	Guangzhou Huangpu Beststudy Education and Training Center (廣州市黃埔區卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit

BUSINESS

No.	Name of PRC Operating Entities	Whether		Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit		
28.	Guangzhou Liwan Beststudy Education and Training Center (廣州市荔灣區卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
29.	Guangzhou Conghua Beststudy Education and Training Center (廣州市從化區卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
30.	Shenzhen Beststudy Education and Training Center (深圳市卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
31.	Zhuhai Xiangzhou District Siqi Cultural Training Center (珠海市香洲區思奇文化培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
32.	Zhuhai Chuangsi Language Training School (珠海創思語言培訓學校)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
33.	Foshan Chancheng Learning Frontline Education and Training Center (佛山市禪城區學習前線教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit but the private school operation permit has expired and we are in the renewal process	Private non-enterprise unit

BUSINESS

No.	Name of PRC Operating Entities	Whether		Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit		
34.	Foshan Nanhai Xinzhuoyue Education and Training Center (佛山市南海區新卓越教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
35.	Foshan Nanhai Beststudy Frontline Education and Training Center (佛山市南海區卓越前線教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
36.	Foshan Shunde Lecong Learning Frontline Education and Training Center (佛山市順德區樂從鎮學習前線教育培訓中心)	Yes	Yes	In the process of applying for deregistration	Private non-enterprise unit
37.	Dongguan Guancheng Beststudy Training Center (東莞市莞城卓越培訓中心)	Yes	Yes	Has obtained a valid private school operation permit; and we have applied to transform the entity into a limited liability company, and has obtained the renewed private school operation permit for such limited liability company and pending the issuance of the business license	Private non-enterprise unit (we have applied to transform the entity into a limited liability company)

BUSINESS

No.	Name of PRC Operating Entities	Whether		Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit		
38.	Dongguan Houjie Beststudy Training Center (東莞市厚街卓越培訓中心)	Yes	Yes	Has obtained a valid private school operation permit, and in the process of applying for deregistration	Private non-enterprise unit
39.	Shenzhen Wandie Education and Training Center (深圳萬蝶教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
40.	Zhongshan East District Zhuoye Boda Jiahui Garden Education and Training Center (中山市東區卓業博達嘉惠苑教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
41.	Zhongshan East District Zhuoye Boda Shuiyunxuan Education and Training Center (中山市東區卓業博達水雲軒教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
42.	Zhongshan East District Zhuoye Boda Zhuyuan Education and Training Center (中山市東區卓業博達竹苑教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
43.	Zhongshan Shiqi Zhuoye Boda Hengji Education and Training Center (中山市石岐卓業博達恒基教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit

BUSINESS

No.	Name of PRC Operating Entities	Whether to register as a private school for-profit	Whether required to obtain the private school operation permit	Progress of obtaining private school operation permit as of the Latest Practicable Date	Form of the PRC Operating Entities
44.	Zhongshan Shiqi Zhuoye Boda Qiguanxi Education and Training Center (中山市石岐卓業博達岐關西教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
45.	Zhongshan West District Zhuoye Boda Huating Education and Training Center (中山市西區卓業博達華庭教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
46.	Zhongshan Xiaolan Zhuoye Boda Education and Training Center (中山市小欖卓業博達教育培訓中心)	Yes	Yes	Has obtained a valid private school operation permit	Private non-enterprise unit
47.	Guangzhou Gaofen Network Technology Co., Ltd. (廣州高分網絡科技有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company
48.	Guangzhou Qizuo Education Consulting Co., Ltd. (廣州奇作教育諮詢有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company
49.	Tibet Zhuoye Venture Capital Investment Management Co., Ltd. (西藏卓業創業投資管理有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company
50.	Guangzhou Aiyuwen Technology Information Consulting Co., Ltd. (廣州市愛語文科技信息諮詢有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company
51.	Guangzhou Fengbei Network Technology Co., Ltd. (廣州蜂背網絡科技有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company
52.	Beijing Niushibang Education Technology Co., Ltd. (北京牛師幫教育科技有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company

No.	Name of PRC Operating Entities	Whether			Form of the PRC Operating Entities
		Whether to register as a for-profit private school	Whether required to obtain the private school operation permit	Progress of obtaining private school operation permit as of the Latest Practicable Date	
53.	Guangzhou GROW Education Technology Co., Ltd. (廣州市果肉教育科技有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company
54.	Guangzhou Chuangxiangjia Education Investment Co., Ltd. (廣州創享家教育投資有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company
55.	Guangzhou Yuyou Leshu Education Technology Co., Ltd. (廣州譽優樂數教育科技有限公司) ⁽¹⁾	N/A	N/A	N/A	Limited liability company

Note:

- (1) As such PRC Operating Entity does not engage in the business of K-12 after-school education services, it is not applicable for such PRC Operating Entity to register as a for-profit or to obtain the private school operation permit.

Our Directors undertake that once the competent local authorities in regions where we operate other than Guangzhou, Dongguan, Nanning and Shanghai begin to accept applications for private school operation permits, we will promptly prepare the application documents and satisfy the application requirements for obtaining the private school operation permits. For the risk that we may not be able to obtain private school operation permits, see “Risk Factors — Risks Relating to our Business and Our Industry — We may not be able to obtain or maintain all necessary approvals, licenses and permits and to make all necessary registrations and filings for our education services in the PRC.”

We are closely monitoring the development of the regulatory environment in the locations where we operate. Pursuant to the PRC Income Tax Law and the relevant regulations, the companies of our Group which operate in the PRC are subject to Enterprise Income Tax (“EIT”) at a rate of 25% on their taxable income and some of our subsidiaries enjoyed preferential tax treatments, such as preferential tax treatments for small and micro-sized business and/or software business during the Track Record Period. Our Company confirms that for private non-enterprise units, it is also subject to EIT at a rate of 25%, which is the same as the tax rate as provided under the EIT. Given that the Amended Law for Promoting Private Education does not provide any revisions on the EIT or other regulations and rules related to the taxable income and tax treatments of our subsidiaries that are profit-generating, we believe the Amended Law for Promoting Private Education has no impact on our Group’s business operations and tax implications. For the risks arising from the uncertainties involving new regulatory regime under the Amended Law for Promoting Private Education and the detailed measures promulgated or to be promulgated by the local education authorities, see “Risk Factors — Risks Relating to Our Business and Our Industry — New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects.”

Circular 3 and the Guangdong Plan

Overview

Circular 3 was promulgated on February 13, 2018 which prohibits, among others, the following activities: (1) extracurricular private training schools and institutions providing courses that do not follow the formal school curricula, and providing trainings to strengthen testing abilities for students; (2) extracurricular private training schools and institutions organizing after-school examinations and competitions for primary and middle school students; or any activities linking students’ performance in extracurricular private training schools with admission of primary and middle schools; and (3) teachers in primary and middle schools from engaging in part-time jobs to provide tutoring services in after-school education institutions.

Further, under Circular 3, the education departments at county level are required to publish a “White List” listing the after-school education institutions without any misconduct, and a “Black List” listing the after-school education institutions with safety risks, misconduct or without qualification.

On April 12, 2018, the Plan on Special Enforcement Campaign concerning After-school Education Institutions to Alleviate Extracurricular Burden on Students of Primary Schools and Middle Schools (《廣東省教育廳等五部門關於切實減輕中小學生課外負擔開展校外培訓機構專項治理方案》, the “Guangdong Plan”) was promulgated to stipulate detailed implementation requirements to enforce Circular 3 within Guangdong province.

I. Our Group’s activities are not in violation of Circular 3 and the Guangdong Plan

Our Group’s business of K-12 after-school education services is subject to and is not prohibited under Circular 3 and the Guangdong Plan, and our Group does not violate the requirements under Circular 3 and the Guangdong Plan based on the following:

- 1. The services and products provided by our Group do not consist of any courses that do not follow the formal school curricula or aim to strengthen testing abilities for students.*

The services and products provided by our Group include the Premium Learning Program, Elite Talent Program and Full-time Test Preparation Program.

Premium Learning Program and Elite Talent Program

The Premium Learning Program is designed to enhance the learning ability and academic performance of students in all core academic courses in primary, middle and high school, such as Chinese, English, mathematics, physics and chemistry. The Elite Talent Program is designed to nurture the all-round development of students in the respective stages of pre-school, primary and secondary school, in which our Group actively develops all proprietary education products to get the students more involved and to make the learning process more engaging and enjoyable. The main products of the Elite Talent Program include Arts of Skillful Questioning (巧問教育), Young Learners English (少兒英語) and Zhuoyue Macro-Chinese (卓越大語文).

Neither the Premium Learning Program or the Elite Talent Program is in violation of Circular 3 and the Guangdong Plan for the following reasons:

- (1) in respect of teaching approach and schedule: the contents taught in these programs are similar to those in regular schools in the PRC. According to our Directors, our Group does not provide any courses that do not follow the formal school curricula. The courses provided in these two programs are a supplement, review and integration on top of the teaching contents of the regular schools in the PRC. The teaching contents of these programs emphasize the development of students’ independent thinking ability and analytical ability in order to help students to cultivate good self-learning habits and learning abilities, and to stimulate students’ interest in learning;

- (2) in respect of the mode of teaching: the mode of teaching in these programs focuses on getting the students more involved and making the learning process more engaging and enjoyable, hence stimulating students' interest in learning;
- (3) in respect of teaching materials: most of the teaching materials used in these two programs are developed by our research and development team, based on the official teaching curricula used by regular schools in the PRC. The teaching materials of our Group focus on developing independent thinking ability and analytical ability, and stimulating students' interest in learning;
- (4) in respect of teaching goal: the goal of the programs is to help students gain a better understanding of the curricula provided in schools. These programs also aim at helping students to develop their independent thinking ability, analytical ability, and good self-learning habits, and stimulate students' interest in learning. Instead of strengthening testing abilities for students, these programs aim at helping students to have a better grasp of the curricula in schools and improve their learning by using their independent thinking and analytical abilities.

Full-time Test Preparation Program

The Full-time Test Preparation Program is designed to help middle school and high school graduates achieve admission to their preferred schools through Zhongkao and Gaokao. Our Group also aims at helping students who have finished their middle school or high school (as applicable) to retake such examinations and who aim to enter their ideal high school or university after having completed our Full-time Test Preparation Program.

The Full-time Test Preparation Program focuses on students who have already completed their courses in middle school or high school and plan to participate in Zhongkao or Gaokao. According to our Directors, the courses provided in this program helps students review the contents taught in regular schools in the PRC and prepare for Zhongkao or Gaokao. The Full-time Test Preparation Program does not violate Circular 3 and the Guangdong Plan.

Based on the above, our Directors are of the view that the services and products provided by our Group do not consist of any courses that do not follow the formal school curricula, or strengthen testing abilities for students.

BUSINESS

2. *The education centers of our Group are not listed on the “Black List” published by competent education authorities, and some of our Group’s education centers have been listed on the “White List.”*

For enforcement of Circular 3 and the Guangdong Plan, the competent education authorities in certain areas of Guangdong have recently carried out inspections on the after-school education institutions within their jurisdiction as required by Circular 3 and the Guangdong Plan. Based on their inspections, some competent authorities in certain districts of Guangzhou and Dongguan have published a “Black List,” which list after-school education institutions with safety risks, misconduct or without qualification, and/or a “White List,” which list after-school education institutions without any misconduct in accordance with Circular 3 and the Guangdong Plan. The competent local authorities have conducted on-site inspections on six of our PRC Operating Entities and none of such PRC Operating Entities had been listed on the “Black List.” The dates of inspection on these PRC Operating Entities by the competent local authorities are set forth in the following chart.

PRC Operating Entities	Date of Inspection
Foshan Nanhai Xinzhuoyue Education and Training Center (佛山市南海區新卓越教育培訓中心)	July 2018
Dongguan Guancheng Beststudy Training Center (東莞市莞城卓越培訓中心)	May 11, 2018
Dongguan Dongcheng Xinshijie Training Center Co., Ltd. (東莞市東城新世界卓越培訓中心有限公司) (formerly known as “Dongguan Dongcheng Beststudy Second Training Center (東莞市東城卓越第二培訓中心)”))	May 11, 2018
Zhuhai Chuangsi Language Training School (珠海創思語言培訓學校)	May 25, 2018
Shenzhen Beststudy Education and Training Center (深圳市卓越教育培訓中心)	March 12, 2018
Shenzhen Wandie Education and Training Center (深圳萬蝶教育培訓中心)	March 12, 2018

In addition, all of our 38 other PRC Operating Entities located in Guangdong have not been listed on the “Black List” and our following PRC Operating Entities have been listed on the “White List”: (1) Foshan Nanhai Xinzhuoyue Education and Training Center (佛山市南海區新卓越教育培訓中心); (2) Dongguan Guancheng Beststudy Training Center (東莞市莞城卓越培訓中心); (3) Dongguan Dongcheng Xinshijie Training Center Co., Ltd. (東莞市東城新世界卓越培訓中心有限公司) (formerly known as Dongguan Dongcheng Beststudy Second Training Center (東莞市東城卓越第二培訓中心)); (4) Zhuhai Chuangsi Language Training

School (珠海創思語言培訓學校); (5) Guangzhou Haizhu Beststudy Education and Training Center (廣州市海珠區卓越教育培訓中心); (6) Guangzhou Baiyun Beststudy Education and Training School (廣州市白雲區卓越教育培訓學校); (7) Guangzhou Huadu Beststudy Education and Training Center (廣州市花都區卓越教育培訓中心); (8) Guangzhou Panyu Learning Frontline Education and Training Center (廣州市番禺區學習前線教育培訓中心); (9) Guangzhou Huangpu Beststudy Education and Training Center (廣州市黃埔區卓越教育培訓中心); (10) Guangzhou Zengcheng Beststudy Education and Training Center (廣州市增城區卓越教育培訓中心); and (11) Guangzhou Beststudy Education and Training Center (廣州卓越教育培訓中心).

Moreover, as we generated substantially all of our revenue from education centers located in Guangdong during the Track Record Period, we consulted the policies and regulations division of the Education Department of Guangdong Province (廣東省教育廳) with the assistance of our PRC legal advisers. We were advised by the Education Department of Guangdong Province that our Group was well-regulated and they did not find any violation of Circular 3 and the Guangdong Plan by our Group in material aspects. We were further advised that our Group is among the most well-regulated education institutions in Guangdong that were invited to the consultation conferences by the Ministry of Education and the Education Department of Guangdong Province for formulating the relevant regulatory rules. In addition, we consulted the education bureau of Shanghai Yangpu District, the education bureau of Beijing Haidian District, Beijing Changping District and Guangxi Province Nanning Qingxiu District, and we were advised by these education authorities that they are not aware of any operation of our Group in violation of Circular 3 in any material aspects. Our PRC legal advisers confirm that these education authorities are the competent authorities and are competent to provide the above confirmations.

In summary, our Directors are of the view that our Group's K-12 after-school education services are not prohibited by Circular 3 and are subject to Circular 3 and the Guangdong Plan to the extent that the Company shall not engage in any non-compliance activities prohibited. As advised by our PRC legal advisers, as of June 30, 2018, no violation of Circular 3 and the Guangdong Plan in material aspects by our Group has been found.

II. The promulgation and enforcement of Circular 3 and the Guangdong Plan will not have a material adverse effect on our Group's business, financial condition and results of operations.

As mentioned above, our Group has committed to enhancing students' interest in learning and learning ability by its tailor-made curricula, experienced teaching staff and services which are in compliance with Circular 3 and the Guangdong Plan. Therefore, our Directors believe that the promulgation and enforcement of Circular 3 and the Guangdong Plan will not have a material adverse effect on our Group's business, financial condition and results of operations. None of the education centers of our Group has been involved in the investigation for any violation of Circular 3 or the Guangdong Plan as a result of random inspections by competent

authorities. As of June 30, 2018, our Directors confirmed that the business of our Group were operated in the ordinary course, and none of the education centers of our Group was required to cease operation or was subject to any fine or penalty for contravention of Circular 3 or the Guangdong Plan.

Our Group's business, financial condition and results of operations did not demonstrate any decline or reduction since the promulgation of Circular 3 and the Guangdong Plan. In addition, the number of students enrolled in our Group's after-school education services and the revenue generated in the first six months of 2018 have increased as compared with the first six months of 2017.

Based on the above, our Directors believe that the promulgation and enforcement of Circular 3 and the Guangdong Plan will not have a material adverse effect on the business, financial condition and results of operations of our Group. On the contrary, our Directors believe our Group's competitive advantage will be further enhanced while the illegal after-school education institutions and their behaviors are being rectified under Circular 3 and the Guangdong Plan.

III. Our Group has not conducted any survey or obtained any statistics on whether its students use or to what extent they rely on the scores of examinations they took in our Group's after-school programs for admission to their preferred schools during the Track Record Period and our Group does not expect that there will be a material decrease in the demand of its after-school education services after the promulgation of Circular 3 and the Guangdong Plan.

Although our Group believes that after-school tutoring services benefit students and assist them to enter their preferred schools, it has not conducted any survey or obtained any statistics on whether our Group's students use or to what extent they rely on the scores of examinations they took in our Group's after-school programs for admission to their preferred schools during the Track Record Period.

As our Group's after-school tutoring service programs and systems target to improve the students' general studying and learning abilities, rather than a short-term intensive training to improve the scores of the students, our Directors do not expect that there will be a material decrease in the demand for the after-school education services of our Group after the promulgation of Circular 3 and the Guangdong Plan.

The State Council Opinions 80

Overview

On August 22, 2018, the General Office of the State Council (國務院辦公廳) issued the State Council Opinions 80 which provided various guidance on regulating after-school training market for primary and secondary school students. Among others, consistent with Circular 3, the State Council Opinions 80 prohibit intensive exam-oriented training, advanced training that

do not follow the formal school curricula, and any arrangement that correlates students' examination performance in after-school education institutions to admission into primary and secondary schools. See “— Circular 3 and the Guangdong Plan.”

Impact on Our Business

Among the three types of education programs we provide, the Full-time Test Preparation Program provides full-time test preparation courses for middle school and high school graduates who intend to take Zhongkao and Gaokao, and thus does not fall under the State Council Opinions 80. As advised by our PRC legal advisers, the Premium Learning Program and the Elite Talent Program, on the other hand, fall under the State Council Opinions 80 as they target primary and secondary school students attending after-school training programs. The Premium Learning Program is delivered through small group tutoring and individualized tutoring, focusing on sparking out students' intellectual curiosity, improving their learning habits and enhancing their learning capabilities. The Elite Talent Program aims to foster the all-round development of the students, cultivate students' interest in learning and improve their overall learning experience. See “Our Education Services and Products.” None of these two programs involves any intensive exam-oriented training, advanced training beyond the national curriculum standards, or arrangements that correlate students' examination performance in after-school education institutions to admission into primary and secondary schools as prohibited by the State Council Opinions 80 and Circular 3. See also “— Circular 3 and the Guangdong Plan” for an analysis of our compliance with Circular 3 in this respect.

Based on our self-review, our Directors are of the view that we have already complied with the State Council Opinions 80 in material aspects in relation to the operation of after-school education institutions and has been taking measures to ensure strict compliance with the State Council Opinions 80. Furthermore, as we generated substantially all of our revenue from education centers located in Guangdong during the Track Record Period, accompanied by our PRC legal advisers, we consulted with the policies and regulations division of the Education Department of Guangdong Province (廣東省教育廳法規處). We were advised, among others, that (1) the local governments at municipality and county level will issue additional detailed guidance and implementing rules on supervising the after-school education institutions in accordance with the State Council Opinions 80 and the after-school education institutions are required to comply with the State Council Opinions 80 and these detailed guidance and implementing rules; (2) the after-school education institutions are allowed to rectify those aspects not in compliance with the State Council Opinions 80 within a certain period, which generally ends at the time of annual inspection in the subsequent year and the after-school education institutions will not be subject to any penalty during such period; (3) the State Council Opinions 80 will not cause material adverse effect to us should we operate in accordance with these opinions and the relevant detailed guidance and implementing rules; and (4) our Group was well-regulated and they did not find any violation of the State Council Opinions 80 by our Group in material aspects. In addition, we consulted the education bureau of Shanghai Yangpu District, the education bureau of Beijing Haidian District, Beijing Changping District and Guangxi Province Nanning Qingxiu District, and we were advised, by these education authorities that they are not aware of any operation of our

Group in violation of the State Council Opinions 80 in any material aspects. Our PRC legal advisers confirm that these education authorities are the competent authorities and the aforesaid authorities are competent to provide the above confirmation.

Based on our self-review and our consultation with the competent authorities mentioned above, our Directors are of the view that our business, financial condition and results of operations, taken as a whole, will not be materially and adversely affected by the State Council Opinions 80 in the long term. Based on (1) the confirmation provided by the policies and regulations division of the Education Department of Guangdong Province and other relevant education authorities, (2) our PRC legal advisers' review of our education center rules, course schedules and syllabi and other relevant materials, (3) our PRC legal advisers' search on the relevant government authorities' website, and (4) our PRC legal advisers' on-site visits to our education centers and inquiries with our management, teachers and students, our PRC legal advisers are of the view that (1) our Group's business operations are in compliance with the State Council Opinions 80 in material aspects; (2) the risk that our Group may be subject to the material administrative penalties under the State Council Opinions 80 is low; and (3) our Group will not be subject to material administrative penalties under the enforcement of the State Opinions 80 and their implementing rules, which may cause material adverse effect on our Group's business operations when our Group continues taking actions to comply with the State Council Opinions 80 and their implementing rules. However, uncertainties still exist as the State Council Opinions 80 only set out general guidance on regulating after-school education institutions targeting primary and secondary school students; there are potential conflicts between the State Council Opinions 80 and previously published government policies which requires further interpretation and clarification; and competent authorities may set more specific and stringent operation requirements under the State Council Opinions 80. See "Risk Factors — Risks Relating to Our Business and Our Industry — Uncertainties exist in relation to the State Council Opinions 80, which may materially and adversely affect our business, financial condition, and results of operations."

Circular 10

Overview

On November 20, 2018, the General Office of the MOE (中華人民共和國教育部辦公廳), the General Office of the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局辦公廳) and the General Office of the Ministry of Emergency Management of the PRC (中華人民共和國應急管理部辦公廳) jointly issued the Notice on Improving the Specific Governance and Rectification Mechanisms of After-school Education Institutions (《關於健全校外培訓機構專項治理整改若干工作機制的通知》, "Circular 10"), which provides specific requirements for the local people's governments at all levels in the implementation of the State Council Opinions 80.

Impact on Our Business

Circular 10 provides, among other things, that (1) the local education authorities shall accelerate the approval process of the private school operation permits and, in particular, grant as soon as possible such permits to those after-school education institutions that meet the applicable establishment standards; (2) the after-school education institutions that fail to meet the applicable establishment standards shall suspend operation pending ratification; and (3) the after-school education institutions without valid private school operation permits and business licenses shall cease operation by the end of 2018. Our 13 PRC Operating Entities in the form of limited liability companies did not obtain private school operation permits as of the Latest Practicable Date and are in the process of preparation for the application of such permits. See “Risk Factors — Risks Relating to Our Business and Our Industry — We may not be able to obtain or maintain all necessary approvals, licenses and permits and to make all necessary registrations and filings for our education services in the PRC.”

Upon the issuance of Circular 10, with the assistance of our PRC legal advisers, we consulted the Education Department of Guangdong Province, being the competent authority as advised by our PRC legal advisers, and were advised that (1) Circular 10 is released in response to the questions raised by the relevant local authorities and the after-school education institutions during the implementation of the State Council Opinions 80; (2) Circular 10 is a document setting out implementing rules consistent with the principles already provided under the existing rules; (3) the local education authorities will accelerate the approval process of private school operation permits according to Circular 10; (4) there is no obstacle for our Group to obtain the private school operation permits; (5) the education authorities will allow our Group to continue to operate after the end of 2018 so long as the Group has obtained business licenses and has filed the application for the private school operation permits promptly under the local regulations and guidance of the competent authorities; (6) we will not be subject to administrative penalty if we file the application for such permits promptly; and (7) Circular 10 has no material adverse impact on our Group. Our PRC legal advisers also consulted the education authorities in Guangxi Province, Beijing and Shanghai, respectively, being the competent authorities as advised by our PRC legal advisers, and were advised that the local policies in respect of Circular 10 are generally in line with those applicable in Guangdong Province as set forth above.

Our 13 PRC Operating Entities in the form of limited liability companies were incorporated in Guangdong Province (including the regions of Guangzhou, Shenzhen, Dongguan, Zhongshan, Zhuhai, Huizhou and Foshan), Nanning City of Guangxi Province and Beijing, in which three PRC Operating Entities in Guangzhou, Zhongshan and Zhuhai have filed their applications for private school operation permits, one PRC Operating Entity in Guangzhou is in the process of preparing the application documents, while the other nine PRC Operating Entities in other regions have not filed their applications for such permits as the relevant competent authorities in these regions have not issued guidelines or measures regarding the application for private school operation permits for existing after-school education institutions in the form of limited liability and therefore have not commenced to accept such applications. Our Directors undertake that we will prepare and submit the

application documents necessary to satisfy the application requirements for obtaining the private school operation permits according to the local rules and guidance of the competent authorities in Guangzhou and will prepare and submit the application documents in other regions as soon as the relevant competent local authorities start accepting applications for private school operation permits.

In addition, Circular 10 provides that (1) the local education authorities shall formulate measures and organize the expert teams to assess whether the courses provided by after-school education institutions follow the formal school curricula; (2) the departments of education at county levels shall as soon as possible complete their work on registration and approval of after-school training courses such as their names, contents, target students, syllabi, and schedules; and (3) no students shall be enrolled before completion of such registration and approval. During our consultation with the Education Departments of Guangdong Province, Guangxi Province, Beijing and Shanghai, we were advised that (1) the local competent authorities may issue the specific measures for such registration and approval in accordance with Circular 10; and (2) before the issuance of the relevant specific measures, the after-school education institutions can continue their operation according to the current effective laws and regulations. Our Directors undertake that we will take necessary measures to comply with the requirements of local competent authorities once such relevant specific measures are issued.

Moreover, Circular 10 provides that the online after-school education institutions shall file the information of their courses, such as names, contents, target students, syllabi and schedules with the provincial education departments and shall publish the name, photo, class schedule and certificate number of the teacher qualification of each teacher on their websites. During our consultation with the Education Departments of Guangdong Province, Guangxi Province, Beijing and Shanghai, we were advised that there are currently no specific measures issued for online after-school tutoring service. Our Directors undertake that we will take necessary measures to comply with the requirements of local competent authorities once the relevant specific measures are issued.

Given that Circular 10 is a document setting out implementing rules consistent with the principles already provided under the State Council Opinions 80 and we are in the process of preparing or submitting the application, or being examined by the competent authorities, for approval of the private school operation permits, our Directors are of the view that the issuance and implementation of Circular 10 will not have any material adverse impact on our business. See “— New Education Regulations — The State Council Opinions 80,” “Risk Factors — Risks Relating to Our Business and Our Industry — Uncertainties exist in relation to the State Council Opinions 80, which may materially and adversely affect our business, financial condition, and results of operations” and “Risk Factors — Risks Relating to Our Business and Our Industry — We may not be able to obtain or maintain all necessary approvals, licenses and permits and to make all necessary registrations and filings for our education services in the PRC” for details.

The Opinions on the Development of the Pre-school Education

Overview

On November 15, 2018, the Xinhua News Agency published Certain Opinions of the Central Committee of the Communist Party of China and the State Council on Strengthening the Reform of, and Regulating the Development of, the Pre-school Education (《中共中央國務院關於學前教育深化改革規範發展的若干意見》, the “Opinions on the Development of the Pre-school Education”), which provide guidance, among other things, on (i) widening the coverage of the pre-school education, (ii) improving the qualification and training of kindergarten teachers, (iii) providing comprehensive facilities and resources to kindergartens, (iv) strengthening the subsidy system for pre-school education, (v) ensuring sufficient teachers and medical officers available in kindergartens, and (vi) tightening the management and operation of kindergartens. The Opinions on the Development of the Pre-school Education also disallow private kindergartens to be listed or listed companies to invest in or acquire any for-profit kindergartens.

Impact on Our Business

Our Group does not engage in kindergarten education. Our “Arts of Skillful Questioning,” a course offered under our Elite Talent Program, prepares kindergarten students for their transition to primary schools by helping them develop disciplined and sustainable learning habits and abilities, which is different from kindergarten education. See “— Our Education Services and Products — Elite Talent Program — Arts of Skillful Questioning” and “Relationship with the Controlling Shareholders — Information on Other Companies Owned by Our Controlling Shareholders” for details on our “Arts of Skillful Questioning” course.

Our PRC legal advisers consulted with the relevant competent education authorities in Guangzhou, Beijing and Shenzhen where we derived the majority of our revenue from provision of our “Arts of Skillful Questioning” course on November 19 and 22, 2018, and were informed that our “Arts of Skillful Questioning” course which prepares kindergarten students for their transition from kindergartens to primary schools shall not be categorized as the operation of kindergarten education under the Opinions on the Development of the Pre-school Education. Our PRC legal advisers are of the view that, as our Group does not operate any kindergarten, the provisions governing operations of kindergartens in the Opinions on the Development of Pre-school Education are not applicable to our Group, and thus would not have any material adverse effect on our business operations. As such, our Directors are of the view that the business of our Group is not restricted by the Opinions on the Development of the Pre-school Education and therefore the Opinions on the Development of the Pre-school Education would not have any material adverse effect on the business operations and financial performance of our Group. Nonetheless, in the case of any changes to the Opinions on the Development of the Pre-school Education or any promulgation of any future laws and regulations which may affect the business operations of our “Arts of Skillful Questioning” course, we undertake to strictly comply with such relevant laws and regulations.

LEGAL PROCEEDINGS AND COMPLIANCE**Legal Proceedings**

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

Non-compliance Incidents

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in China. During the Track Record Period and up to the Latest Practicable Date, we did not commit any material non-compliance of the PRC laws and regulations and, save for otherwise disclosed in this prospectus, we did not experience any systemic non-compliance incident, which taken as a whole, in the opinion of our Directors, is likely to materially and adversely affect our business, financial condition or results of operations. As advised by our PRC legal advisers, during the Track Record Period and up to the Latest Practicable Date, save as set out below, we complied with the relevant laws and regulations in all material respects.

Lack of Complete License for Online Service Offerings***Non-compliance incidents***

During the Track Record Period, we provided paid online courses through *zycourse.com* operated by Guangzhou Zhuoyue Tutoring Center, one-on-one online live courses through Niu Shi Bang operated by Beijing Niu Shi Bang Education Technology Co. Ltd., and pre-taped broadcasts through Feng Bei app operated by Guangzhou Feng Bei Internet Technology Co. Ltd. The three platforms operated their business without ICP Licenses. Further, as advised by our PRC legal advisers, considering that the education products and services provided by aforementioned three platforms are accessible to all registered users for a fee, such activities may be deemed to fall within the scope of online publishing as we allow anyone to register with our websites or mobile applications and gain access to our tutoring videos and course materials, which may require the Online Publishing Service License that we did not have during the Track Record Period. Our non-compliance was primarily due to the lack of understanding and different interpretation about relevant regulations. The revenue generated from the three platforms in 2015, 2016 and 2017 and the six months ended June 30, 2018 was approximately RMB0.5 million, RMB1.4 million, RMB3.0 million and RMB2.4 million, respectively.

Potential legal consequences

According to relevant laws and regulations, lack of the ICP License may result in order to rectify, confiscation of gains from non-compliant operation, and a fine of three to five times of the illegal income if such income exceeds RMB50,000 or a fine ranging from RMB100,000 to RMB1,000,000 if such illegal income is less than RMB50,000. In serious circumstances, we may also be subject to order to suspend operation.

According to relevant laws and regulations, lack of the Online Publishing Service License may result in termination of business, shutdown of website, deletion of all online publications, confiscation of illegal income and the equipment used in illegal activities, and a fine of five to ten times of the illegal income if such income exceeds RMB10,000 or a fine less than RMB50,000 if such income is less than RMB10,000. As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our lack of the ICP License or the Online Publishing Service License.

In addition, our PRC legal advisers consulted with the Guangdong Communication Administration and Beijing Communication Administration, both of which, being the competent authorities as advised by our PRC legal advisers to provide such confirmation in respect of matters relating to the ICP License, explicitly confirmed that no administrative action will be proactively imposed on our Company for our historical operation without the ICP License so long as we would apply for and obtain the ICP License later or cease such operation.

Our PRC legal advisers also consulted with the Administration of Press, Publication, Radio, Film and Television of Guangdong Province and the Beijing municipal bureau of Press, Publication, Radio, Film and Television, both of which are the competent authorities as advised by the PRC legal advisers to provide such confirmation in respect of the matters relating to the Online Publishing Service License. These government authorities did not advise us as to whether our provision of educational content through our online platforms is required to obtain an Online Publishing Service License as the relevant laws and regulations are broad and vague in regard of the scope of the online publication. Therefore, our PRC legal advisers are of the view that it remains substantially uncertain as to whether our provision of course materials through online platform will be defined as online publishing that requires Online Publishing Services License.

Given that our online courses provided by our online platforms were launched in recent years and only generated relatively small amount of revenue and based on the foregoing, our Directors, as advised by our PRC legal advisers, are of the view that the risk that we may be subject to material administrative penalties due to the lack of the ICP License and the Online Publishing Service License is relatively low.

Rectifications

We proactively optimized our online tutoring services in light of the complex regulatory regime. Niu Shi Bang, *zycourse.com* and Feng Bei app have transferred their online service offerings to Guangzhou Gaofen Network Technology Co., Ltd., a PRC Operating Entity holding an ICP License with a validity period from September 30, 2017 to September 30, 2022. On June 22, 2018, we entered into a cooperation agreement with a publishing company in possession of a valid Online Publishing Service License. Under the proposed cooperation, the publishing of our online tutoring courses and materials will be operated under the licenses held by the publishing company, and we will no longer be required to obtain such license.

Internal control measures

We have adopted the following internal control measures to prevent reoccurrence of such non-compliance:

- we have designated the compliance department in our Company to monitor our ongoing compliance with the relevant PRC laws and regulations regarding operation licenses; and
- we will obtain all relevant approvals and licenses before commencing operation of new business, if any.

Social Insurance

Non-compliance incidents

During the Track Record Period and up to the Latest Practicable Date, we did not make adequate social insurance contributions for certain employees based on their actual salary level as prescribed by the relevant laws and regulations. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our total salary compensation (which represents our total staff costs minus employee welfare, social insurance and housing provident fund contributions) amounted to RMB332.3 million, RMB419.1 million, RMB559.1 million and RMB350.6 million, respectively, and the total social insurance contributions we paid amounted to RMB28.6 million, RMB34.4 million, RMB43.8 million and RMB25.3 million, respectively, for the same period. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, the ratio of social insurance contribution we paid as a percentage of our total salary compensation was approximately 8.6%, 8.2%, 7.8% and 7.2%, respectively, which is different from the statutory ratio of 20 to 30%. We made the social insurance contributions based on the individual base salary of our employees. Such non-compliance incident occurred primarily due to the lack of comprehensive understanding of the relevant local regulations by our human resources management personnel and the lack of communication with the relevant authorities with regard to specific local practice.

Potential legal consequences

As advised by our PRC legal advisers, if an employer does not make full social insurance contributions for its employees, such employer may be ordered to make full contributions within a prescribed time. If any of the relevant social insurance authorities is of the view that the social insurance contributions we made for our employees do not comply with the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding balance within a prescribed time period plus a daily late payment of 0.05% of the total outstanding balance. If we fail to do so within the prescribed period as requested by the relevant social insurance authorities, we may be subject to a fine ranging between one to three times of the total outstanding balance.

Rectifications

As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance contributions, nor had we received any order to settle the outstanding amount of such contributions.

On September 18, 2018, the general meeting of the State Council announced that the policies for social insurance shall remain unchanged until the reform has been completed for the transfer of the authority for social insurance from the Ministry of Human Resources and Social Security to the State Administration of Taxation on January 1, 2019. On September 21, 2018, the Ministry of Human Resources and Social Security released an Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilization the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) and required that the policies for both the rate and basis of social insurance contributions shall remain unchanged until the reform on the transfer of the authority for social insurance has been completed. On November 16, 2018, the State Administration of Taxation released the Notice of Certain Measures on Further Supporting and Serving the Development of Private Economy (《關於實施進一步支援和服務民營經濟發展若干措施的通知》), which provide that the policy for social insurance shall remain stable and the State Administration of Taxation will pursue to lower the social insurance contribution rates with the relevant authorities, and ensure the overall burden of social insurance contribution on enterprises will be lowered.

Given that such notices issued by the aforementioned government authorities are relatively new, we have not made any enquiries with local tax authorities with respect to our social insurance contributions. As of the Latest Practicable Date, we did not experience any significant disagreement with the relevant social insurance authorities, nor did we receive any enquiries from any local tax authorities regarding our social insurance contributions.

Since July 2018, we have started to implement our policy on the payment of social insurance contributions in compliance with the relevant PRC laws and regulations. Despite our effort, we were unable to make full social insurance contributions for our certain employees as

of the Latest Practical Date because some employees were reluctant to make full social insurance contributions calculated according to their actual salary as such full social insurance contributions would have imposed heavier financial burden on them.

We have obtained confirmations from the relevant local competent authorities in charge of social insurance contributions of our major education centers that contribute a significant portion of our revenue, which authorities confirmed that they did not find any material violation of laws and regulations by our education centers in terms of social insurance registration and contributions. We also consulted the local social insurance management center that has supervision authority over Guangzhou Beststudy with the assistance of our PRC legal advisers, who confirmed that they would not impose penalty for making inadequate contributions to the social insurance plan based on the relatively low salary level of our employees. We undertake that, in the event that the competent social insurance authorities require us to make full social insurance contributions within a stipulated time period or make supplemental social insurance contributions and overdue fine, we would comply in a timely manner. Based on the foregoing, our PRC legal advisers are of the view that (1) the authorities from which we obtained the confirmations are the competent authorities to provide their confirmations; and (2) if the social insurance contribution policy we acknowledged during our consultation would remain unchanged and no conflicting local policy would be applied, the risk that we may be subject to supplemental payment of a substantial proportion of the shortfall amounts on social insurance contributions and the material administrative penalties in this respect is low.

We have, however, made provisions based on our best estimation for the social insurance payments of approximately RMB0.4 million, RMB2.9 million, RMB2.9 million and RMB1.5 million for the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively, so that we will be able to meet the competent authorities' request for payments in the unlikely event that any of them requests so. For the aforesaid reasons, our Directors are of the view that the payment of the shortfall amounts and potential financial penalties would not have a material adverse impact on our business operations and financial condition as a whole.

Internal control measures

We have adopted the following internal control measures to prevent reoccurrence of such non-compliance:

- we have reviewed our internal control policy and designated the head of human resources department to closely monitor our ongoing compliance with social insurance contribution regulations and oversee the implementation of any necessary measures; and

- as an annual compliance measure following the Listing, we will continue to communicate with our employees with regard to the employee social insurance plans, and contribute to the employee social insurance plans consistent with the standards stipulated under the applicable PRC laws and regulations.

Lack of Fire Safety Filings

Non-compliance incidents

According to the relevant PRC laws and regulations, premises of tutoring institutions and their tutoring branches must complete a fire safety filing with the competent fire safety authorities unless the investment amount of such construction work is less than RMB300,000 or the gross floor area is less than 300 sq.m. For the premises of tutoring institutions and their tutoring branches that are recognized as indoor children activity areas with the size of gross floor area that is over 1,000 sq.m., such premises shall obtain fire design approval before commencing the construction and pass fire safety inspection before completing the fire safety filing. Pursuant to the Guangdong Standards, if the sponsor leases the premises not originally used for school to operate private tutoring institutions, such premises should meet the fire safety requirements prescribed by the PRC laws and regulations and should obtain corresponding fire safety certification materials.

Our education centers are all located on properties leased from third parties. As of the Latest Practicable Date, 16 of these properties have not completed the fire safety filing with the fire safety authorities. Among the 16 properties,

- (i) we have already obtained the fire safety design approval from the competent fire safety authorities for two properties; and
- (ii) we have not been able to fill the application for relevant fire safety design approvals for the remaining 14 properties, which are 10,312.75 sq.m. in total and are 4.61% of our leased properties. The revenue generated by these 14 properties in 2015, 2016 and 2017 and the six months ended June 30, 2018 was approximately RMB33.3 million, RMB41.9 million, RMB62.2 million and RMB39.5 million, respectively. Such non-compliance incidents occurred primarily because (1) some of our lessors have not made the requisite fire safety design approval when we entered into the lease agreements; and (2) we failed to subsequently follow up with the incomplete fire safety filing procedures for all the original property design or all our own decoration work, due to employee oversight and the nature of such properties.

Potential legal consequences

According to relevant PRC laws, failure to obtain a fire safety design approval before commencing the construction shall be subject to: (1) orders to suspend the construction of projects, use of such projects or operation of relevant business; and (2) a fine of between RMB30,000 and RMB300,000. Failure to complete a fire safety filing shall be subject to: (1)

orders to make rectifications within a specified time limit; and (2) a fine of not more than RMB5,000. Pursuant to the Guangdong Measures and Guangdong Standards, if the leased premises are not originally used for school operations, such premises should meet the fire safety requirements prescribed by the PRC laws and regulations and shall obtain corresponding fire safety certification materials. Failure to meet such requirements may adversely affect the application and renewal of school operating permits for the education centers located in the affected properties. However, the relevant laws and rules are unclear as to whether our education centers where we provide tutoring services shall be defined as the indoor children activity areas, and thus we may need to obtain a fire safety design approval for education centers of which the gross floor area is over 1,000 sq.m. Therefore, our PRC legal advisers are of the view that we may face risks that some of our education centers will be recognized as indoor children activity areas by competent fire safety authorities and required to obtain fire safety design approvals.

Rectifications

We have engaged an independent third-party professional institute with qualification for fire safety checking and detecting, facility maintenance and inspection to inspect the above mentioned 16 properties. The institute has compiled a professional technical report and confirmed that such 16 properties (1) have established and implemented fire safety regulations, fire safety operating rules, and fire safety and emergency evacuation plans; (2) have installed fire safety device, equipment and fire safety signs in accordance with relevant requirements; (3) have met the construction fire protection requirements by rectifying hidden dangers according to the fire safety compliance requirements; (4) have experienced no fire safety accidents nor wrongful fire safety conducts; (5) have met fire safety compliance requirements suitable for tutoring purposes; and (6) with respect to the two properties under application, after reviewing our fire safety filing materials, there is no material obstacle to complete the fire safety filing if we file the application in accordance with the requirements of the relevant fire safety authorities. As advised by our PRC legal advisers, upon completion of the fire safety filing, we are in compliance with relevant fire safety regulations in all material aspects.

Based on the business scope and qualification of such third-party professional institute, being the competent business scope and qualification to render fire safety checking and inspection services, our PRC legal advisers are of the view that the third-party institute is competent and qualified to provide the above assurance. We have designated our internal compliance personnel to supervise and make the applications for the fire safety filings of the 16 properties. We will make best efforts to complete the fire safety filings for those properties.

We believe it is unlikely that we would be required to close or relocate a significant number of such education centers by competent authorities at the same time, considering that these properties are geographically dispersed. We maintain a pool of education center candidates and we believe we would be able to relocate to a different site easily without hampering our normal course of business.

Internal control measures

We have adopted the following internal control measures to prevent reoccurrence of such non-compliance:

- we will only lease properties for which (1) there is no title defect, (2) the intended purposes are consistent with our actual use of properties, and (3) the fire safety filing has been completed; and
- we have strengthened our corporate governance measures to ensure that we comply with relevant fire safety laws and regulations. For example, we have invited our PRC legal advisers to give our senior management trainings to enhance their understanding of the relevant PRC laws and regulations.

Views of our Directors and the Sole Sponsor

Our Directors are of the view that the occurrence of the aforementioned non-compliance incidents was principally due to the lack of knowledge of and familiarity with the applicable legal requirements rather than any material deficiencies in our internal control system. As part of the listing process, our Directors have undergone directors' training and have also engaged Hong Kong and PRC legal advisers to advise them on applicable legal or regulatory requirements. After considering the above rectification and improvement actions taken by our Company, and our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective for our current operation environment and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules. In addition, after making enquiries of our Directors and interviewing the internal control consultant of our Company regarding our internal control system, nothing has come to the Sole Sponsor's attention that our Company's enhanced internal control measures are inadequate and ineffective. In addition, we have obtained an indemnity from our Controlling Shareholders to indemnify our Group against any claims, fines and other liabilities arising from the aforementioned non-compliance incidents. Based on the above, the Sole Sponsor is of the view that these past non-compliance incidents do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

HEALTH, WORKPLACE SAFETY AND ENVIRONMENTAL MEASURES

We are mindful about the safety of our teachers and students at our education centers. We conduct periodical safety inspection and maintenance for our education centers. We did not experience any material incident of health or workplace safety on our premises during the Track Record Period and up to the Latest Practicable Date. For details on the lack of fire safety filings in relation to certain education centers, see “— Non-compliance Incidents — Lack of Fire Safety Filings.”

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As an education service provider, we do not believe we are subject to any significant environmental laws and regulations in China. As a result, we did not incur any significant environmental compliance costs during the Track Record Period and we expect our future annual costs in relation to environmental compliance to be nil or immaterial.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with applicable health, safety or environmental laws and regulations.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

We are exposed to various risks during our operation. Key operational risks faced by us include, among others, changes in general market conditions and perceptions of K-12 after-school education, changes in the regulatory environment in the PRC K-12 after-school education industry, our ability to offer quality education services to our students, our potential expansion into other regions in China, availability of financing to fund our expansions and business operations, and competition from other market players. For more details, see “Risk Factors.” In addition, we face numerous market risks, such as liquidity risk that arise in the normal course of our business. For details, see “Financial Information — Qualitative and Quantitative Disclosure about Market Risks.”

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

- our Board is responsible for and has the general power to manage the operations of our education centers, and is in charge of managing the overall risks of our Group. It is responsible for considering, reviewing and approving any significant business decision involving material risk exposures, such as our decision to optimize and diversify our service offerings and expand our geographic coverage; and
- we maintain insurance coverage, which we believe is in line with customary practice in the PRC education industry.

Internal Control

We have engaged an independent internal control consultant in May 2018 to conduct comprehensive review of our internal control mechanism, to identify deficiencies in our internal control systems and to make recommendations on enhanced internal control measures to be established by us to prevent future violations and ensure on-going compliance with applicable laws and regulations.

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After their initial review, the independent internal control consultant provided recommendations on the improvement of our internal control systems, and conducted a follow-up review in June 2018 of the internal control measures taken by us to address the findings of the internal control review process.

Based on the findings and recommendations identified by the independent internal control consultant, our Company has taken the remedial actions to address the findings of the internal control review process including controls in relation to property management, human resources management and compliance with laws and regulations. In view that (i) there being no material adverse impact of our Company's non-compliance incidents on our business, financial condition or results of operations, (ii) the internal control measures that our Company has adopted are based on the recommendations of the independent internal control consultant, and (iii) the independent internal control consultant has reviewed the measures we have taken to rectify the internal control deficiencies, our Directors consider that our Company's internal control measures are adequate and effective in all material respects. Based on the above, the Sole Sponsor is of the view that these past non-compliance incidents do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. See also “— Legal Proceedings and Compliance — Views of our Directors and the Sole Sponsor.”

We have designated responsible personnel in our Company to monitor the ongoing compliance by our Company and our education centers with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management, the principals and management of our education centers, and relevant employees with continuing training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.

In addition, we have adopted a set of internal rules and policies governing the conduct of our employees, including teachers and personnel performing other functions. We have established a monitoring system to implement anti-bribery and anti-corruption measures so as to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. For example, our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our audit committee reviews and approves our annual risk assessment results and policies. We have also identified certain forbidden conduct in our internal anti-bribery and anti-corruption policies, including, among others, the prohibition to acceptance of bribes or rebates, illegal use, embezzlement or misappropriation of our assets, and forgery or alteration of our accounting records.

We offer compulsory training courses to our new employees and continuing trainings to our existing employees to enhance their knowledge and awareness of the relevant rules and regulations. Moreover, we have instituted remedies and relevant economic and administrative

BUSINESS

punishment for those employees who are involved in corruption and bribery activities. During the Track Record Period, we were not aware of any corruption involving, or any other material misconduct committed by our employees.

In addition, we have appointed Central China International Capital Limited as our external compliance adviser with effect from the date of the Listing to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

During the Track Record Period, our Directors did not identify any material internal control weaknesses or failures.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou entered into a concert party confirmation dated on June 18, 2018 to confirm that they have acted in concert in the management, operation and all major decisions of our Group since they became shareholders of respective members of our Group and will continue to act in concert when they are all interested, directly or indirectly, in our Group. As of the Latest Practicable Date, Elite BVI, a company wholly owned by Mr. Junjing Tang, Texcellence BVI, a company wholly owned by Mr. Junying Tang, and Jameson Ying BVI, a company wholly owned by Mr. Gui Zhou, are entitled to exercise voting rights of approximately 69.96% of the total issued share capital of our Company. Immediately after completion of the RSU Allotment and the Global Offering, Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Elite BVI, Texcellence BVI and Jameson Ying BVI will beneficially own approximately 53.88% of the issued share capital of our Company assuming the Over-allotment Option is not exercised. Accordingly, Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Elite BVI, Texcellence BVI and Jameson Ying BVI are considered as our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates after the Global Offering.

Management Independence

Our Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors.

Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that his or her acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her 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 of our Company 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. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Operational Independence

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities. We have also established various internal controls procedures to facilitate the effective operation of our business.

Our Directors confirmed that our Group will not enter into any other transactions of similar nature with our connected persons and their associates after the Listing that will affect our operational independence. We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Our Group's accounting and finance functions are independent of our Controlling Shareholders. During the Track Record Period, our Controlling Shareholders did not provide any financial assistance, including amounts due to, and loans or guarantees to our Group. Our Directors confirm that as of the Latest Practicable Date, all financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders to our Group, were repaid or released or otherwise settled in full. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the Global Offering as we expect that our working capital will be funded from the Global Offering and cash flow from operations. Therefore, there is no financial dependence on our Controlling Shareholders.

INFORMATION ON OTHER COMPANIES OWNED BY OUR CONTROLLING SHAREHOLDERS

We are currently engaged in the provision of K-12 after-school education service. Other than our Controlling Shareholders' interest in our Group, Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou also hold indirect interests in two companies, namely Guangzhou Zhuoben Investment Management Co., Ltd. (廣州市卓本投資管理有限公司) ("Guangzhou Zhuoben") and Guangdong Zhuoyue Qiancheng Education Services Co., Ltd. (廣東卓越前程教育服務有限公司) ("Zhuoyue Qiancheng"), outside of our Group in the education industry which are engaged in, among others, the operation of and investment in kindergartens in PRC and the overseas study consultation, respectively. The net loss of Zhuoyue Qiancheng for the three years ended December 31, 2017 according to its unaudited PRC accounts was approximately RMB1.7 million, RMB1.6 million and RMB2.5 million, respectively. Guangzhou Zhuoben was established in 2016. The net loss of Guangzhou Zhuoben for the year ended December 31, 2017 according to its unaudited accounts was approximately RMB55,100.

These businesses are not included in our Group primarily because (i) being a K-12 after-school education service provider, we were not engaged in, and had no intention to engage in, the operation of kindergartens and overseas study consultation; and (ii) the operation of kindergartens and overseas study consultation involves resources and personnel

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

that are substantially different from K-12 after-school education service provision. Our Directors are of the view that the business activities of the operation of kindergartens and overseas study consultation are clearly delineated from those of our Group and there is no potential competition between (i) K-12 after-school education service and (ii) operation of kindergartens and overseas study consultation, on the basis that:

- (i) The business nature of our services is different from the kindergartens business provided by Guangzhou Zhuoben and addresses different market demands. We provide kindergarten-to-primary schools transition courses in our Art of Skillful Questioning Course, which targets students in the 4-8 age range with an intention to foster disciplined and sustainable learning habits and abilities, to prepare for their transition into primary schools. Our kindergarten-to-primary schools transition courses focus on education to prepare our students for primary school, while the kindergarten business of Guangzhou Zhuoben provides full-time child care services. In particular, most of our students attend our courses part-time as supplement to the traditional kindergarten education.
- (ii) The business nature of our K-12 after-school education service and overseas study consultation is different. The overseas study consultation services provide advice to students on preparation for overseas study applications and establishment of contacts with overseas educational institutions, while we primarily provide English learning courses for students to improve their academic performance.
- (iii) The management team of our Group is different from those of the operation of kindergartens and overseas study consultation in which Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou are indirectly interested in. Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou are not involved in the daily operations of kindergartens and overseas study consultation business.
- (iv) Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou have provided certain non-competition undertaking in favour of our Company, details of which are set out in the paragraph headed “— Deed of Non-competition” below.

During the Track Record Period, we did not have any business cooperation, such as business referrals, with Guangzhou Zhuoben and Zhuoyue Qiancheng, due to our differences in business nature, and we currently have no plan to commence business cooperation in any form with Guangzhou Zhuoben and Zhuoyue Qiancheng.

DEED OF NON-COMPETITION

On December 3, 2018, each of the Controlling Shareholders entered into the Deed of Non-competition in favor of our Company (for itself and as trustee for our Group), pursuant to which, among other things, each of the Controlling Shareholders jointly and severally, irrevocably and unconditionally undertakes to our Company (for itself and as trustee for our Group) that during the Restricted Period (as defined below) he/it will not, and will procure his

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

or its close associates (except any member of our Group) will not, (1) directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement, whether in the capacity of principal or agent, whether for his or its own benefit or jointly with or on behalf of any person, firm or company, whether within or outside the PRC), commence, carry on, engage in, participate in, develop, invest in, acquire or hold any right or interest in or render any services to or be engaged, concerned or interested in, any business which competes or may compete directly or indirectly with the core business of our Group, namely K-12 after-school education services, or any other business conducted by our Group from time to time (“Restricted Business”) or own any rights or interests in such business, whether as a shareholder, director, officer, partner, agent, lender, employee, consultant or otherwise, and whether for profit, reward or otherwise; and (2) take any action which interferes with or disrupts or may interfere with or disrupt our Group’s business including but not limited to, solicitation of business from, or endeavour to entice away from or discourage from dealing with our Group any person which, during the period a Controlling Shareholder remain as a controlling shareholder, is a customer, supplier or director, consultant, manager or employees from any Group.

Each of the Controlling Shareholders further jointly and severally, irrevocably and unconditionally undertakes to procure that, during the Restricted Period (as defined below), any business, investment or other business opportunity which relates to the Restricted Business (“New Business Opportunities”) becomes available to any of them or any of their close associates (the Controlling Shareholders together with their close associates, the “Offeror”), shall first be referred to our Company on a timely basis and in the following manner:

- (i) the Offeror will make referral of the New Business Opportunities to our Company, and will as soon as possible and in any event within 5 Business Days of identification of such New Business Opportunities inform our Company in writing (“Offer Notice”) about all necessary and reasonably required information in respect of any New Business Opportunities (including but not limited to details of the nature and investment or acquisition cost of the New Business Opportunities) for our Company to consider (a) whether the relevant New Business Opportunities will compete with the business of our Group, and (b) whether taking up the New Business Opportunities is in the interest of our Group;
- (ii) upon receipt of the Offer Notice, the Board or a board committee (in each case comprising, among others, the independent non-executive Directors) who do not have an interest in such New Business Opportunities (the “Independent Board”) will consider whether to pursue the New Business Opportunities taking into account, including without limitation, whether the relevant New Business Opportunities would be able to achieve a sustainable profitability level, whether they are in line with the prevailing development strategies of our Group, and whether they are in the best interest of the Shareholders (any Director who has actual or potential interest in the New Business Opportunities shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

convened to consider such New Business Opportunities). Our Company must inform the Offeror in writing within 20 Business Days after receipt of the Offer Notice about its decision on whether the New Business Opportunities will be pursued;

- (iii) only when (a) the Offeror has received our Company's notice to reject the New Business Opportunities and our Company's confirmation that the relevant New Business Opportunities are not considered to be able to compete with the Restricted Business; or (b) the Offeror has not received the relevant notice from our Company within the period as stated above in paragraph (ii) after the Offer Notice has been received by our Company, then the Offeror is entitled to take up the New Business Opportunities on terms and conditions not more favorable than those specified in the Offer Notice issued to our Company; and
- (iv) if there is any material change in the terms or conditions of such New Business Opportunity pursued by the Offeror, he/it shall refer such New Business Opportunity as so revised to our Company in the manner as stated above if it were a New Business Opportunity.

The undertakings under the Deed of Non-competition are not applicable in the following circumstances:

- (i) each of the Controlling Shareholders and/or his or its close associates engages in the Restricted Business directly or indirectly through the ownership of equity interest in any member of our Group; or
- (ii) each of the Controlling Shareholders and/or his or its close associates engages in the Restricted Business directly or indirectly through the ownership of equity interest in listed companies other than our Group, with the following conditions being satisfied:
 - (a) the Restricted Business (and relevant assets) conducted or carried out by such company represents less than 5% of the consolidated revenue or consolidated total assets of such company according to the latest audited accounts of such company; and
 - (b) the Controlling Shareholders and/or his or its close associates (except any member of our Group) hold in aggregate not more than 5% of the issued share capital of relevant class of shares of such company, and the Controlling Shareholders and/or his or its close associates (except any member of our Group) have no right to appoint the majority of directors of such company or participate in the management of such company.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Pursuant to the Deed of Non-competition, the Restricted Period refers to the period commencing from the Listing Date and ending on the following dates (whichever is earlier):

- (i) the date when the Shares cease to be listed on the Stock Exchange; and
- (ii) the date when the relevant Controlling Shareholders cease to be controlling shareholders of our Company.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage any conflict of interests arising from the competing business of our Controlling Shareholders and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, at least on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (ii) our Controlling Shareholders have undertaken 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 Deed of Non-competition;
- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of our Company;
- (iv) our Controlling Shareholders will make an annual declaration in relation to compliance with the Deed of Non-competition in the annual reports of our Company;
- (v) our Company will disclose, with basis, in our annual and interim reports of all rejection by our Company of new opportunities in the Restricted Business that have been referred from our Controlling Shareholders under the Deed of Non-competition; and
- (vi) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

STRUCTURED CONTRACTS

BACKGROUND OF THE STRUCTURED CONTRACTS

We currently conduct our K-12 after-school education business through our PRC Operating Entities in the PRC as PRC laws and regulations generally restrict foreign ownership in the K-12 education industry in the PRC. PRC laws and regulations currently restrict the operation of education institutions that provides K-12 after-school education to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. We do not hold any equity interest in our PRC Operating Entities in the PRC. 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. We had entered into the Structured Contracts for the existing PRC Operating Entities and expect to enter into structured contracts for the education centers and subsidiaries conducting K-12 after-school education business to be newly established and controlled by the Guangzhou Beststudy directly or indirectly, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

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

Pursuant to the Sino-foreign Regulations, foreign investors must establish and operate educational institution with target students being mainly PRC citizens through a sino-foreign joint venture with a domestic partner (the “Sino-foreign Education Institution(s)”). The Sino-foreign Regulations also provide that all the Sino-foreign Education Institutions shall be approved by the competent education authorities, and the representatives of the domestic party shall make up no less than half of the total number of members of the board of directors, the executive council or the joint administration committee of a Sino-foreign Education Institution. Besides, the foreign investor in a Sino-foreign Education Institution shall be a foreign educational institution with the relevant qualification and maintaining high quality of education (the “Qualification Requirement”). However, the Sino-foreign Regulations are silent on the interpretations of the qualification and high quality of education in relation to the foreign educational institution. Pursuant to the Implementation Opinions, the foreign portion of the total capital investment in a Sino-foreign Education Institution shall be less than 50% (the “Foreign Ownership Restriction”).

Although the Sino-foreign Regulations provides that the establishment and operation of the Sino-Foreign Education Institutions in the form of corporate entities is subject to the rules and regulations issued by the State Council of the PRC, the State Council of the PRC has not yet issued any such rules as of the Latest Practicable Date. The Amended Laws for Promoting Private Education, which came into effect on September 1, 2017, and its Administrative Regulations stipulate that the establishment of a for-profit private school providing cultural education including K-12 after-school education services in the form of corporate entities shall first be approved by the education authorities and then be registered with the competent branch of SAIC.

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Pursuant to the Negative List, the pre-school education, the ordinary senior high schools education and the higher education (“學前教育,” “普通高中教育” and “高等教育,” respectively) in the PRC are “restricted industries” for foreign investors. The Negative List requires that foreign investors may only operate educational institutions offering such education services through sino-foreign cooperative education institutions that are in compliance with the Sino-foreign Regulations. In addition, the Negative List provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or chief executive officer of an educational institution shall be a PRC national, and (b) the representatives 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 a Sino-foreign Education Institution (the “Foreign Control Restriction”). However, the provision of K-12 after-school education services, which our Group is engaged in, is not expressly included in the Negative List.

Given the applicable rules and regulations set out above and supported by the PRC legal opinions set forth below, the Company proposes to use the Structured Contracts to control and enjoy the economic benefits generated by the PRC Operating Entities, which are engaged in the K-12 after-school education services.

As advised by our PRC legal advisers, the Amended Laws for Promoting Private Education together with its Administrative Regulations, the Foreign Investment Catalogue and the other PRC laws and regulations do not explicitly restrict the participation of foreign-invested entities in educational institutions offering K-12 after-school education services in the PRC. Therefore, it is currently uncertain in practice as to

- (i) whether the establishment and operation by foreign investors of educational institutions are feasible since offering K-12 after-school education services must comply with the Sino-foreign Regulations and must operate Sino-foreign Education Institutions with the PRC incorporated entities; and
- (ii) what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant education authority that it meets the Qualification Requirement.

Accordingly, on May 3, 2018, with the assistance of the PRC legal advisers, the Company consulted the Education Department of Guangdong Province (廣東省教育廳), being the competent authority in Guangdong Province as advised by the PRC legal advisers to provide such confirmation in respect of the matters relating to the Sino-foreign Education Institutions relevant to the Company.

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The Company was advised by the policies and regulations division of Education Department of Guangdong Province, among others, that:

- (i) foreign investors operating educational institutions in the PRC (which in the case of the Company, either in the form of private non-enterprise units or corporate entities offering K-12 after-school education services) must comply with the Sino-foreign Regulations and must operate such educational institutions through Sino-foreign Education Institutions;
- (ii) the Foreign Ownership Restriction, the Foreign Control Restriction and the Qualification Requirement apply to Sino-foreign Education Institutions in Guangdong Province;
- (iii) as a matter of practice in Guangdong Province, no Sino-foreign Education Institution offering K-12 after-school education services, either in the form of private non-enterprise units or corporate entities, had been approved by the Education Department of Guangdong Province in the past and no change to such policy was expected in the coming one to two years, notwithstanding the implementation of the Amended Laws for Promoting Private Education and its Administrative Regulations;
- (iv) no implementing measures or specific guidance for establishment of Sino-Foreign Education Institution offering K-12 after-school education services pursuant to the Sino-foreign Regulations had been promulgated in Guangdong Province; and
- (v) the execution of the Structured Contracts, including the payment of service fees thereunder, does not require approval from or filing at the education authorities in the PRC. The existing Structured Contracts were not required to be terminated and would not affect the holding or renewal of the permissions and licenses that had already been obtained.

In addition, on June 4, 2018, June 20, 2018 and June 4, 2018, with the assistance of the PRC legal advisers, we consulted the education departments of Beijing, Shanghai and Guangxi Province, respectively. The Company was advised that the local policies and regulations in respect of the Sino-foreign Education Institutions relevant to the Company are not contrary to those in Guangdong Province as set forth above.

The PRC legal advisers are of the view that the abovementioned education departments of Beijing, Shanghai, Guangdong Province and Guangxi are the competent authorities and the aforesaid authority is competent to provide the above confirmation.

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As at the Latest Practicable Date, the Company noted that no Sino-foreign Education Institution that provides K-12 after-school education had been approved by the education departments of Beijing, Shanghai, Guangdong Province and Guangxi Province. In addition, based on the above advice and confirmation, it is not practicable for the Company to seek to reorganize any of the PRC Operating Entities as a Sino-foreign Education Institution.

In order to comply with the PRC laws and regulations while availing the Company to the international capital markets and maintaining effective control over the PRC Operating Entities, the Company adopts the Structured Contracts solely to consolidate the financials of the PRC Operating Entities.

The Directors believe that the Structured Contracts are narrowly tailored because the Structured Contracts are only used to enable the Group to address the limits on foreign ownership, and consolidate the financial results of the PRC Operating Entities which engage in the operation of educational institutions providing K-12 after-school education services, which are subject to foreign investment restriction in accordance with the applicable PRC laws and regulations.

Circumstances in which We Will Unwind the Structured Contracts

In accordance with applicable PRC laws and our consultation with the Guangdong Education Department, foreign investment in K-12 after-school education services in the PRC is required to be in the form of cooperation between PRC educational institutions and foreign educational institutions and subject to the Foreign Ownership Restriction and the Foreign Control Restriction, a foreign investor can only hold less than 50% interest in a Sino-foreign Education Institution and the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or other governing body of the Sino-foreign Education Institution.

In the event that the Qualification Requirement is removed or we are able to meet the Qualification Requirement and there is a change in policy, but (a) the Foreign Ownership Restriction and the Foreign Control Restriction remain, or (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 PRC Operating Entities in the PRC (such as a 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-foreign Education Institution up to no more than 50%. However, our Company will not be able to control such PRC Operating Entities without the Structured Contracts in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction and the Foreign Control Restriction remain,

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regardless of whether the Qualification Requirement is removed or met, our Company will still rely on Structured Contracts to establish control over the PRC Operating Entities. Our Company will also acquire rights to appoint members to the board of directors who together shall constitute less than 50% of the board of directors of the relevant PRC Operating Entities. We will then control the voting power of the other members of the board of directors appointed by the domestic interest holder(s) by way of the Structured Contracts;

- in circumstance (b), we will partially unwind the Structured Contracts and directly hold an equity interest of less than 50% in the relevant PRC Operating Entities (such as a 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-foreign Education Institution up to no more than 50%. However, our Company will not be able to control such PRC Operating Entities without the Structured Contracts in place with respect to the domestic interests. Our Company will also acquire rights to appoint all members of the board of directors of the PRC Operating Entities;
- in circumstance (c), notwithstanding we will be able to hold majority interests in Sino-foreign Education Institutions, the Sino-foreign Regulation still dictates that there be a domestic interest in the PRC Operating Entities and we are ineligible to operate the PRC Operating Entities by ourselves. Under such circumstances, we will acquire rights to appoint members of the board of directors who together shall constitute less than 50% of the board of directors of the relevant PRC Operating Entities. We will then control the voting power of such members appointed by the domestic interest holder(s) by way of the Structured Contracts. We also plan to hold the maximum percentage of equity interests permissible by the relevant laws and regulations in the relevant PRC Operating Entities directly, subject to the approval of the relevant government authorities. As for the remaining minority domestic interests except for the 0.07% portion held by Mr. Wang Hua which our Company intends to consolidate, we will 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 the PRC Operating Entities and our Company will fully unwind the Structured Contracts and directly hold all equity interests except for the 0.07% portion held by Mr. Wang Hua in the PRC Operating Entities. Our Company will also acquire rights to appoint all members of the board of directors of the PRC Operating Entities.

In addition, the WFOE has made undertaking in the Structured Contracts that, if the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), it will exercise the call option granted under the Exclusive Call Option Agreements (the “Equity Call Option”) in full to hold

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all of the interest except for the 0.07% portion held by Mr. Wang Hua in the PRC Operating Entities and unwind the Structured Contracts accordingly. See “— Termination of the Structured Contracts” for further details.

Actions and 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. According to the consultation with the education departments of Beijing, Shanghai, Guangdong Province and Guangxi, there are no implementing measures or specific guidance on the Qualification Requirement and they have not approved an application to establish a Sino-foreign Education Institution offering K-12 after-school education services and they are rarely likely to approve our application to convert any of our PRC Operating Entities into Sino-foreign Education Institutions at this stage and in the foreseeable future. Our PRC legal advisers are of the view that based on the above, the following steps taken by us to demonstrate compliance with the Qualification Requirement are reasonable and appropriate.

We currently plan to establish and operate an officially recognized high school with after-school tutoring services in the State of California, the United States. On June 10, 2018, we entered into a consulting agreement with a private school consultant, who is an independent third party with extensive experience in the sector of private post secondary education in the State of California.

The consultant has formulated an action plan regarding the establishment of an entity which we will use to operate our proposed high school in the State of California, and the consultant will continue to provide assistance to initiate and implement the key elements of the plan. Pursuant to the action plan, we have established the proposed entity, named China Bestudy Education Inc. Furthermore, we have leased from an independent third party for a location to be used as our initial school office. For details of the regulatory environment in the State of California for the operation of private schools, see “Regulation — Regulations on Private Schools in the State of California” in this prospectus.

As advised by the consultant, we will apply for and expect to obtain a business license in May 2019 and our proposed high school in California is expected to commence schooling in August 2019. We will also file an affidavit with the Superintendent of Public Instruction in the first half of October 2019 as required under the California Education Code. It is planned that the proposed high school in California will enroll approximately 40 students and provide after-school tutoring services to approximately 25 students in each of the first five years after its commencement of schooling. We are in the process of searching for a location to be used as the teaching premises and plan to recruit one experienced principal and approximately ten teaching and administrative staff as well as dispatch experienced teachers from the education centers of our Group in China, create curricula and syllabi, purchase teaching equipment and furnish our teaching premises for the operation of our proposed high school in California, with assistance from the consultant. We will provide funding for establishing the proposed entity. We had incurred approximately US\$24,200 (approximately HK\$189,951) in expenses in

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connection with our plan as of the Latest Practicable Date. We do not expect expenses we incur in establishing our proposed high school in California or ongoing expenses relating to the operation of such institution will have a material adverse impact on our overall cost structure and financial results. We expect to invest approximately US\$4.4 million in the first five years since the establishment of the proposed high school, and we estimate the breakeven period and investment payback period of it will be approximately four years. The investment will be fully funded by the internal financial resources of our Group and the funding obtained and to be obtained through other financing means including bank borrowings. No proceed from the Global Offering will be utilized to fund such investment.

Our PRC legal advisers are of the view that our plan to set up the proposed high school with after-school tutoring services in the State of California is appropriate and reasonable to demonstrate compliance with the Qualification Requirement based on the following:

- (1) Pursuant to the Sino-foreign Regulations, foreign investors in a Sino-foreign Education Institution shall be a foreign educational institution with the relevant qualification and high educational quality;
- (2) According to the consultation with the education departments of Beijing, Shanghai, Guangdong Province and Guangxi Province, respectively, there are no implementing measures or specific guidance on the Qualification Requirement and they have not approved an application to establish a Sino-foreign Education Institution offering K-12 after-school education services. Although these education departments did not confirm as to whether the establishment of the proposed education institution with after-school tutoring services by our Group in the State of California may surely enable us to comply with the Qualification Requirement, we are advised by these education departments that a foreign investor in a Sino-foreign Education Institution should be an officially recognized educational institution with advanced education resources and advantages over domestic education institutions (such as advanced educational ideas and resources and highly-recognized reputation); and
- (3) Our proposed high school with after-school tutoring services in the State of California is an education institution duly incorporated under the laws of Californian, United States. We have committed financial and other resources and will continue to make best efforts to offer consistently high-quality education in our proposed high school in California by recruiting qualified teachers and leveraging our experience in education.

In the opinion of our PRC legal advisers, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming our proposed high school in California gains a level of foreign experience reasonable to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-foreign Education Institution in the future (provided that the then PRC laws and regulations do not impose new requirements,

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restrictions, or prohibitions in relation to the establishment of the Sino-foreign Education Institutions), we will be able to operate our PRC Operating Entities in the PRC directly subject to the approval from the competent education authorities.

However, as advised by our PRC legal advisers, we cannot assure that the PRC authorities take the same view with us. See “Risk Factor — We may not be able to meet the Qualification Requirement under PRC Laws and Regulations.”

Furthermore, we have undertaken to the Stock Exchange that we will:

- (i) under the guidance of our PRC legal advisers, 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 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 to international capital markets and maintaining effective control over all of our operations, on June 18, 2018, WFOE entered into various agreements that together constitute the Structured Contracts with, among others, our PRC Operating Entities, under which substantially all economic benefits arising from the business of our PRC Operating Entities are transferred to WFOE to the extent permitted under PRC laws and regulations by means of service fees payable by our PRC Operating Entities to WFOE. As advised by our PRC legal advisers, WFOE obtains controls over our PRC Operating Entities through the Structured Contracts (including the PRC Operating Entities in the form of limited liability companies and those in the form of private non-enterprise units) and derives substantially all economic benefits arising from the business of them to the extent permitted under PRC laws and regulations based on the following:

- (1) WFOE, or its designated third party, is granted an exclusive option to purchase all or part of the equity interests in Guangzhou Beststudy held by the Registered Shareholders for nil consideration or the minimum amount of consideration permitted by the applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of Guangzhou Beststudy pursuant to the Exclusive Call Option Agreement I.
- (2) WFOE has a call option to purchase part or all the assets and businesses of the PRC Operating Entities (including the PRC Operating Entities in the form of limited liability companies and those in the form of private non-enterprise units) for the minimum amount of consideration permitted by the applicable PRC laws and

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regulations, under circumstances in which WFOE is permitted under PRC laws and regulations to own and operate such assets and businesses pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement.

- (3) To strengthen the WFOE's call options, WFOE or its designated third party is also granted an exclusive option to purchase all or part of the equity interests in the PRC Operating Entities (including the PRC Operating Entities in the form of limited liability companies and those in the form of private non-enterprise units) wholly-owned by Guangzhou Beststudy for nil consideration or the minimum amount of consideration permitted by the applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted to own all or part of the equity interests of these PRC Operating Entities pursuant to the Exclusive Call Option Agreement II. Guangzhou Beststudy is obligated to cause these wholly-owned PRC Operating Entities to perform the obligations under Exclusive Call Option Agreements II.
- (4) WFOE, or any person designated by WFOE or their successors or liquidators (excluding the Registered Shareholders or persons who may give rise to conflicts of interests), is exclusively appointed as the Registered Shareholder's attorney-in-fact to appoint directors and vote on his or her behalf on all matters of Guangzhou Beststudy requiring shareholders' approval under its articles of associations and under the relevant PRC laws and regulations in accordance with the Power of Attorney.
- (5) Further, as provided under the Exclusive Management Consultancy and Business Cooperation Agreement, WFOE is granted the rights to appoint the directors, school principals, general managers, financial controllers and other senior managers of our PRC Operating Entities (including the PRC Operating Entities in the form of limited liability companies and those in the form of private non-enterprise units).
- (6) Under the Exclusive Management Consultancy and Business Cooperation Agreement, all of our existing PRC Operating Entities are listed as the service recipients to receive services provided by WFOE; and Guangzhou Beststudy and its shareholders are obligated to cause all PRC Operating Entities to appoint WFOE as the exclusive services provider under Exclusive Management Consultancy and Business Cooperation Agreement. Guangzhou Beststudy directly or indirectly holds controlling equity interest of our PRC Operating Entities and thus has the power and right, through the directors appointed to such entities, to cause our PRC Operating Entities to be bound by such agreement and to enter into necessary contracts. Under the Exclusive Management Consultancy and Business Cooperation Agreement, Guangzhou Beststudy is obligated to cause the other PRC Operating Entities to become the parties of and be bound by the Exclusive Management Consultancy and Business Cooperation Agreement. As of the Latest Practicable Date, to further

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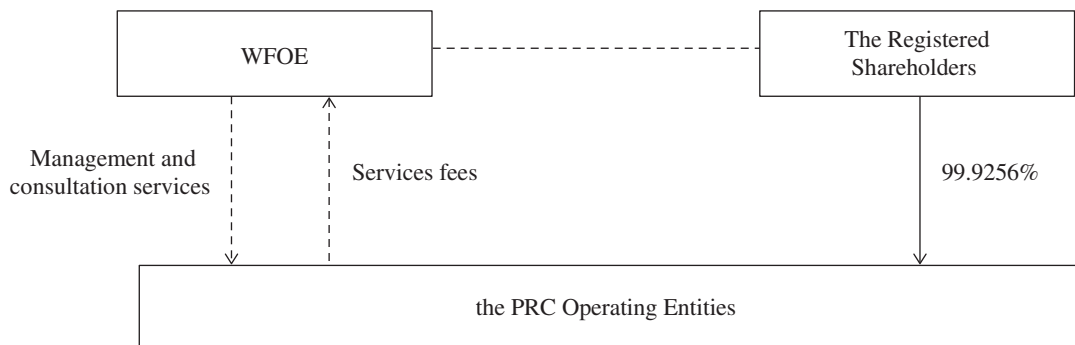
strengthen the effectiveness of the Structured Contracts, each of our PRC Operating Entities had signed an joinder agreement to become a party to the Exclusive Management Consultancy and Business Cooperation Agreement.

- (7) In order to prevent the leakage of assets and values of our PRC Operating Entities, pursuant to the Structured Contracts, without the prior written approval from WFOE, our PRC Operating Entities shall not enter into any transaction (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation. See “Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts.”
- (8) By entering into the Equity Pledge Agreement, the Registered Shareholders unconditionally and irrevocably pledged all of their equity interests in Guangzhou Beststudy, respectively, to WFOE to guarantee the performance of, among others, the obligations of Guangzhou Beststudy, the Registered Shareholders and the PRC Operating Entities mentioned in (1) to (7) above.
- (9) Pursuant to the Spouse Undertakings, the spouse of each of the Registered Shareholders undertakes not to take any actions to prevent the performances under the Structured Contracts.
- (10) To enhance the enforceability of the Structured Contracts, each of the Structured Contracts contains an effective and enforceable dispute resolution mechanism. See “— Dispute Resolution”.

In addition, Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou entered into a concert party confirmation on June 18, 2018 to confirm that they have acted in concert in the management, operation and all major decisions of our Group, including Guangzhou Beststudy, since they became shareholders of respective members of our Group and will continue to act in concert when they are all interested, directly or indirectly, in our Group. As of the Latest Practicable Date, Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou, directly and indirectly, held an aggregate of 71.33% equity interests of Guangzhou Beststudy. Our PRC legal advisers are of the view that since (1) the number of Registered Shareholders do not impact the enforceability of the Structured Contracts under PRC laws; and (2) as the existing arrangements have been in place and measures have been adopted in the Structured Contracts to enhance the enforceability of the Structured Contracts against Registered Shareholders (see “— Summary of the Material Terms of the Structured Contracts”), there is no additional step under PRC laws which is necessary to be taken to ensure their enforceability.

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The following simplified diagram illustrates the flow of economic benefits from our PRC Operating Entities to our Group stipulated under the Structured Contracts:



Notes:

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

“.....>” denotes contractual relationship.

“.....” denotes the control by WFOE over the Registered Shareholders through (1) powers of attorney to exercise all Registered Shareholders’ rights in Guangzhou Beststudy, (2) exclusive options to acquire all or part of the equity interests in Guangzhou Beststudy held by the Registered Shareholders, (3) equity pledges over the equity interests in Guangzhou Beststudy, and (4) the Spouse Undertakings.

Summary of the Material Terms of the Structured Contracts

A description of each of the specific agreements that comprise the Structured Contracts is set out below.

(1) Exclusive Management Consultancy and Business Cooperation Agreement

Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement dated June 18, 2018 entered into by and between WFOE, Guangzhou Beststudy, our four important PRC Operating Entities⁽¹⁾, and the shareholders of Guangzhou Beststudy (including the Registered Shareholders and Mr. Hua Wang), WFOE has the exclusive right to provide each of our PRC Operating Entities with corporate and education management consulting services, intellectual property licensing services as well as technical and business support services. All of our existing PRC Operating Entities are listed as the service recipients to receive such services provided by WFOE, and Guangzhou Beststudy and its shareholders are obligated to cause all the PRC Operating Entities to appoint WFOE as the exclusive services provider under the Exclusive Management Consultancy and Business Cooperation Agreement. As of the

Note:

- (1) Namely, Foshan Beststudy Culture Communication Co., Ltd, Shenzhen Zhuoyue Education Training Co., Ltd., Dongguan Zhuoyue Education Consulting Services Co., Ltd, and Zhongshan Zhuoyue Consulting Management Co., Ltd. given their importance in terms of revenue contribution.

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Latest Practicable Date, to further strengthen the effectiveness of the Structured Contracts, each of our PRC Operating Entities had signed an joinder agreement to become a party to the Exclusive Management Consultancy and Business Cooperation Agreement. Such services include the provision of advice and recommendations on asset and business operation, debt disposal, material contracts (including negotiations, execution and performance of the same), mergers and acquisitions, the service for design, research and development, renewal and maintenance of educational software and course materials, employee on-the-job management training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resources and internal information management, employment or dismissal of senior management, network development, upgrade and ordinary maintenance services, sales of proprietary products, software, trademark, domain name and know-how and/or the use of related intellectual property rights, provision of strategy development planning, recommendations or guidelines and other additional services as the parties may mutually agree from time to time. Without WFOE's prior written consent, none of our PRC Operating Entities may accept services covered by the Exclusive Management Consultancy and Business Cooperation Agreement from any third party. WFOE has the exclusive proprietary rights to all intellectual property rights arising out of the performance of this agreement. In return, without prejudicing the shareholder's right of Mr. Hua Wang in Guangzhou Beststudy, our PRC Operating Entities agree to pay the entirety of their total income (net of costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld) as service fees to WFOE.

In order to prevent the leakage of assets and values of our PRC Operating Entities, pursuant to the Exclusive Management Consultancy and Business Cooperation Agreements, without the prior written approval from WFOE, our PRC Operating Entities shall not enter into any transaction (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation, including but not limited to (i) conducting of any activities which are outside the ordinary course of business or change of mode of operation of our PRC Operating Entities; (ii) the entering into of any loan or debt obligations in favor of any third party; (iii) the provision of any security or guarantee in favor of any third party for debts of any third parties other than the PRC Operating Entities including the provision of any guarantee in relation to its assets or rights; (iv) the disposal, acquisition or otherwise dealing of any assets (including but not limited to intellectual properties) to any third party with a value higher than RMB500,000; and (v) change of articles of association or scope of business of each of our PRC Operating Entities.

In addition, WFOE has the right to appoint the directors, school principals, general managers, financial controllers and other senior managers of our PRC Operating Entities. WFOE has absolute control over the distribution of dividends or any other amounts to the

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shareholders of our PRC Operating Entities as our PRC Operating Entities and their shareholders have undertaken not to make any distribution without WFOE's prior written consent. WFOE also has the right to periodically receive or inspect the accounts of our PRC Operating Entities.

(2) Exclusive Call Option Agreements

Under the exclusive call option agreement dated June 18, 2018 entered into by and between WFOE, Guangzhou Beststudy and the Registered Shareholders (the "Exclusive Call Option Agreement I"), the Registered Shareholders irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in Guangzhou Beststudy held by Registered Shareholders, for nil consideration or the minimum amount of consideration permitted by the applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of Guangzhou Beststudy. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, the Registered Shareholders shall, according to the instruction of WFOE, return the amount of purchase price they have received to WFOE or its designated third party, or Guangzhou Beststudy.

On the same date, for the purpose of strengthening WFOE's call options and the effectiveness of the Structured Contracts, WFOE, Guangzhou Beststudy and the wholly-owned subsidiaries of Guangzhou Beststudy⁽¹⁾ entered into another exclusive call option agreement (the "Exclusive Call Option Agreement II," together with the Exclusive Call Option Agreement I, the "Exclusive Call Option Agreements"), pursuant to which Guangzhou Beststudy unconditionally and irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests, as applicable, in the subsidiaries directly-wholly-owned by Guangzhou Beststudy, for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests, as applicable, of the subsidiaries directly-wholly-owned by Guangzhou Beststudy. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, Guangzhou Beststudy shall, according to the instruction of WFOE, return the amount of purchase price they have received to WFOE or its designated third party or the subsidiaries directly-wholly-owned by Guangzhou Beststudy.

Pursuant to the Exclusive Call Option Agreements, we have the sole discretion to decide when to exercise the Equity Call Option, and whether to exercise the Equity Call Options in part or in full. The key factor for us to decide whether to exercise the Equity Call Options is whether the current regulatory restrictions on foreign investment in or control of the educational business will be removed in the future, the likelihood of which we were not in a position to know or comment on at the Latest Practicable Date.

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In order to prevent the flow of the assets and value of our PRC Operating Entities to their respective shareholders, pursuant to the Exclusive Call Option Agreements, none of the assets of Guangzhou Beststudy and the subsidiaries directly-wholly-owned by Guangzhou Beststudy are to be sold, transferred or otherwise disposed of without the written consent of WFOE.

Note:

- (1) There are a total of 40 wholly-owned subsidiaries entered in the Exclusive Call Option Agreement II, namely, Guangzhou Baiyun Beststudy Education and Training School, Guangzhou Conghua Beststudy Education and Training Center, Guangzhou Haizhu Beststudy Education and Training Center, Guangzhou Zengcheng Beststudy Education and Training Center, Guangzhou Huadu Beststudy Education and Training Center, Guangzhou Beststudy Education and Training Center, Guangzhou Gaofen Network Technology Co., Ltd., Guangzhou Qizuo Education Consulting Co., Ltd., Dongguan Dongcheng Learning Frontline Training Center, Dongguan Dongcheng Beststudy Second Training Center, Dongguan Nancheng Beststudy Training Center Co., Ltd., Dongguan Guancheng Beststudy Training Center, Dongguan Houjie Beststudy Training Center, Foshan Chancheng Learning Frontline Education and Training Center, Foshan Nanhai Beststudy Frontline Education and Training Center, Foshan Shunde Lecong Learning Frontline Education and Training Center, Shenzhen Beststudy Education and Training Center, Shenzhen Wandie Education and Training Center, Zhuhai Chuangsi Language Training School, Zhuhai Xiangzhou District Siqi Cultural Training Center, Shanghai Yangpu Beststudy Education and Training Center, Zhongshan Zhuoye Consulting Management Co., Ltd., Zhongshan East District Zhuoye Boda Jiahui Garden Education and Training Center, Zhongshan East District Zhuoye Boda Shuiyunxuan Education and Training Center, Zhongshan East District Zhuoye Boda Zhuyuan Education and Training Center, Zhongshan Shiqi Zhuoye Boda Hengji Education and Training Center, Zhongshan Shiqi Zhuoye Boda Qiguanxi Education and Training Center, Zhongshan West District Zhuoye Boda Huating Education and Training Center, Zhongshan Xiaolan Zhuoye Boda Education and Training Center, Zhuhai Beststudy Enterprise Co., Ltd., Guangzhou Liwan Beststudy Education and Training Center, Guangzhou Huangpu Beststudy Education and Training Center, Beijing Qiaowen Education Technology Co., Ltd., Dongguan Zhuoye Education Consulting Service Co., Ltd., Foshan Beststudy Culture Communication Co., Ltd., Shenzhen Wandie Culture Development Co., Ltd., Nanning Beststudy Education Technology Co., Ltd., Tibet Zhuoye Venture Capital Investment Management Co., Ltd., Guangzhou Panyu Learning Frontline Education and Training Center, and Guangzhou Zhuoye Information Technology Co., Ltd. As of the Latest Practicable Date, WFOE has acquired Guangzhou Zhuoye Information technology Co., Ltd. from Guangzhou Beststudy.

In the event that the Registered Shareholders or Guangzhou Beststudy receive any profit distribution or dividend from Guangzhou Beststudy or its wholly-owned subsidiaries as applicable, the Registered Shareholders and Guangzhou Beststudy must immediately pay such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to WFOE. If WFOE exercises the Equity Call Option, all or any part of the equity interests in Guangzhou Beststudy and its wholly-owned subsidiaries acquired would be transferred to WFOE and the benefits of equity ownership would flow to WFOE and its shareholders.

In addition, under the Exclusive Call Option Agreements, without WFOE's prior written consent, none of the Registered Shareholders may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of his or her equity interests in Guangzhou Beststudy, and Guangzhou Beststudy shall not transfer or permit the encumbrance of or allow any guarantee or security to be created on any of its equity interests in its wholly-owned subsidiaries.

(3) *Equity Pledge Agreement*

Pursuant to the equity pledge agreement dated June 18, 2018 entered into by and between WFOE, Guangzhou Beststudy, and the Registered Shareholders, the Registered Shareholders unconditionally and irrevocably pledged all of their equity interests in Guangzhou Beststudy respectively to WFOE to guarantee the performance of the obligations of Guangzhou Beststudy and their respective subsidiaries and the performance of the Registered Shareholders' obligations under the Exclusive Management Consultancy and Business Cooperation Agreement, the Exclusive Call Option Agreements (including both the Exclusive Call Option Agreement I and the Exclusive Call Option Agreement II) and the Powers of Attorney. Under the Equity Pledge Agreement, the Registered Shareholders have agreed that, without the prior written consent of WFOE, they will not transfer or dispose of the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice WFOE's interest.

The equity pledge registration of Guangzhou Beststudy has been filed, on June 21, 2018, with the Guangzhou Administration Bureau for Industry and Commerce Yuexiu Branch. Our PRC legal advisers have confirmed that the Equity Pledge Agreement has been duly registered with relevant PRC legal authority pursuant to the PRC laws and regulations. The Equity Pledge Agreement shall remain valid until (i) the satisfaction of all the contractual obligations of Guangzhou Beststudy and their respective subsidiaries and the Registered Shareholders in full under the Exclusive Management Consultancy and Business Cooperation Agreement, Exclusive Call Option Agreements and the Powers of Attorney, or (ii) the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreement, the Exclusive Call Option Agreements and the Powers of Attorney, whichever is later.

(4) *Powers of Attorney*

Each of the Registered Shareholders has executed an irrevocable power of attorney dated on June 18, 2018, exclusively appointing WFOE, or any person designated by WFOE or their successors or liquidators (excluding the Registered Shareholders or persons who may give rise to conflicts of interests), as his or her attorney-in-fact to appoint directors and vote on his or her behalf on all matters of Guangzhou Beststudy requiring shareholders' approval under its articles of associations and under the relevant PRC laws and regulations. These Powers of Attorney remain effective until the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreement.

The articles of association of Guangzhou Beststudy state that the shareholders, in a shareholders' meeting, have the power to approve its operating strategy and investment plan, elect the members of the board of directors and approve their compensation, and review and approve the annual budget and profit distribution plan. Therefore, through the

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irrevocable power of attorney arrangement, we and WFOE, have the ability to exercise effective control over Guangzhou Beststudy through shareholder votes and, through such votes, to also control the composition of the board of directors for Guangzhou Beststudy.

(5) *Spouse Undertakings*

Pursuant to the Spouse Undertakings dated on June 6, 2018 or June 18, 2018, the spouse of each of the Registered Shareholders, has full knowledge of and has consented unconditionally and irrevocably to the entering into of the Structured Contracts by the respective Registered Shareholders, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest in our Group, pledge or transfer the direct or indirect equity interest in our Group, or the disposal of the direct or indirect equity interest in our Group in any other forms. The spouse shall not take any actions to prevent the performances under Structured Contracts. The terms that are not stated in the Spouse Undertakings such as governing law and dispute resolution shall be interpreted pursuant to the terms of the Exclusive Management Consultancy and Business Cooperation Agreement.

DISPUTE RESOLUTION

Each of the Structured Contracts provides that any dispute arising out of or in connection with the performance of the Structured Contracts shall be resolved through arbitration. The arbitration commission shall have the right to award remedies over the equity interest and property interest and other assets of each of our PRC Operating Entities. And upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of PRC, Hong Kong, the Cayman Islands and the place where the principal assets of our Company and our PRC Operating 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 advisers that:

- (a) under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting interest in our PRC Operating Entities or equity interest 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 of our PRC Operating Entities, injunctive relief or winding-up of each of our PRC Operating Entities as interim remedies, before there is any final outcome of arbitration or judgment;

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- (c) however, the PRC laws do not disallow the arbitral body to give award of transfer of an equity interest in each of our PRC Operating Entities at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;
- (d) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be 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 each of our PRC Operating Entities, and our ability to conduct our business may be negatively affected; and
- (e) even if the above-mentioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Structured Contracts.

As a result of the above, in the event that any of our PRC Operating Entities or the Registered Shareholders breaches any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, or at all, and our ability to exert effective control over our PRC Operating Entities and conduct our business could be materially and adversely affected. See “Risk Factors — Risks Relating to our Structured Contracts” in this prospectus for details.

LOSS SHARING

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

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For instance, as provided in the Exclusive Call Option Agreements, none of the assets of our Guangzhou Beststudy are to be sold, transferred or otherwise disposed of without the written consent of WFOE. In addition, under the Exclusive Call Option Agreements, none of the Registered Shareholders may transfer or permit the encumbrance of or allow any guarantee or security to be created on any of his or her equity interests in Guangzhou Beststudy without our WFOE's prior written consent.

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

TERMINATION OF THE STRUCTURED CONTRACTS

In the event that PRC laws and regulations allow WFOE or us to directly hold all or part of the equity interest in our PRC Operating Entities and operate K-12 after-school education business in the PRC, WFOE shall exercise the Equity Call Option as soon as practicable and WFOE or its designated party shall purchase such amount of equity interest to the extent permissible under PRC laws and regulations, and upon exercise in full of the Equity Call Option and the acquisition of all the equity interest in our PRC Operating Entities by WFOE or another party designated by our Company pursuant to the terms of the Exclusive Call Option Agreement, each of the Structured Contracts shall be automatically terminated. WFOE shall have the right to terminate the Structured Contracts by serving a 30-day prior notice.

LIQUIDATION

According to the Exclusive Management Consultancy and Business Cooperation Agreement and the Exclusive Call Option Agreements, subject to applicable laws, the Registered Shareholders have undertaken to appoint a committee designated by WFOE as the liquidation committee upon the winding up of our PRC Operating Entities to manage their assets. Without prejudicing Mr. Hua Wang's shareholder right in Guangdong Beststudy, all of the remaining assets and residual interests of PRC Operating Entities shall be transferred to WFOE after such liquidation pursuant to PRC laws.

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INSURANCE

Our Company does not maintain any insurance policy to cover the risks relating to the Structured Contracts.

SUCCESSION

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

ARRANGEMENT TO ADDRESS POTENTIAL CONFLICT OF INTEREST

To ensure our effective control over our PRC Operating Entities, we have implemented measures to protect against the potential conflicts of interest between our Company and the Registered Shareholders. Pursuant to the Exclusive Call Option Agreements, the Registered Shareholders granted us or our designated third party an exclusive option to purchase part or all of the equity interests except for the 0.07% portion held by Mr. Wang Hua in Guangzhou Beststudy, under circumstances in which we or our designated third party is permitted under the PRC laws and regulations to own all or part of the equity interests in Guangzhou Beststudy. Under the irrevocable Powers of Attorney executed by each of the Registered Shareholders, they appointed WFOE, or any person designated by WFOE (excluding the Registered Shareholders or other persons who may give rise to conflicts of interests) as their respective attorney-in-fact to appoint directors and vote on their behalf on all matters of Guangzhou Beststudy requiring shareholders' approval under their articles of associations and under the relevant PRC laws and regulations.

Furthermore, there are mechanisms in place to protect against the spouses of the Registered Shareholders from exercising any control or influence over the PRC Operating Entities. Each of the spouses of the Registered Shareholders the Spouse Undertakings whereby the spouse expressly and irrevocably (i) acknowledge the entry into of the Structured Contracts by the Registered Shareholders (as the case may be); (ii) undertake that he or she shall not take any actions that are in conflict with purpose and intention of the Registered Shareholders, including but not limited to acknowledging that any equity interests held by the Registered

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Shareholders (as the case may be) do not fall within the scope of their community properties; and (iii) confirm that his or her consent and approval is not required for the implementation of the Structured Contracts, any amendments thereto or the termination thereof.

Pursuant to the Exclusive Management Consultancy and Business Cooperation Agreement, the Registered Shareholders have undertaken that during the period when they remain as the shareholders of Guangzhou Beststudy, (i) unless otherwise agreed to by WFOE or Guangzhou Beststudy in writing, they will not, directly or indirectly (either for their own benefits or for the benefits of a third party) participate, or be interested, or engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be competing with the businesses of our PRC Operating Entities or any of their respective affiliates (the “Competing Business”); (ii) use information obtained from any of our PRC Operating Entities for the Competing Business; and (iii) they will not obtain any benefit from any Competing Business. Based on the above, our Directors are of the view that the measures that we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between our Group and the Registered Shareholders and that these measures are sufficient to protect our Group’s interest in the PRC Operating Entities.

LEGALITY OF THE STRUCTURED CONTRACTS

PRC Legal Opinions

Based on the above, our PRC legal advisers are of the opinion that the Structured Contracts are narrowly tailored to minimize the potential conflict with the relevant PRC laws and regulations and that:

- (a) 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, and 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 and other applicable PRC laws and regulations;
- (b) upon signing, the Structured Contracts will be valid and effective under 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;
- (d) entering into and the performance of the Structured Contracts are not required to obtain any approvals or authorizations from the PRC governmental authorities except that (1) the pledge of any equity interest in company in favor of WFOE is subject to registration requirements with relevant Administration of Industry and Commerce; (2) the transfer of the equity interests in the Company contemplated

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under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable PRC laws; and (3) any arbitral awards in relation to the performance of the Structured Contracts are subject to application to competent PRC courts for recognition and enforcement;

- (e) the Company has committed financial and other resources and is taking actions to implement the PRC legal advisers' recommendations to meet the Qualification Requirements (see “— Actions and Plan to Comply with the Qualification Requirement” for details);
- (f) neither WFOE nor the Company is obligated to share the losses of the PRC Operating Entities, or provide financial support to the PRC Operating Entities. Each of the PRC Operating Entities is solely liable for its own debts and losses with assets and properties owned by it; and
- (g) the consummation of the contemplated listing of the Shares on the Stock Exchange does not violate the M&A Rules.

For details in relation to the risks involved in the Structured Contracts, see “Risk Factors — Risks Relating to Our Structured Contracts” in this prospectus.

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 or will engage in the operation of K-12 after-school education, which are subject to foreign investment restriction in accordance with applicable PRC laws and our consultation with the Guangdong Education Department.

As of the Latest Practicable Date, we did not encounter any interference or encumbrance from any governing bodies in our plan to adopt the Structured Contracts so that the financial results of the operation of our PRC Operating Entities can be consolidated to those of our Group, and based on the advice of our PRC legal advisers, our Directors are of the view that the Structured Contracts are enforceable under PRC laws and regulations.

The transactions contemplated under the Structured Contracts constitute continuing connected transactions of our Company under the Listing Rules upon the Listing and it is 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 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. See “Connected Transactions” in this prospectus.

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MR. HUA WANG'S MINORITY INTEREST AND CALL OPTION AGREEMENT

As of the Latest Practicable Date, Mr. Hua Wang owned 0.0744% equity interest of Guangzhou Beststudy. Due to the court injunction over his interest in Guangzhou Beststudy, Mr. Hua Wang was not able to transfer nor to create pledge over his shares in Guangzhou Beststudy.

On June 18, 2018, WFOE, Guangzhou Beststudy and Mr. Hua Wang entered into an agreement, pursuant to which Mr. Hua Wang unconditionally and irrevocably agreed to grant WFOE or its designated third party an option to purchase all or part of his equity interests in Guangzhou Beststudy under circumstances in which (i) WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of Guangzhou Beststudy and (ii) Mr. Hua Wang is permitted under PRC laws and regulations to transfer his interest in Guangzhou Beststudy.

The consideration would be determined based on the valuation by an independent valuer at the time the call option is exercised. The key factor for us to decide whether to exercise the call option is the same as the factors we consider when exercising the Equity Call Option under the Exclusive Call Option Agreements.

Same as the Exclusive Call Option Agreements, Mr. Hua Wang shall not transfer or permit the encumbrance of or allow any guarantee or security to be created on any of his equity interests Guangzhou Beststudy without WFOE's prior written consent.

COMBINATION OF FINANCIAL RESULTS OF OUR PRC OPERATING ENTITIES

Under the Exclusive Management Consultancy and Business Cooperation Agreement, it was agreed that, in consideration of the services provided by WFOE, each of the PRC Operating Entities will pay service fees to WFOE. The service fees, subject to WFOE's adjustment and without prejudicing the shareholder's right of Mr. Hua Wang in Guangzhou Beststudy, are equal to the entirety of the total income of the PRC Operating Entities (net of costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOE may adjust the service fees at its discretion, subject to applicable rules and regulations, and allow the PRC Operating Entities to retain sufficient working capital to carry out any growth plans. WFOE also has the right to periodically receive or inspect the accounts of the PRC Operating Entities. Accordingly, WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefit of the PRC Operating Entities through the Exclusive Management Consultancy and Business Cooperation Agreements.

In addition, under the Exclusive Management Consultancy and Business Cooperation Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of the PRC Operating Entities as WFOE's prior written consent is required before any distribution can be made. Further, under the Exclusive Call Option Agreements, in the event that the Registered Shareholders of Guangzhou Beststudy

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receive any profit distribution or dividend from Guangzhou Beststudy, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to WFOE.

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

In this regard, our Directors consider that the Company can consolidate the financial results of the PRC Operating Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of the PRC Operating Entities is disclosed in note 2.1 to the Accountants' Report set out in Appendix I to this prospectus.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Draft Foreign Investment Law and the Explanatory Notes

The MOFCOM published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. While the MOFCOM solicited comments on this draft in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

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

- (i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- (ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its

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nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or

- (iii) having the power to exert decisive influence, via contractual or trust arrangements or other ways, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control," the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. "Actual control" refers to the power or position to control an enterprise through investment arrangements, Structured Contracts or other rights and decision-making arrangements. Articles 19 of the Draft Foreign Investment Law defined "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

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

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Structured Contracts, to establish control of our PRC Operating Entities by WFOE, through which we operate our education business in the PRC. Under the Draft Foreign Investment Law, variable interest entities that are controlled via Structured Contracts would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. For companies with a VIE structure in an industry category that is in the "restricted category" on the "negative list," it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the negative list without market entry clearance may be considered as illegal.

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

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

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

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

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

- (a) to make a declaration to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;
- (b) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by the competent authority, the VIE structures may be retained for its operation; and
- (c) to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

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

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Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou, who act in concert and are of Chinese nationality, will indirectly control approximately 53.88% (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme) of the issued share capital of our Company upon completion of the RSU Allotment and the Global Offering and will indirectly control approximately 52.48% of the issued share capital of our Company assuming that the Over-allotment Option is exercised in full; (ii) our Company through WFOE exercises effective control over our PRC Operating Entities pursuant to the Structured Contracts, our PRC legal advisers are of the view that we can apply for the recognition of the Structured Contracts as domestic investments and it is likely that the Structured Contracts will be considered as legal.

The Potential Impact to Our Company in the Worst Scenario that the Structured Contracts Are Not Treated as a Domestic Investment

If the provision of K-12 after-school education services is no longer in the negative list and our Group is allowed to operate the education business under PRC laws without using the Structured Contracts, WFOE will exercise the Equity Call Option under the Exclusive Call Option Agreements in full to acquire the equity interest of our PRC Operating Entities and unwind the Structured Contracts subject to re-approval by the relevant authorities.

If the provision of K-12 after-school education services is in the negative list, the Structured Contracts may be viewed as prohibited foreign investment. If the Draft Foreign Investment Law is refined and deviates from the current draft, depending on the treatment of existing Structured Contracts, the Structured Contracts may be regarded as invalid and illegal. As a result, our Group would not be able to operate our PRC Operating Entities through the Structured Contracts and we would lose our rights to receive the economic benefits of our PRC Operating Entities. As a result, the financial results of our PRC Operating Entities would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under Structured Contracts and have obtained listing status abroad, and that PRC government has allowed company operating under Structured Contracts which fulfilled certain requirements to

STRUCTURED CONTRACTS

issue Shares or Chinese Depository Receipt under certain measures, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, that the relevant regulations will take retrospective effect to require the relevant enterprises to remove the Structured Contracts. Our Directors are of view that in future, the PRC government is likely to take a relatively cautious attitude towards the aspects of supervision as well as the enactment, and make decisions according to different situations in practice.

However, there are uncertainties as to what the definition of control may be under the finally enacted version of the Foreign Investment Law in the future, and the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC legal advisers' understanding. In any event, our Company will take reasonable steps in good faith to seek to comply with the enacted version of the Foreign Investment Law, if and when it comes into force.

Potential Measures to Maintain Control Over and Receive Economic Benefits from our PRC Operating Entities

As mentioned above, our PRC legal advisers are of the view that the Structured Contracts are likely to be deemed as a domestic investment if the Draft Foreign Investment Law were to become effective in its current form and content. To ensure that the Structured Contracts remain a domestic investment so that our Group can maintain control over our PRC Operating Entities and receive all economic benefits derived from our PRC Operating Entities, our Controlling Shareholders have given an undertaking to our Company, and our Company has agreed to enforce such undertaking to:

- (a) continue to maintain their Chinese nationality and citizenship, and maintain the control of our Company for the purposes of the compliance with the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated from time to time) and related laws applicable to our Group in relation to domestic investments; and
- (b) before any of the Controlling Shareholders transfers or disposes of his equity interest in our Company which leads to the situation that the transferees will become the PRC controlling shareholders of our Company upon the completion of such transfer, such Controlling Shareholder will (i) obtain prior written consents from our Company as to the identity of the transferee(s); (ii) procure such transferees to provide an undertaking in the same terms and conditions as the one offered by such Controlling Shareholder to our Company; and (iii) demonstrate in substance satisfactory to our Company that the Structured Contracts will remain a domestic investment for the purpose of the compliance with the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated from time to time) and related laws applicable to our Group in relation to domestic investments.

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Based on the view of our PRC legal advisers and the aforesaid undertaking given by our Controlling Shareholders, our Directors are of the view that (1) the Structured Contracts are likely to be deemed as a domestic investment and to be permitted to continue; and (2) our Group can maintain control over our PRC Operating Entities and receive all economic benefits derived from our PRC Operating Entities. The aforesaid undertaking will become effective from the date of the listing of our Shares on the Stock Exchange and will remain effective until (1) our Controlling Shareholders are no longer the controlling shareholders of the Company; (2) our Company is not required to comply with the Draft Foreign Investment Law and the Explanatory Note (together with all their subsequent amendments or updates, as promulgated from time to time), the then promulgated and effective PRC Foreign Investment Law and other PRC laws and regulations on foreign investments, and the Stock Exchange has consented that our Company is not required to comply with the same; (3) as informed by the Stock Exchange that our Company is not required to enforce the aforesaid undertaking; or (4) the Stock Exchange and the PRC relevant regulatory authorities have consented to our Company's termination of the aforesaid undertaking. If our Controlling Shareholders are not required to comply with any part but not the entirety of the aforesaid undertaking due to the factors (2), (3), or (4) as mentioned above, they shall be exempted from enforcing such part of the aforesaid undertaking, and the remaining part of the aforesaid undertaking shall remain effective.

Notwithstanding the above, there may be possibilities that the above measures to maintain control over and receive the economic benefits from our consolidated affiliated alone may not be effective in ensuring compliance with the Draft Foreign Investment Law (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. See "Risk Factors — Risks Relating to Our Structured Contracts" in this prospectus for more details.

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 on an occurrence basis;
- (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 and interim reports to update the Shareholders and potential investors;

STRUCTURED CONTRACTS

- (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 its accompanying explanatory notes as stipulated under the section headed “Structured Contracts — 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 “Structured Contracts — Development in the PRC Legislation on Foreign Investment,” including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the Qualification Requirement;
- (e) our Company will disclose, as soon as possible (i) any updates of changes to the Draft Foreign Investment Law that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the final Foreign Investment Law as implemented, specific measures taken by us to fully comply with the final Foreign Investment Law supported by a PRC legal opinion and any material impact of the final Foreign Investment Law on our operations and financial position; and
- (f) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of WFOE and our PRC Operating Entities to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that our executive Directors and a non-executive Director are also the Registered Shareholders, we believe that our Directors are 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 of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of our Directors 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 Group;
- (c) we have appointed 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

STRUCTURED CONTRACTS

- (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.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into a number of continuing agreements and arrangements with our connected persons in our ordinary and usual course of business. Upon the Listing, the transactions disclosed in this section will constitute continuing connected transactions under the Listing Rules.

No.	Transactions	Applicable Listing Rules	Waiver Sought	Proposed annual cap (in RMB'000) for the year ending December 31,		
				2018	2019	2020
1	Trademark License Agreement (as defined below)	14A.34, 14A.52, 14A.53 and 14A.76	Not applicable	300	300	300
2	Structured Contracts	14A.34, 14A.35, 14A.36, 14A.49, 14A.52, 14A.53 to 59 and 14A.71	Requirements as to announcement, shareholders approval, annual cap, and terms not more than three years	N/A	N/A	N/A

Exempted Continuing Connected Transaction

Trademark License Agreement

Pursuant to the trademark license agreement (the “Trademark License Agreement”) dated June 13, 2018 entered into by Guangzhou Beststudy with Huoerguosi Lexue Venture Capital Investment Co., Ltd. (霍爾果斯樂學創業投資有限公司) (“Lexue Venture”), our Company grants a non-exclusive license to Lexue Venture and its subsidiaries for the use of certain of our registered trademarks (the “Licensed Trademark”) in the PRC until December 31, 2020 (the “Licensed Period”). Upon Listing, the transaction under such agreement will constitute a continuing connected transaction of our Company under the Listing Rules.

Historical amount

During the Track Record Period, there was no historical amount in respect of any license fee paid.

CONNECTED TRANSACTIONS

The annual caps and basis of the annual caps

In consideration of the grant of license for the use of the Licensed Trademark under the Trademark License Agreement, Lexue Venture has agreed to pay our Company annual licenses fee at 2.5% of its operating profits of each year during the Licensed Period with the minimum amount of RMB60,000, and maximum amount of RMB300,000.

The license fee is estimated based on the prevailing market practice. The annual cap for the Trademark License Agreement for each of the years ending December 31, 2018, 2019 and 2020 is expected to be RMB300,000, RMB300,000 and RMB300,000, respectively.

Listing Rule implications

Lexue Venture is owned 37.46%, 31.13% and 31.41% by Zhuoben Investment (wholly-owned by Mr. Junjing Tang), Zhuoyan Investment (wholly-owned by Mr. Gui Zhou) and Zhuomiao Investment (wholly-owned by Mr. Junying Tang), respectively. Mr. Junying Tang, Mr. Junjing Tang and Mr. Gui Zhou, all being Directors and persons acting in concert as the Controlling Shareholders of our Group, are connected persons of our Company. Therefore, Lexue Venture is an associate of Mr. Junying Tang, Mr. Junjing Tang and Mr. Gui Zhou and a connected person of our Company according to Rule 14A.12(1)(c) of the Listing Rules.

Based on the annual caps agreed according to the Trademark License Agreement, we expect that each of the applicable percentage ratios (other than the profit ratio) for the Trademark License Agreement calculated in accordance with Rule 14A.77 of the Listing Rules will be less than 0.1% and thus the transactions contemplated under the Trademark License Agreement constitute de minimis connected transactions and are exempted from reporting, announcement and shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

Non-exempted Continuing Connected Transaction

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 the operation of formal K-12 after-school education to Sino-foreign ownership, in addition to imposing a qualification requirement on the foreign owners. Further, no government approval for establishing and operating a K-12 after-school education center in the PRC by way of Sino-foreign ownership was granted. As a result, our Group, through our wholly-owned subsidiary, Zhuoxue Information Technology, our PRC Operating Entities and the Registered Shareholders have entered into the Structured Contracts such that we can conduct our business operations indirectly in the PRC through our PRC Operating Entities while complying with applicable PRC laws and regulations. The Structured Contracts, as a whole, are designed to provide our Group with effective control over the financial and operational policies of our PRC Operating Entities, to the extent permitted by PRC laws and regulations, the right to acquire the equity interest in our PRC Operating Entities. As we operate our education business

CONNECTED TRANSACTIONS

through our PRC Operating Entities, which are controlled by the Registered Shareholders and we do not hold any direct equity interest in our PRC Operating Entities, the Structured Contracts were entered into on June 18, 2018, pursuant to which all material business activities of our PRC Operating Entities are instructed and supervised by our Group, through WFOE, and all economic benefits arising from such business of the our PRC Operating Entities are transferred to our Group.

The Structured Contracts consist of a series of agreements, including the Exclusive Management Consultancy and Business Cooperation Agreement (including the joinder agreements signed by each of our PRC Operating Entities), the Exclusive Call Option Agreements, the Powers of Attorney, the Equity Pledge Agreement and the Spouse Undertakings, each of which is an integral part of the Structured Contracts. See “Structured Contracts” in this prospectus for details of these agreements.

Listing Rule implications

The table below sets forth the connected persons of our Company involved in the Structured Contracts and the nature of their connection with our Group. The transactions contemplated under the Structured Contracts, as a whole, constitute continuing connected transactions of our Company under the Listing Rules upon the Listing.

Name	Connected Relationships
Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou, Mr. Wenhui Xu, and Ms. Huojuan Zhou	Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou and Mr. Wenhui Xu are Directors of our Company, and therefore connected persons of our Company under Rule 14A.07(1) of the Listing Rules. Ms. Huojuan Zhou, who is a sister of Mr. Gui Zhou and the general partner of the ESOP Platforms, is a connected person of our Company under Rule 14A.12 of the Listing Rules.

Our Directors (including the independent non-executive Directors) are of the view that (1) the Structured Contracts and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operations, and (2) 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 transaction rules under the Structured Contracts, it would be unduly burdensome and impracticable, and would add unnecessary administrative

CONNECTED TRANSACTIONS

costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent shareholders' approval requirements.

Application for waiver

In view of the Structured Contracts, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (1) the announcement and independent 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, (2) the requirement of setting an annual cap for the transactions under the Structured Contracts under Rule 14A.53 of the Listing Rules, and (3) 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 agreements governing the Structured Contracts will be made without the approval of the 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 shall continue to enable our Group to receive the economic benefits derived from the PRC Operating Entities through (1) our Group's option, to the extent permitted under PRC laws and regulations to acquire, all or part of the equity interest of Guangzhou Beststudy at the lowest possible amount of consideration permissible under the applicable PRC laws and regulations, (2) the business structure under which the net profit generated by the 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 WFOE by the PRC Operating Entities under the Exclusive Management Consultancy and Business Cooperation Agreement, and (3) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Operating Entities as appointed by the Registered Shareholders in the PRC Operating Entities.

CONNECTED TRANSACTIONS

(d) Renewal and reproduction

On the basis that the Structured Contracts provide an acceptable framework for the relationship between our Company and the subsidiaries in which our Company has direct shareholding, on one hand, and the 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 relating to the Structured Contracts on an ongoing basis as follows:

- the Structured Contracts in place during each financial period will be disclosed in our annual report in accordance with relevant provisions of the Listing Rules;
- the independent non-executive Directors will review the Structured Contracts annually and confirm in our annual report for the relevant year that (1) 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 the PRC Operating Entities has been substantially retained by our Group, (2) no dividends or other distributions have been made by the PRC Operating Entities to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group, and (3) the Structured Contracts and if any, any new contracts entered into, renewed or reproduced between our Group and the PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as our Group is concerned and in the interests of the Shareholders as a whole;

CONNECTED TRANSACTIONS

- our auditors will carry out review procedures annually on the transactions carried out pursuant to the Structured Contracts and will provide a letter to the Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant Structured Contracts and that no dividends or other distributions have been made by the PRC Operating Entities to the Registered Shareholders 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 the PRC Operating Entities will be treated as our subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of the PRC Operating Entities and their respective associates will be treated as our connected persons, 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; and
- each of the PRC Operating Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, each of the PRC Operating Entities will provide our Group’s management and our auditors full access to its relevant records for the purpose of our auditors’ review of the continuing connected transactions.

New transactions amongst our PRC Operating Entities and our Company

Given that the financial results of the PRC Operating Entities will be consolidated into our Group’s financial results and the relationship between the PRC Operating Entities and our Company under the Structured Contracts, all agreements other than the Structured Contracts that may be entered into between each of the PRC Operating Entities and our Group in the future will also be exempted from the “continuing connected transactions” provisions of the Listing Rules.

Views of the Directors and Sole Sponsor

Our Directors (including the independent non-executive Directors) are of the view and the Sole Sponsor concurs that the transactions contemplated under the Structured Contracts have been and will be entered into in the ordinary and usual course of business of our Group, are fundamental to our Group’s legal structure and business operations, are on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole. With respect to the term of the relevant agreements underlying the Structured Contracts which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (1) the financial and operational policies of our PRC Operating Entities can be effectively controlled by WFOE, (2) WFOE can obtain the economic benefits derived from the PRC Operating Entities, and (3) any possible leakages of assets and values of the PRC Operating Entities can be prevented, on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

SUMMARY INFORMATION OF OUR DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our current Directors and senior management. Our Directors and senior management all meet the qualification requirements under the Listing Rules for their respective positions.

Name	Age	Position	Effective date of appointment as Director	Date of joining our Group	Responsibilities	Relationship
Directors						
Mr. Junjing Tang (唐俊京)	49	executive Director, chairman of the Board and chief executive officer	August 27, 2010	October 1997	Responsible for the overall development, operation and management of our Company	Mr. Junjing Tang is the brother of Mr. Junying Tang
Mr. Junying Tang (唐俊膺)	49	executive Director and senior vice president	January 21, 2011	October 1997	Responsible for the overall management of our Company and responsible for the overall operation and management of the business division of Premium Learning Program	Mr. Junying Tang is the brother of Mr. Junjing Tang
Mr. Gui Zhou (周貴)	46	executive Director and senior vice president	January 21, 2011	October 1997	Responsible for the overall management of our Company, and administration, campus construction, and investment and strategic cooperation	–
Mr. Wenhui Xu (徐文輝)	49	non-executive Director	January 21, 2011	January 2011	Overseeing the corporate development and strategic planning of our Group	–
Ms. Wen Li (李雯)	49	non-executive Director	June 13, 2018	February 2017	Overseeing the corporate development and strategic planning of our Group	–

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Effective date of appointment as Director	Date of joining our Group	Responsibilities	Relationship
Mr. Yingmin Wu (吳穎民)	68	independent non-executive Director	December 3, 2018	May 2017	Supervising and providing independent judgment to our Board	–
Ms. Yu Long (隆雨)	43	independent non-executive Director	December 3, 2018	May 2017	Supervising and providing independent judgment to our Board	–
Mr. Peng Xue (薛鵬)	48	independent non-executive Director	December 3, 2018	December 2018	Supervising and providing independent judgment to our Board	–

Name	Age	Position	Effective date of appointment as senior management	Date of joining our Group	Responsibilities	Relationship

Senior management (other than our Directors)

Mr. Wei Dong (董煒)	49	vice president	June 13, 2018	July 2011	Responsible for the overall operation and management of the business division of Elite Talent Program	–
Ms. Weiying Guan (關瑋瑩)	48	vice president	June 13, 2018	February 2009	Responsible for the overall management of the business division of Premium Learning Program, the tutorial class products department and the Guangzhou Branch	–
Mr. Changxu Zhu (朱常敘)	49	joint company secretary	June 13, 2018	August 2015	Responsible for our Company's secretarial work, legal and securities affairs	–
Mr. Hongzhang Zheng (鄭洪章)	46	chief financial officer	June 13, 2018	February 2017	Responsible for financial management of our Company	–

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The Board comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The powers and duties of our Board include managing our business, convening general meetings and reporting our Board's work at our Shareholders' meetings, preparing financial budgets and financial reports, formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by our Articles of Association. We have entered into a service contract with each of our executive Directors. We have also entered into a letter of appointment with each of our non-executive Directors and our independent non-executive Directors.

Executive Directors

Mr. Junjing Tang (唐俊京), aged 49, is an executive Director, the chairman of the Board and our chief executive officer, being responsible for the overall development, operation and management of our Company. Mr. Junjing Tang co-founded our Group as a key senior management member of Guangzhou Beststudy Training Center (廣州卓越教育培訓中心) (formerly known as "Guangzhou Beststudy Tuition Center (廣州卓越教育補習中心)" from June 1998 to September 2000) in October 1997. He was appointed as a Director on August 27, 2010 and designated as an executive Director on June 13, 2018, and was appointed as the chairman of the Board and our chief executive officer on June 13, 2018. He has served as a director and the chairman of the board of directors of Guangzhou Beststudy since July 2000 and served as the principal of Guangzhou Beststudy Training Center from October 1997 to June 2000. Mr. Junjing Tang has over 20 years' experience in the PRC education industry.

Mr. Junjing Tang has also served as the chairman of the board of directors of Huoerguosi Lexue Venture Capital Investment Co., Ltd. (霍爾果斯樂學創業投資有限公司) since December 2016. Prior to founding our Group, Mr. Junjing Tang served as the manager of Guangzhou Riya Advertising Co., Ltd. (廣州市瑞雅廣告有限公司), which is primarily engaged in advertisement business from July 1994 to September 1997.

Mr. Junjing Tang obtained a master's degree in business administration from China Europe International Business School (中歐國際工商學院) and a bachelor's degree in international finance from Shenzhen University (深圳大學) in October 2011 and June 1993, respectively.

Mr. Junying Tang (唐俊鷹), aged 49, is an executive Director and a senior vice president, being responsible for the overall management of our Company and for the overall operation and management of the business division of Premium Learning Program. Mr. Junying Tang was appointed as a Director on January 21, 2011 and designated an executive Director on June 13, 2018. Mr. Junying Tang co-founded our Group as a key senior management member of Guangzhou Beststudy Training Center in October 1997. He was the legal representative of Guangzhou Beststudy Training Center from March 1999 to March 2000. Mr. Junying Tang has over 20 years' experience in the PRC education industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Junying Tang has also served as a director of Huoerguosi Lexue Venture Capital Investment Co., Ltd. since December 2016, respectively. Prior to joining our Group, Mr. Junying Tang served as a deputy manager of Guangzhou Riya Advertising Co., Ltd. from July 1994 to September 1997.

Mr. Junying Tang obtained an executive master's degree in business administration from Peking University (北京大學) and a bachelor's degree in international trade from Sun Yat-Sen University (中山大學) in July 2012 and July 1993, respectively.

Mr. Gui Zhou (周貴), aged 46, is an executive Director, a senior vice president being responsible for the overall management of our Company, and administration, campus construction, and investment and strategic cooperation. Mr. Zhou co-founded our Group as a senior management member of Guangzhou Beststudy Training Center in October 1997. He was appointed as a Director on January 21, 2011 and designated as an executive Director on June 13, 2018. Mr. Zhou has over 20 years' experience in the PRC education industry.

Mr. Zhou has also served as a director of Huoerguosi Lexue Venture Capital Investment Co., Ltd. since December 2016. From July 1994 to September 1997, he served as a deputy manager of Guangzhou Ruiya Advertisement Co., Ltd.

Mr. Zhou obtained an executive master's degree in business administration from Cheung Kong Graduate School of Business (長江商學院) and a bachelor's degree in international trade from Sun Yat-Sen University in October 2012 and June 1994, respectively.

Non-executive Directors

Mr. Wenhui Xu (徐文輝), aged 49, is a non-executive Director, being responsible for overseeing the corporate development and strategic planning of our Group. Mr. Xu joined our Group in January 2011, serving as a director of Guangzhou Beststudy since then. He was appointed as a Director on January 21, 2011 and designated as a non-executive Director on June 13, 2018. Mr. Xu has over 15 years' experience in corporate finance and corporate management.

Mr. Xu has served as an executive director and the general manager of Tibet Zhuohe Chuangye Equity Investment Management Co., Ltd. (西藏卓合創業投資管理有限公司) since June 2016. He has served as a director of Sichuan Great Wall Software Technology Co., LTD (四川長城軟件科技股份有限公司), a company quoted on NEEQ (stock code: 430426), which is primarily engaged in software development and system integration, since January 2012. He has served as a director of Laoniangjiu Catering Co., Ltd. (老娘舅餐飲有限公司), a Chinese style fast-food chain restaurants operator, since March 2008. He has also served as a director of Shenzhen Daxin Investment Consulting Co., Ltd. (深圳市達鑫投資諮詢有限公司), which is primarily engaged in investment consultation, since June 2006. He served as an executive director of Kingdee International Software Group Company Limited (金蝶國際軟件集團有限

DIRECTORS AND SENIOR MANAGEMENT

公司), a company currently listed on the Main Board of the Stock Exchange (stock code: 268) and primarily engaged in software development, from the listing of the company on the GEM of the Stock Exchange in February 2001 to March 2004.

Mr. Xu obtained a master's degree in business administration from China Europe International Business School and a bachelor's degree in economics from Shenzhen University in September 2010 and June 1992, respectively. Mr. Xu passed the certified public accountant national unified examination (註冊會計師全國統一考試) organized by the Ministry of Finance of the PRC in April 1997. Mr. Xu became a member of the Shenzhen Institute of Certified Public Accountants (non-practising) in December 2009.

Ms. Wen Li (李雯), aged 49, is a non-executive Director, being responsible for overseeing the corporate development and strategic planning of our Group. Ms. Li joined our Group in February 2017 as a director of Guangzhou Beststudy, and was appointed as a non-executive Director in June 2018.

Ms. Li has served as an executive director and the general manager of Shenzhen Dezhiqing Investment Co., Ltd. (深圳市德之青投資有限公司), an executive director and the general manager of Shenzhen Deqing Investment Co., Ltd. (深圳德青投資有限公司) and a vice president of Shenzhen Dexun Investment Co., Ltd. (深圳市德迅投資有限公司) since December 2016, June 2014 and August 2007, respectively.

Ms. Li passed the higher education accounting specialist examination (高等教育會計專業專科考試) at Jinan University (暨南大學) in December 2002. Ms. Li obtained the certificate of accounting professional (intermediate level) in the PRC (中國中級會計資格) granted by the Ministry of Personnel of the PRC (中華人民共和國人事部) in May 2004.

Independent non-executive Directors

Mr. Yingmin Wu (吳穎民), aged 68, is an independent non-executive Director, being responsible for supervising and providing independent judgment to our Board. Mr. Wu was appointed as an independent non-executive Director on December 3, 2018 and served as an independent director of Guangzhou Beststudy from May 2017 to March 2018. Mr. Wu has over 30 years' experience in the PRC education industry.

Mr. Wu has been the president of the Association of Principals of Guangdong Province (廣東省中小學校長聯合會) since March 2013. He has been the vice president of The Chinese Society of Education (中國教育學會) since May 2012. Mr. Wu successively served as the vice principal and the principal of the affiliated high school of South China Normal University (華南師範大學附屬中學) and the vice principal of South China Normal University (華南師範大學) during the period from November 1984 to January 2013.

Mr. Wu graduated from South China Normal University (華南師範大學) in July 1976 and obtained a bachelor's degree in chemistry in September 1989.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Yu Long (隆雨), aged 43, is an independent non-executive Director, being responsible for supervising and providing independent judgment to our Board. Ms. Long was appointed as an independent non-executive Director on December 3, 2018 and served as an independent director of Guangzhou Beststudy from May 2017 to March 2018.

Ms. Long has been a director of JD.com International (Singapore) Pte. Limited and the head of the CHO&GC system of Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司), both of which are subsidiaries of JD.com, Inc., a company listed on NASDAQ (stock code: JD) and primarily engaged in e-commerce, since November 2014 and August 2012, respectively.

Ms. Long obtained a master's degree in business administration from China Europe International Business School and a bachelor's degree in economic law from Southwest University of Political Science and Law (西南政法大學) in October 2011 and July 1998, respectively.

Mr. Peng Xue (薛鵬), aged 48, is an independent non-executive Director, being responsible for supervising and providing independent judgment to our Board. Mr. Xue was appointed as an independent non-executive Director on December 3, 2018. Mr. Xue has 20 years' experience in corporate finance.

Mr. Xue has been a joint company secretary of SITC International Holdings Company Limited ("SITC," together with its subsidiaries, "SITC Group"), a company listed on the Main Board of the Stock Exchange (stock code: 1308), since May 2013. He has been the general manager of the operations management center of SITC International Holdings Company Limited since July 2017 and an executive director of SITC since April 2010. From January 2008 to May 2013, he served as the chief financial officer of SITC.

From April 2006 to January 2008, Mr. Xue served as the financial manager of SITC Group Company Limited and SITC Shipping Agency (HK) Company Limited (新海豐船務代理(香港)有限公司). He served as the general manager of the finance department of SITC Group Company Limited from April 2006 to January 2008 and a deputy general manager of the finance center of SITC Maritime Group Co., Ltd. (山東海豐國際航運集團有限公司) from January 2003 to April 2006. From February 2002 to January 2003, he served as the general manager of the supervision department in SITC Maritime Group Co., Ltd. From March 1999 to February 2002, he served as the finance manager of SITC Japan Co., Ltd. From January 1998 to March 1999, he served as a financial manager in SITC Container Lines (Shandong) Co., Ltd. and SITC Maritime Group Co., Ltd.

Mr. Xue attended long distance learning courses and obtained a bachelor's degree in accounting from Renmin University of China (中國人民大學) September 2006. He received a master's degree in business administration from China Europe International Business School in October 2011. He attends a senior enterprise governance workshop program (高級企業管治研修班) jointly organized by The Open University of Hong Kong (香港公開大學) and East

DIRECTORS AND SENIOR MANAGEMENT

China University of Science and Technology (華東理工大學) starting from September 2016. He obtained the certificate of accounting professional (intermediate level) in the PRC (中國中級會計資格) granted by the Ministry of Personnel of the PRC (中華人民共和國人事部) in May 2004.

Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed above, each of our Directors confirms with respect to himself or herself that he or she (1) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; (2) did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas; and (3) there are no other matters concerning our Directors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Wei Dong (董煒), aged 49, is a vice president of our Company, being responsible for the overall operation and management of the business division of Elite Talent Program. Mr. Dong joined our Group in July 2011 and was appointed as a vice president of our Company on June 13, 2018. He has served as a vice president of Guangzhou Beststudy since July 2011.

Prior to joining our Group, Mr. Dong served as the vice president of human resources of Shenzhen Kung Fu Catering Management Co., Ltd. (深圳真功夫餐飲管理有限公司), which is engaged in catering management, from February 2010 to June 2011. From December 1991 to February 2010, he worked in McDonald's (China) Company Limited (麥當勞(中國)有限公司), a restaurant chain operator, and was its human resources director when he left the company.

Mr. Dong obtained his bachelor's degree in applied physics from Chongqing University (重慶大學) in July 1991.

Ms. Weiying Guan (關瑋瑩), aged 48, is a vice president of our Company, being responsible for the overall management of the business division of Premium Learning Program, the tutorial class products department and the Guangzhou Branch. Ms. Guan joined our Group in February 2009 and was appointed as a vice president of the Company on June 13, 2018. She has served as a vice president of Guangzhou Beststudy since September 2017. She served as the marketing director of our Group from February 2009 to August 2017.

Prior to joining our Group, Ms. Guan served as a marketing manager of Taikoo Hui (Guangzhou) Development Co., Ltd. (太古匯(廣州)發展有限公司), a real property developer, from February 2006 to December 2007. From July 1993 to October 2005, she worked in Akzo Nobel Swire Paints (Guangzhou) Limited (阿克蘇諾貝爾太古漆油(廣州)有限公司), which is primarily engaged in paints production, and was its marketing director when she left the company.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Guan obtained a master's degree in business administration from Jinan University in June 2001 and a bachelor's degree in international trade from Sun Yat-sen University in July 1993.

Mr. Changxu Zhu (朱常敘), aged 49, is a joint company secretary of our Company, being responsible for our Company's secretarial work, legal and securities affairs. Mr. Zhu joined our Group in August 2015 and was appointed as a joint company secretary of our Company on June 13, 2018. He has served as the secretary of the board of directors and the director of the securities and legal department of Guangzhou Beststudy since August 2015. Mr. Zhu has over 15 years' experience in corporate management.

Prior to joining our Group, Mr. Zhu served as the secretary of board of directors of Hucais Printing Co., Ltd. (虎彩印藝股份有限公司), a company quoted on NEEQ (stock code: 834295) and primarily engaged in printing and packaging business, from October 2013 to October 2014. From December 2001 to July 2002, he served as the secretary of the board of directors of Guangdong Kelon Electrical Holding Company Limited (廣東科龍電器股份有限公司), which is currently known as Hisense Kelon Electrical Holdings Company Limited (海信科龍電器股份有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 921) and Shenzhen Stock Exchange (stock code: 000921), and primarily engaged in houseware manufacturing. From January 1991 to June 2000, he successively served as a manager and a vice president of Gaoming Sub-branch (高明支行) and Shunde Sub-branch (順德支行) of Foshan Branch (佛山分行), Bank of China Limited (中國銀行股份有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 3988) and Shanghai Stock Exchange (stock code: 601988) and quoted on the OTC Markets Group Inc. in the United States of America (stock codes: BACHF and BACHY).

Mr. Zhu obtained his bachelor's degree in laws from Sun Yat-sen University in July 1990. Mr. Zhu obtained the lawyer qualification granted by Guangdong Department of Justice (廣東省司法廳) in April 1994.

Mr. Hongzhang Zheng (鄭洪章), aged 46, is the chief financial officer of our Company, being responsible for financial management of our Company. Mr. Zheng joined our Group in February 2017 and was appointed as the chief financial officer of our Company on June 13, 2018. He has served as the chief financial officer of Guangzhou Beststudy since February 2017. Mr. Zheng has over 14 years' experience in finance management.

Prior to joining our Group, Mr. Zheng served as the chief financial officer of Guangzhou Bright Dairy Co., Ltd. (廣州光明乳品有限公司), a subsidiary of Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600597), from July 2006 to January 2017. Guangzhou Bright Dairy Co., Ltd. is primarily engaged in dairy products manufacturing. From July 2004 to July 2006, he served as a finance manager of the business department of Robust (Guangdong) Food Beverage Co., Ltd. (樂百氏(廣東)食品飲料有限公司).

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Mr. Zheng obtained a master's degree in business administration in June 2008 from Sun Yat-sen University. He attended the international MBA program co-developed by Sloan School of Management of Massachusetts Institute of Technology and Lingnan (University) College of Sun Yat-sen University from September 2005 to June 2008.

Each of the senior management members confirms with respect to himself or herself that he or she did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas.

JOINT COMPANY SECRETARIES

Mr. Changxu Zhu (朱常敘), see “— Senior Management” for details.

Ms. Chau Hing Ling (周慶齡), aged 44, is a joint company secretary of our Company. Ms. Chau has over 16 years of experience in the corporate services industry. She joined Vistra Corporate Services (HK) Limited in June 2013 and has been serving as a director of Corporate Services, where she leads a team of professional staff to provide a full range of corporate services and listed company secretary services. She is currently the company secretary or joint company secretary of several companies listed on the Stock Exchange.

She received a master of laws majoring in corporate and financial law from The University of Hong Kong in November 2007. She has been a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since May 2013.

MANAGEMENT PRESENCE IN HONG KONG

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under Rule 8.12 of the Listing Rules regarding the requirement of management presence in Hong Kong. For details of the waiver, see “Waiver from Strict Compliance with the Listing Rules” in this prospectus.

BOARD COMMITTEES

The Board delegates certain responsibilities to various Board committees. In accordance with the Articles and the Listing Rules, we have established our audit committee, remuneration committee and nomination committee.

DIRECTORS AND SENIOR MANAGEMENT

Audit Committee

We established an audit committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on December 3, 2018 with effect from the Listing Date. The audit committee consists of Mr. Peng Xue, Ms. Yu Long and Mr. Wenhui Xu, with Mr. Peng Xue being the chairman of the committee.

The primary function of the audit committee is to assist our Board in providing an independent view of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee with terms of reference in compliance with paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on December 3, 2018 with effect from the Listing Date. The remuneration committee consists of Ms. Yu Long, Mr. Junjing Tang and Mr. Peng Xue, with Ms. Yu Long being the chairman of the committee.

The primary function of the remuneration committee is to evaluate and make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration.

Nomination Committee

We have established a nomination committee with terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on December 3, 2018 with effect from the Listing Date. The nomination committee consists of Mr. Junjing Tang, Mr. Yingmin Wu and Ms. Yu Long, with Mr. Junjing Tang being the chairman of the committee.

The primary function of the nomination committee is to make recommendations to our Board in relation to the appointment of Directors.

EMOLUMENT OF DIRECTORS AND SENIOR MANAGEMENT

We offer our executive Directors and senior management members, who are also employees of our Company, emolument in the form of salaries, remuneration, pension, discretionary bonus and other welfares. Our non-executive Director does not receive any emolument from our Group. Our independent non-executive Directors receive emolument

DIRECTORS AND SENIOR MANAGEMENT

based on their responsibilities (including being members or chairman of Board committees). We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

The aggregate amount of emolument (including salaries, remuneration, pension, discretionary bonus and other welfares) paid to our Directors for the years of 2015, 2016 and 2017 and the six months ended June 30, 2018 were RMB4.6 million, RMB4.5 million, RMB5.1 million and RMB3.9 million, respectively. It is estimated that under the arrangements currently in force, the aggregate emolument payable to our Directors for the year ending December 31, 2018, will be approximately RMB6.8 million.

For the three years of 2015, 2016 and 2017 and the six months ended June 30, 2018, the five highest paid individuals of our Group include three directors. The aggregate amount of emolument paid to the remaining two highest paid individuals of our Group were RMB2.8 million, RMB3.4 million, RMB4.6 million and RMB2.0 million, respectively.

During the Track Record Period, no remuneration was paid to, or receivable by, our Directors or the five highest paid individuals of our Company as an inducement to join or upon joining our Company or as a compensation for loss of office in the Track Record Period. Further, none of our Directors waived any emolument during the same period.

Except as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors or the five highest paid individuals of our Company during the Track Record Period.

Each of our executive Directors has entered into a service contract with us and we also has entered into letters of appointment with each of our non-executive Directors and independent non-executive Directors. For details, see “Statutory and General Information — C. Further Information about our Directors” in Appendix IV to this prospectus.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. Junjing Tang is our chairman and chief executive officer. With extensive experience in the education industry, Mr. Junjing Tang is responsible for overall development, operation and management of our Company and is instrumental to our growth and business expansion since our establishment. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced individuals. Our Board currently comprises three executive Directors (including Mr. Junjing Tang), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE ADVISOR

We have appointed Central China International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

- (a) before publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or our results deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment of our compliance advisor will commence on the Listing Date and end on the date on which we distribute the annual report of the first full financial year commencing after the Listing and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

The authorized share capital of our Company as of the date of this prospectus is as follows:

Authorized Share capital:	Aggregate nominal value US\$
3,000,000,000 Shares	US\$150,000.00

Assuming the Over-allotment Option is not exercised at all and without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme, our Company's issued share capital immediately before and after the RSU Allotment and the Global Offering will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the RSU Allotment and the Global Offering:	Aggregate nominal value US\$
653,100,000 Shares in issue as of the date of this prospectus	32,655.00
43,540,000 Shares to be issued to Soarise Bulex Limited under the RSU Allotment	2,177.00
<u>151,400,000</u> Shares to be issued under the Global Offering	<u>7,570.00</u>
<u><u>848,040,000</u></u> Total	<u><u>42,402.00</u></u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issuance of Shares pursuant to the RSU Allotment and the Global Offering. It does not take into account any Shares which may be allotted and issued or repurchased pursuant to the general mandate given to the Directors for allotment and issuance of Shares or the repurchase mandate described below, as the case may be.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank *pari passu* for all dividends or other distributions declared, made or paid after the date of this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Assuming the Global Offering becomes unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate number of Shares of not more than the sum of:

- (i) 20% of the issued share capital of our Company immediately following the completion of the RSU Allotment and the Global Offering (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option); and
- (ii) the number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a right issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This mandate will expire at the earlier of:

- (i) the conclusion of our Company's next annual general meeting;
- (ii) the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate, see "Statutory and General Information — A. Further information about our Company, Subsidiaries and PRC Operating Entities — 4. Resolutions of the then shareholders of our Company dated December 3, 2018" of Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the issued share capital of our Company immediately following the completion of the RSU Allotment and the Global Offering (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme).

SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Appendix IV — Statutory and General information — A. Further information about our Company, Subsidiaries and PRC Operating Entities — 5. Repurchase of our own securities.”

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this repurchase mandate, see “Statutory and General Information — A. Further information about our Company, Subsidiaries and PRC Operating Entities — 5. Repurchase of our own securities” of Appendix IV to this prospectus.

RSU SCHEME

The RSU Scheme was adopted on December 3, 2018. Please refer to the subsection headed “Statutory and General Information — D. Share Incentive Schemes — 1. RSU Scheme” in Appendix IV to this prospectus for details.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised under the section headed “Statutory and General Information — D. Share Incentive Schemes — 2. Share Option Scheme” in Appendix IV to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING IS REQUIRED

Pursuant to the Cayman Companies Law and the Articles of Association, our Company may from time to time by ordinary shareholders' resolution (i) increase our capital; (ii) consolidate and divide our capital into shares of larger amount; (iii) divide our Shares into classes; (iv) subdivide our Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce our capital by Shareholders' special resolution. Further information is set forth in the paragraphs under "Summary of Articles of Association and the Cayman Companies Law — 2. Articles of Association — 2.1 Shares — (c) Alteration of capital" in Appendix III to this prospectus.

Further, all or any of the special rights attached to our Share or any class of shares may be varied, modified 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 general meeting of the holders of our shares of that class. Further information is set forth in the paragraphs under "Summary of Articles of Association and the Cayman Companies Law — 2. Articles of Association — 2.1 Shares — (b) Variation of rights of existing Shares or classes of Shares" in Appendix III to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, each of the following persons will, immediately following the completion of the RSU Allotment and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), has an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, be interested in 10% or more of the issued voting shares of our Company:

Name of shareholder	Capacity/Nature of interest	Immediately after the RSU Allotment and the Global Offering ⁽¹⁾	
		Number of Shares ⁽²⁾	Approximate percentage of shareholding interest
Mr. Junjing Tang ⁽³⁾	Interest in a controlled corporation; interest held jointly with another person	456,934,231 (L)	53.88%
Ms. Yanyun Huang (黃艷筠) ⁽⁴⁾	Spouse interest	456,934,231 (L)	53.88%
Elite BVI	Beneficial owner	456,934,231 (L)	53.88%
Mr. Junying Tang ⁽⁵⁾	Interest in a controlled corporation; interest held jointly with another person	456,934,231 (L)	53.88%
Ms. Hua Yu (郁華) ⁽⁶⁾	Spouse interest	456,934,231 (L)	53.88%
Texcellence BVI	Beneficial owner	456,934,231 (L)	53.88%
Mr. Gui Zhou ⁽⁷⁾	Interest in a controlled corporation; interest held jointly with another person	456,934,231 (L)	53.88%
Ms. Xiaoying Zhang (張曉英) ⁽⁸⁾	Spouse interest	456,934,231 (L)	53.88%
Jameson Ying BVI	Beneficial owner	456,934,231 (L)	53.88%

Notes:

- (1) Without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.
- (2) The letter “L” denotes the person’s long position in the Shares.
- (3) Under the SFO, Mr. Junjing Tang is deemed to be interested in all Shares held by Elite BVI, a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junying Tang and Mr. Gui Zhou as they are parties acting in concert.
- (4) Ms. Yanyun Huang is the spouse of Mr. Junjing Tang and she is therefore deemed to be interested in the Shares in which Mr. Junjing Tang is interested by the virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS

- (5) Under the SFO, Mr. Junying Tang is deemed to be interested in all Shares held by Texcellence BVI, a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junjing Tang and Mr. Gui Zhou as they are parties acting in concert.
- (6) Ms. Hua Yu is the spouse of Mr. Junying Tang and she is therefore deemed to be interested in the Shares in which Mr. Junying Tang is interested by the virtue of the SFO.
- (7) Under the SFO, Mr. Gui Zhou is deemed to be interested in all Shares held by Jameson Ying BVI, a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junjing Tang and Mr. Junying Tang as they are parties acting in concert.
- (8) Ms. Xiaoying Zhang is the spouse of Mr. Gui Zhou and she is therefore deemed to be interested in the Shares in which Mr. Gui Zhou is interested by the virtue of the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the RSU Allotment and the Global Offering, have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, indirectly or indirectly, be interested in 10% or more of the issued voting shares of our Company. For persons who are interested, indirectly or directly, in 10% or more of the issued voting shares of any other member of our Group, see “History and Corporate Structure — Group Structure upon the Listing.” Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

FINANCIAL INFORMATION

You should read the following discussion in conjunction with the consolidated financial statements and the notes thereto included in the Accountants' Report in Appendix I to this prospectus which has been prepared in accordance with IFRS, and the selected historical financial information and operating data included elsewhere in this prospectus.

Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors." In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We were the largest K-12 after-school education service provider in southern China and the fifth largest nationwide as measured by total student enrollments and revenue in 2017, according to the F&S Report. We have built a comprehensive K-12 education platform that encompasses a wide variety of after-school education services and educational products to address the diverse needs of our students. As of June 30, 2018, we operated our programs through a network of 213 education centers across 10 cities in China. We control our education centers through the Structured Contracts. In 2015, 2016 and 2017 and the six months ended June 30, 2018, we had a total of approximately 313,000, 366,000, 500,000 and 289,000 students enrolled in our programs, respectively. The total tutoring hours we delivered increased from approximately 7,472,000 in 2015 to approximately 11,180,000 in 2017 at a CAGR of 22.3%. For the six months ended June 30, 2017 and 2018, the total tutoring hours we delivered were approximately 4,814,000 and 6,003,000, respectively. As of June 30, 2018, we had a total of 2,750 full-time teachers.

We mainly derive revenue from tuition fees paid by students of our education centers. We generally require students to pre-pay tuition fees at the beginning of each course. We recognize tuition fees after our service was delivered.

We experienced steady growth in our revenue and gross profit during the Track Record Period. Our revenue increased from RMB760.0 million for the year ended December 31, 2015 to RMB896.1 million for the year ended December 31, 2016, and further to RMB1,141.7 million for the year ended December 31, 2017. Our revenue increased from RMB561.3 million in the six months ended June 30, 2017 to RMB723.1 million in the six months ended June 30, 2018. Our gross profit for the year increased from RMB315.6 million for the year ended December 31, 2015 to RMB376.3 million for the year ended December 31, 2016, and further to RMB482.8 million for the year ended December 31, 2017. Our gross profit increased from RMB244.9 million in the six months ended June 30, 2017 to RMB305.9 million in the six months ended June 30, 2018.

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FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial condition and 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 K-12 After-school Education in China

Demand for K-12 after-school education in China is driven by a number of factors, including the level of economic development, changes in demographics and favorable government policies.

According to the F&S Report, China's per capita nominal GDP has increased at a fast pace from RMB43,700 in 2013 to RMB59,500 in 2017, representing a CAGR of approximately 8.0%, and is expected to reach RMB79,600 in 2022. The overall economic growth and the increase in per capita nominal GDP in China have increased the level of Chinese per capita annual expenditure of urban households on education. Chinese per capita annual expenditure on education increased at a CAGR of 9.3% from RMB578 in 2013 to RMB826 in 2017. Furthermore, according to the F&S Report, Chinese parents have historically valued their children's education highly, and are willing to incur significant expenditures on high-quality education. This, together with the increasing PRC urban household income and wealth, has played a significant role in the increase in the demand for private education in China.

In 2013, China has relaxed its "one-child policy." Since 2016, each family is allowed to have two children. We believe in coming years this change in policy will drive the growth of K-12 student population and in turn the demand for after-school education services.

The PRC government has promulgated a number of policies and regulations to encourage and promote the development of private education by encouraging private capital to flow into the education business. Furthermore, the private education market in China is becoming more and more regulated, speeding up the consolidation of the private education industry and creating more opportunities for large educational institutions like us to gain more market share. Other favorable policies are likely to be introduced to further stimulate the development of the private education in China, according to the F&S Report.

Tutoring Hours and Student Enrollments

Our revenue primarily consists of tuition fees from students enrolled in our courses, which are primarily driven by the increase in our total tutoring hours delivered and our student enrollments. Our growth in student enrollments is directly affected by our ability to recruit new students and retain our current students.

Our ability to attract new students is largely dependent on our reputation and brand recognition. Besides, we have expanded our service offerings to a broader spectrum of after-school education services in various class formats since establishment to meet the diversified demands of our students. Currently, our course and service offerings cover all core

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subjects in China's school curricula at each grade level of the K-12 system, as well as certain extra-curricular courses by our Elite Talent Program, such as "Zhuoyue Macro-Chinese," "Arts of Skillful Questioning," and "Young Learners' English." We have also expanded and will continue to expand our network of education centers and team of teaching staff to accommodate our business development.

We expect our student enrollments and the tutoring hours we deliver will continue to grow.

Tuition Fees

Our results of operations are also affected by the level of tuition fees we are able to charge. The tuition fees we charge are typically based on the type and the demand for our tutoring programs, the cost of our operations, the geographic markets where we operate our education centers, the tuition fees charged by our competitors, our pricing strategy to gain market share and general economic conditions in China. Our average tuition fee per tutoring hour increased steadily during the Track Record Period. For details of our tuition fee ranges, see "Business — Our Education Services and Products — Pricing."

Network of Education Centers

Our ability to expand our network of education centers is one of the most important factors affecting our results of operations. We have expanded our network primarily through opening new education centers. Our education centers grew from 136 as of December 31, 2015 to 149 as of December 31, 2016, and further to 180 as of December 31, 2017. As of June 30, 2018, our education centers further increased to 213.

In addition, we have increased the capacity and utilization of our existing education centers by renovating our existing education centers and recruiting more teachers.

Ability to Control Cost of Sales and Expenses

Our profitability also depends, in part, on our ability to control our cost of sales and expenses. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our cost of sales represented 58.5%, 58.0%, 57.7%, 56.4% and 57.7% of our total revenue, respectively. Our cost of sales primarily consists of staff costs and rental costs. We value our teachers as the cornerstone to our sustainable success. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our staff cost represented 69.9%, 71.7%, 69.9%, 72.2% and 69.6% of our total costs of sales, respectively, which is in line with the cost structure commonly adopted in the education industry, according to the F&S Report. During the Track Record Period, we operated our education centers on leased properties, and the rental cost represented 18.6%, 19.2%, 18.8%, 18.4% and 20.3% for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively.

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Our selling expenses and administrative expenses remained relatively stable during the Track Record Period. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, the total amount of selling expenses and administrative expenses from our operations as a percentage of our total revenue was 21.5%, 22.6%, 23.9%, 25.2% and 18.5%, respectively.

Our research and development expenses increased steadily during the Track Record Period and amounted to RMB64.0 million, RMB83.7 million, RMB140.1 million, RMB60.9 million and RMB78.7 million for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively. We expect our research and development costs will decrease going forward as percentage of revenue.

BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands on August 27, 2010 as an exempted company with limited liability under the Cayman Companies Law. Our Group is principally engaged in the K-12 after school education business in the PRC. Pursuant to the Corporate Reorganization, as more fully explained in “History and Corporate Structure — Corporate Reorganization” in the Prospectus, our Company became the holding company of the companies now comprising our Group on June 18, 2018.

Due to the regulatory restriction on foreign ownership in K-12 after-school education business in China, we have entered into the Structured Contracts with our PRC Operating Entities in China and the Registered Shareholders. Accordingly, our PRC Operating Entities in China are controlled by our Company based on the Structured Contracts though we do not have direct or indirect equity interest in our PRC Operating Entities. Pursuant to the Corporate Reorganization, Zhuoxue Information Technology, our Company’s wholly-owned subsidiary, has entered into the Structured Contracts with, among others, our PRC Operating Entities and their respective equity holders. The arrangements of the Structured Contracts enable Zhuoxue Information Technology to exercise effective control over our PRC Operating Entities and obtain substantially all economic benefits of our PRC Operating Entities. Accordingly, our PRC Operating Entities are controlled by our Company based on the Structured Contracts though our Company does not have any direct or indirect equity interest in the PRC Operating Entities. See “Structured Contracts” in this prospectus for more details.

The companies now comprising our Group were under the common control of the Controlling Shareholders before and after the Corporate Reorganization. Accordingly, for the purposes of this prospectus, the financial information have been prepared by applying the principles of merger accounting as if the Corporate Reorganization had been completed at the beginning of the Track Record Period.

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The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where the shorter period shall prevail. The consolidated statements of financial position of our Group as of December 31, 2015, 2016 and 2017 and June 30, 2018 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or to recognize any new assets or liabilities as a result of the Corporate Reorganization.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholders, and changes therein, prior to the Corporate Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting.

The financial information contained herein is presented in Renminbi.

Except for IFRS 9 *Financial Instruments*, all IFRSs effective for the accounting period commencing from January 1, 2018, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period.

Our Group has applied IFRS 9, effective for the period beginning on January 1, 2018. Our Group has not restated the historical financial information from January 1, 2015 to December 31, 2017 for financial instruments in the scope of IFRS 9. The historical financial information for the years ended December 31, 2015, 2016 and 2017 is reported under *IAS 39 Financial Instruments: Recognition and Measurement* and is not comparable to the historical financial information presented for the six months ended June 30, 2018. For details of the effect of adopting IFRS 9, see Note 2.3 to the Accountants' Report in Appendix I to this prospectus.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Some of our significant accounting policies involve subjective assumptions and estimates, as well as complex judgments by our management relating to accounting items. Our significant accounting policies are set forth in detail in the Accountants' Report included in Appendix I to this prospectus.

The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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Revenue Recognition

Revenue from contracts with customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Rendering of services

Our Group offers various types of after-school education services to help students improve their academic performance and qualify for their desired schools and universities, including: (i) small group tutoring of Premium Learning Program; (ii) individualized group tutoring of Premium Learning Program; (iii) Full-time Test Preparation Program; and (iv) Elite Talent Program.

Bundled package of services

Certain programs are offered at a discount or free of charge if ordered in a bundled package.

Each program is identified as a separate performance obligation. Our Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price.

The performance obligations are satisfied over time because a customer simultaneously receives and consumes the benefits provided by our Group. Revenues for these services are recognized over time using an output method based on unit of classes delivered to measure progress towards complete satisfaction of the service.

Advances received from customers

Generally, our Group receives short-term advances from its customers and recognizes such advances as contract liabilities. Our Group expects, at contract inception, that the period between the time a customer pays for the service and when our Group transfers that promised service to a customer will be one year or less.

Variable consideration

Certain contracts provide customers with a right of refund when a customer completes the program but fails to achieve the predetermined test result. Rights of refund give rise to variable consideration.

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At contract inception, our Group uses the expected value method to estimate the amount that will be refunded because this method best predicts the amount of variable consideration to which our Group will be entitled. Our Group applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. Our Group records the amount that will be refunded as a refund liability in other payables and accruals in the consolidated statement of financial position. The revenue recognition is deferred until the associated uncertainty is subsequently resolved.

Interest income

Interest income from a financial asset is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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 tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the relevant periods, taking into consideration interpretations and practices prevailing in the countries in which our Group operates.

Deferred tax is provided, using the liability method, on all temporary differences as at the end of each of the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed as at the end of each of the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed as at the end of each of the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the relevant periods.

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Deferred tax assets and deferred tax liabilities are offset if and only if we have a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Depreciation

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Office equipment	19.00% to 33.33%
Electronic equipment	31.67% to 33.33%
Motor vehicles	19.00% to 20.00%
Leasehold improvements	20.00% to 33.33%

Early Application of IFRS 15

IFRS 15 “Revenue from contracts with customers” replaces the previous revenue standards IAS 18 “Revenue” and the related interpretations. The standard is effective for the accounting period commencing from January 1, 2018 which have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period.

Based on our assessment, except for some reclassifications in relation to our unsatisfied performance obligations, our Directors believe that there is no significant impact on the financial position and performance of our Group due to the early adoption of HKFRS 15 as compared to IAS 18. As of December 31, 2015, 2016 and 2017 and June 30, 2018, contract liabilities of RMB338.4 million, RMB401.6 million, RMB517.2 million and RMB518.6 million, respectively, should have been presented as deferred revenue should IAS 18 have been applied throughout the Track Record Period.

Application of IFRS 9

Our Group has applied IFRS 9, effective for the period beginning on January 1, 2018. Our Group has not restated historical financial information from January 1, 2015 to December 31, 2017 for financial instruments in the scope of IFRS 9. The historical financial information for the years ended December 31, 2015, 2016 and 2017 is reported under IAS 39 *Financial Instruments: Recognition and Measurement* and is not comparable to the historical financial information presented for the six months ended June 30, 2018.

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The effect of adopting IFRS 9 is described below:

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through other comprehensive income.

Based on our assessment, except for some reclassifications in relation to our financial assets, our Directors believe that there is no significant impact on the financial position and performance of our Group. Our Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The following describes the classification of our Group's financial assets upon the adoption of IFRS 9 as of January 1, 2018:

- Financial assets included in prepayments, deposits and other receivables of RMB59,608,000 previously classified as loans and receivables under IAS 39 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost.
- Under IAS 39, wealth management products of RMB10,008,000, of which the principal and interests are guaranteed, were previously classified as financial assets at amortized costs. Other wealth management products of RMB547,567,000 were classified as financial assets at profit or loss. Under IFRS 9, they are now all classified and measured as financial assets at fair value through profit or loss (debt instruments). The return on these wealth management products is contractually linked to a pool of investments with concentration of credit risks through subordination and/or guarantee. Our Group has no access to the underlying pool of investments and thus classifies the wealth management products at fair value through profit or loss in accordance with IFRS 9.B4.1.26. For those wealth management products reclassified from financial assets at amortized costs to fair value through profit or loss, on the date of initial application of IFRS 9, the fair value of the wealth management products approximates its amortized costs.
- Equity investments in both listed and non-listed companies, amounting to RMB14,068,000 and RMB64,581,000, respectively, previously were designated as financial assets at fair value through profit or loss under IAS 39. Upon the adoption of IFRS 9, our Group did not elect to designate these equity investments as fair value through other comprehensive income, and these equity investments thus are classified and measured at fair value through profit or loss.

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Our Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for our Group's financial liabilities.

(b) Impairment

The adoption of IFRS 9 has changed our Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires our Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, our Group assessed that the ECLs for financial assets included in prepayment, deposits and other receivables, short-term investments measured at amortized cost and cash and cash equivalents were immaterial.

RESULTS OF OPERATIONS

Consolidated Statements of Profit or Loss

The table below sets forth our consolidated statements of profit or loss with line items in absolute amounts and as percentages of our total revenue for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONTINUING OPERATIONS					
Revenue from contracts					
with customers	759,991	896,131	1,141,701	561,298	723,116
Cost of sales	(444,377)	(519,812)	(658,951)	(316,430)	(417,215)
Gross profit	315,614	376,319	482,750	244,868	305,901
Other income and gains, net . .	15,414	9,838	18,858	11,976	4,047
Investment income	504	327	751	45	164
Selling expenses	(64,180)	(79,009)	(95,107)	(47,447)	(54,901)
Research and development					
expenses	(63,996)	(83,743)	(140,060)	(60,881)	(78,656)
Administrative expenses	(99,190)	(123,392)	(177,856)	(94,199)	(79,009)
Fair value changes on					
investments at fair value					
through profit or loss	4,320	2,184	33,259	3,301	33,331

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	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fair value changes on convertible redeemable preferred shares	12,403	—	—	—	—
Share of losses of associates . .	(7,143)	(14,019)	(3,895)	(3,385)	(1,128)
Share of profits of a joint venture	—	—	—	—	89
Other expenses	(4,762)	(2,582)	(5,918)	(3,227)	(16,538)
Profit before tax from continuing operations	108,984	85,923	112,782	51,051	113,300
Income tax expense	(38,467)	(27,753)	(37,374)	(22,077)	(31,391)
Profit for the year/period from continuing operations	70,517	58,170	75,408	28,974	81,909
DISCONTINUED OPERATIONS					
(Loss)/profit for the year/period from discontinued operations . . .	—	(152)	(9,599)	(1,289)	914
Profit for the year/period . . .	70,517	58,018	65,809	27,685	82,823
Non-IFRS Measure: Adjusted net profit ⁽¹⁾	59,766	59,263	106,570	58,697	99,582

(1) See “— Non-IFRS Measure” for details.

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DESCRIPTION OF MAJOR COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue from contracts with customers

We generate revenue primarily from the tuition fees we collect from our students. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our revenue from the tuition fees we collect from our students was RMB760.0 million, RMB896.1 million, RMB1,141.7 million, RMB561.3 million and RMB723.1 million, respectively. The following table sets forth the revenue we generated from tuition fees by type of education services for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Premium Learning Program										
– <i>Small group tutoring</i> . . .	341,665	45.0	417,254	46.6	554,769	48.6	246,379	43.9	339,718	47.0
– <i>Individualized tutoring</i> . .	319,767	42.0	368,208	41.1	458,694	40.2	243,176	43.3	295,817	40.9
Elite Talent Program	6,137	0.8	13,719	1.5	26,695	2.3	9,935	1.8	17,848	2.5
Full-time Test Preparation										
Program	92,422	12.2	96,850	10.8	99,981	8.8	61,295	10.9	67,421	9.3
Others ⁽¹⁾	–	–	100	0.0	1,562	0.1	513	0.1	2,312	0.3
Total	<u>759,991</u>	<u>100.0</u>	<u>896,131</u>	<u>100.0</u>	<u>1,141,701</u>	<u>100.0</u>	<u>561,298</u>	<u>100.0</u>	<u>723,116</u>	<u>100.0</u>

(1) Our revenue from other services mainly represents revenue generated from Feng Bei app.

The increase in our revenue during the Track Record Period primarily reflects the increase in the total tutoring hours we deliver and the average tuition fee per tutoring hour we charge. For our Full-time Test Preparation Program, the increase in revenue during the Track Record Period primarily reflects an increase in the tuition fee level we charge. For details of the number of our tutoring hours delivered and tuition fee level during the Track Record Period, see “Business — Our Education Services and Products.”

We typically collect tuition fees from students in advance for the classes that they purchase and record the tuition fees initially contract liabilities. We generally recognize tuition fee as revenue proportionally as the tutoring services are delivered.

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For small group tutoring under our Premium Learning Program and Full-time Test Preparation Program, students can sign up for contractual classes, which generally allow a refund of tuition fees as prescribed in the contracts if the students fail to achieve the predetermined examination results. See “Business — Our Education Services and Products — Refund of Tuition Fees.”

The following table sets forth the revenue we generated from tuition fees by course model for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Non-contractual classes	677,727	89.2	802,584	89.6	1,023,089	89.6	495,087	88.2	647,712	89.6
Contractual classes										
– Small group tutoring . . .	28,014	3.7	34,246	3.8	59,904	5.3	24,028	4.3	33,364	4.6
– Full-time Test Preparation Program	54,250	7.1	59,301	6.6	58,708	5.1	42,183	7.5	42,040	5.8
Subtotal	82,264	10.8	93,547	10.4	118,612	10.4	66,211	11.8	75,404	10.4
Total	<u>759,991</u>	<u>100.0</u>	<u>896,131</u>	<u>100.0</u>	<u>1,141,701</u>	<u>100.0</u>	<u>561,298</u>	<u>100.0</u>	<u>723,116</u>	<u>100.0</u>

Cost of Sales

Our cost of sales primarily consists of staff costs and rental costs. The following table sets forth a breakdown of the components of our cost of sales for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	310,422	69.9	372,492	71.7	460,746	69.9	228,425	72.2	290,912	69.6
Rental costs	83,289	18.7	99,608	19.2	124,021	18.8	58,078	18.4	84,502	20.3
Teaching material costs	23,777	5.4	20,983	4.0	28,727	4.4	13,762	4.3	17,380	4.2
Depreciation and amortization	14,361	3.2	10,593	2.0	18,255	2.8	7,468	2.4	13,262	3.2
Power, utilities and properties management fee	6,896	1.6	8,999	1.7	13,755	2.1	4,097	1.3	6,150	1.5
Others	5,632	1.2	7,137	1.4	13,447	2.0	4,600	1.4	5,009	1.2
Total	<u>444,377</u>	<u>100.0</u>	<u>519,812</u>	<u>100.0</u>	<u>658,951</u>	<u>100.0</u>	<u>316,430</u>	<u>100.0</u>	<u>417,215</u>	<u>100.0</u>

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Staff costs consist of the salaries, benefits, social insurance and housing provident fund paid to our teachers and school operating personnel at our education centers. Compensation of our teachers consists primarily of base salary, teaching fees based on hourly rates, performance-based bonuses, as well as social insurance and benefits. Our school operating personnel mainly includes the administrative staff at our education centers, whose compensation is comprised of base salary, performance-based bonuses, as well as social insurance and benefits. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our staff costs represented 69.9%, 71.7%, 69.9%, 72.2% and 69.6% of our total costs of sales, respectively, which is in line with the cost structure commonly adopted in the education industry, according to the F&S Report.

Rental costs relate to the rental expenses for the premises used as education centers, which we leased from third parties. Depreciation and amortization expenses relate to the depreciation and amortization of the equipment and renovation work at our education centers, which are used for providing educational services. Teaching material costs primarily consist of costs relating to the purchase of curriculum materials and stationery, as well as printing of handouts. Other expenses primarily consist of expenses related to (1) low value consumables costs; and (2) expenditure on events and outings for our students.

The following table sets forth our cost of sales by type of education services for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Premium Learning Program										
– <i>Small group tutoring</i> . . .	176,450	39.7	214,047	41.2	283,126	43.0	123,921	39.2	177,542	42.6
– <i>Individualized tutoring</i> . .	208,421	46.9	239,194	46.0	297,629	45.2	153,687	48.5	190,992	45.8
Elite Talent Program	7,547	1.7	12,453	2.4	22,298	3.4	9,214	2.9	16,796	4.0
Full-time Test Preparation										
Program	51,811	11.7	53,981	10.4	55,505	8.4	29,426	9.3	30,511	7.3
Others	148	0.0	137	0.0	393	0.0	182	0.1	1,374	0.3
Total	<u>444,377</u>	<u>100.0</u>	<u>519,812</u>	<u>100.0</u>	<u>658,951</u>	<u>100.0</u>	<u>316,430</u>	<u>100.0</u>	<u>417,215</u>	<u>100.0</u>

Gross Profit and Gross Profit Margin

Gross profit represents our revenue less cost of sales. Our gross profit margin represents our gross profit as a percentage of our revenue. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our gross profit was RMB315.6 million, RMB376.3 million, RMB482.8 million, RMB244.9 million and RMB305.9 million, respectively. Our gross profit margin remained relatively stable during the Track Record Period, amounting to 41.5%, 42.0%, 42.3%, 43.6% and 42.3% for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively.

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The following table sets forth a breakdown of our gross profit and gross profit margin by type of education services for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Premium Learning Program										
– <i>Small group tutoring</i> . . .	165,215	48.4	203,207	48.7	271,643	49.0	122,458	49.7	162,176	47.7
– <i>Individualized tutoring</i> . .	111,346	34.8	129,014	35.0	161,065	35.1	89,489	36.8	104,825	35.4
Elite Talent Program	(1,410)	(23.0)	1,266	9.2	4,397	16.5	721	7.3	1,052	5.9
Full-time Test										
Preparation Program	40,611	43.9	42,869	44.3	44,476	44.5	31,869	52.0	36,910	54.7
Others	(148)	(100.0)	(37)	(37.0)	1,169	74.8	331	64.5	938	40.6
Total	<u>315,614</u>	<u>41.5</u>	<u>376,319</u>	<u>42.0</u>	<u>482,750</u>	<u>42.3</u>	<u>244,868</u>	<u>43.6</u>	<u>305,901</u>	<u>42.3</u>

Our Elite Talent Program, which was newly launched in 2014, had a relatively lower gross profit as compared with our Premium Learning Program and Full-time Test Preparation Program and increased steadily during the Track Record Period.

Other Income and Gains, Net

Other income primarily consists of (1) interest income derived from our current deposit, (2) government grants, and (3) net income related to certain projects. The following table sets forth a breakdown of the components of our other income for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Interest income	8,407	54.5	5,055	51.4	7,655	40.6	6,860	57.2	617	15.2
Subsidy income from the PRC										
government	3,764	24.4	552	5.6	5,816	30.8	2,331	19.5	1,656	41.0
Net income related to										
certain projects	1,912	12.4	2,859	29.1	2,918	15.5	1,414	11.8	924	22.8
Licensing and consulting										
income	711	4.6	978	9.9	449	2.4	447	3.7	597	14.8
Classroom usage fee	503	3.3	265	2.7	276	1.5	31	0.3	78	1.9
Others	117	0.8	129	1.3	1,744	9.2	893	7.5	175	4.3
Total	<u>15,414</u>	<u>100.0</u>	<u>9,838</u>	<u>100.0</u>	<u>18,858</u>	<u>100.0</u>	<u>11,976</u>	<u>100.0</u>	<u>4,047</u>	<u>100.0</u>

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The government grants are related to (1) the subsidies received from local government as award or for the purposes of compensating our operating expenses, (2) VAT refund relating to the value-added tax arising from intra-group sales of software, and (3) other tax refund. There are no unfulfilled conditions or contingencies relating to such government grants income recognized. During the Track Record Period, these government grants were not recurring in nature.

Net income related to certain projects is mainly associated with curriculum design and other winter and summer camps.

The licensing and consulting income is mainly related to the income from licensing our teaching materials to independent third parties.

The classroom usage fee is related to our income from subleasing our classrooms upon prior consent from the original landlords, to our affiliates or other third parties when these education centers are not used for our education services. It decreased from RMB0.5 million in 2015 to RMB0.3 million in 2017 as we increased the utilization of our classrooms for our own classes. The amounts of classroom usage fee recorded in the six months ended June 30, 2017 and 2018 were immaterial.

Investment Income

Our investment income primarily consists of gains on fixed-rate wealth management products issued by commercial banks and government bonds. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, we recorded investment income of RMB0.5 million, RMB0.3 million, RMB0.8 million, RMB45,000 and RMB0.2 million, respectively.

Selling Expenses

Selling expenses primarily consist of advertising expenses, and salaries and benefits for our marketing staff. The table below sets forth a breakdown of our selling expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Advertising and promotion expenses	42,384	66.0	54,620	69.1	63,934	67.2	32,814	69.2	35,646	65.0
Salaries and benefits	12,601	19.6	14,261	18.0	18,533	19.5	8,649	18.2	11,332	20.6
Others	9,195	14.4	10,128	12.9	12,640	13.3	5,984	12.6	7,923	14.4
Total	<u>64,180</u>	<u>100.0</u>	<u>79,009</u>	<u>100.0</u>	<u>95,107</u>	<u>100.0</u>	<u>47,447</u>	<u>100.0</u>	<u>54,901</u>	<u>100.0</u>

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The advertising and promotion expenses are related to the media advertising fees and costs for hosting social events. The salaries and benefits are related to the salaries and benefits paid to our marketing staff. Other selling expenses primarily comprise payment channel fees, and phone charges in relation to our selling activities. The payment channel fee represents the amount we paid to third-party payment channels in connection with our sales.

Research and Development Expenses

Our research and development expenses are primarily related to the curriculum design, teaching methodology and IT system. See “Business — Curriculum and Teaching Material Development” and “Business — Our Information Technology Platforms” for details. In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our research and development expenses were RMB64.0 million, RMB83.7 million, RMB140.1 million, RMB60.9 million and RMB78.7 million, respectively, representing of 8.4%, 9.3%, 12.3%, 10.8% and 10.9% of our revenue for the same periods, respectively.

The following table sets forth a breakdown of the components of our research and development expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Teaching methodology	33,825	52.8	44,267	52.9	75,337	53.8	33,029	54.3	38,865	49.4
Course contents	20,842	32.6	28,548	34.1	35,989	25.7	14,822	24.3	22,308	28.4
IT system	9,329	14.6	10,928	13.0	28,734	20.5	13,030	21.4	17,483	22.2
Total	63,996	100.0	83,743	100.0	140,060	100.0	60,881	100.0	78,656	100.0

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Administrative Expenses

Administrative expenses primarily consist of (1) salaries and benefits for our administrative staff at our headquarters, (2) office expenses in relation to our office supplies, equipment and conference charge, and (3) equity-settled share compensation costs in relation to the employees' remuneration in the form of share-based compensation. The following table sets forth a breakdown of the components of our administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Salaries and benefits	64,595	65.1	84,183	68.2	98,721	55.5	46,625	49.4	53,193	67.3
Office expenses	15,555	15.7	18,899	15.3	26,926	15.1	10,235	10.9	9,498	12.0
Equity-settled share compensation costs	1,225	1.2	393	0.3	25,960	14.6	25,960	27.6	1,959	2.5
Recruitment fee	2,175	2.2	4,919	4.0	7,841	4.4	2,441	2.6	4,235	5.4
Professional consulting expenses	6,920	7.0	6,195	5.0	5,436	3.1	3,202	3.4	2,519	3.2
Depreciation and amortization	4,187	4.2	3,671	3.0	4,924	2.8	1,659	1.8	3,427	4.3
Rental expenses	3,205	3.2	3,567	2.9	5,191	2.9	2,808	3.0	3,257	4.1
Others	1,328	1.4	1,565	1.3	2,857	1.6	1,269	1.3	921	1.2
Total	<u>99,190</u>	<u>100.0</u>	<u>123,392</u>	<u>100.0</u>	<u>177,856</u>	<u>100.0</u>	<u>94,199</u>	<u>100.0</u>	<u>79,009</u>	<u>100.0</u>

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Fair Value Changes on Investments at Fair Value through Profit or Loss

We recognize the fair value changes on the following types of investments in profits or losses: (1) unlisted equity investments measured at fair value through profit or loss over which we had no significant influence, (2) listed equity investments measured at fair value through profit or loss, which represented equity securities and stocks purchased whose returns are not guaranteed, and (3) low-risk wealth management products issued by banks whose returns are not guaranteed. The following table sets forth a breakdown of our fair value changes on investments at fair value through profit or loss by asset class for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fair value changes on unlisted equity investment . .	—	—	19,427	707	18,758
Fair value changes on listed equity investments . . .	—	—	—	—	(1,235)
Fair value changes on wealth management products issued by banks	4,320	2,184	13,832	2,594	15,808
Total	4,320	2,184	33,259	3,301	33,331

Investment and treasury policy

Our investments primarily include (1) unlisted equity investments over which we had no significant influence, (2) listed equity investments consisting of equity securities and stocks, and (3) investments in wealth management products, which were primarily short-term wealth management products with low risk, high liquidity and reasonable returns in the view of our Directors.

During the Track Record Period, as part of our investment and treasury policy, we invested in certain wealth management products issued by licensed banks in China, including, among others, China Merchants Bank, Bank of China, and Industrial and Commercial Bank of China. We primarily purchased both principal protected and non-principal protected wealth management products with relatively low risk levels based on the risk rating scale commonly adopted in China's banking industry. Such wealth management products were structured deposit products comprising a combination of traditional term deposits and other underlying investment portfolios, such as bonds, trust plans and stock investments. The majority of the wealth management products we purchased had a tenure that ranges from seven days to 12 months. For principal protected wealth management products, we can receive 100% of our principal back so long as we hold such products to maturity. Other than term deposits which normally bore a fixed interest rate of approximately 1.10% to 1.54% per annum, we may

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receive additional interest depending on the performance of the underlying investment portfolios contained in the wealth management products. Such products typically had an anticipated interest rate of approximately 2.15% to 5.50% per annum subject to various factors, including, among others, the tenures, risk levels and types of underlying investment portfolios of the specific products, as well as the general market conditions.

Our Board and the finance department are mainly responsible for making, implementing and supervising our investment decisions. During the Track Record Period, we had implemented the following investment and treasury policies:

- our Board is responsible for the overall planning, coordination, analysis and research of equity investment projects;
- we assign certain personnel to conduct long-term routine management of equity investment projects, including supervising the results of operations and financial status of the investee, monitoring the investee's profitability and performing regular investment analysis;
- investments could be made when we have surplus cash that is not required for our short-term working capital purposes;
- we mainly make investments in short-term wealth management products with low risk, high liquidity and reasonable returns;
- the annual cap for purchasing short-term wealth management products is set by our Board annually; and
- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing licensed commercial bank.

We intend to adopt new investment policy upon the Listing in accordance with applicable Listing Rules, including complying with relevant size test requirements under Chapter 14 of the Listing Rules.

Going forward, we plan to strictly implement our investment and treasury policy and, as part of our investment and treasury management, may continue to make equity investments and purchase short-term wealth management products that meet our criteria where we believe prudent after the Listing. However, we do not expect to continue making investments in listed equity securities and stocks.

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Fair Value Changes on Convertible Redeemable Preferred Shares

We recognized the fair value changes of RMB12.4 million on convertible redeemable preferred shares held by Sequoia Capital China in 2015.

Share of Losses of Associates

We recorded share of losses of associates primarily because we had accounted for several associates we invested that had losses using the equity method during the Track Record Period.

Other Expenses

Our other expenses primarily consist of professional service expenses in connection with the Possible A Share Listing Application and expenses incurred in connection with the Listing.

Taxation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and accordingly is not subject to income tax. No provision for Hong Kong profits tax has been made as our Group had no assessable profits derived from or earned in Hong Kong during the Track Record Period. Pursuant to the PRC Income Tax Law and the respective regulations, the companies of our Group which operate in the PRC are subject to Enterprise Income Tax (“EIT”) at a rate of 25% on their taxable income.

According to the relevant laws and regulations by the State Administration of Taxation of the PRC, some of our subsidiaries enjoyed preferential tax treatments, such as preferential tax treatments for small and micro-sized business and/or software business during the Track Record Period. For example, Guangzhou Zhuoye Information Technology Co., Ltd. (廣州市卓業信息技術有限公司) was entitled to a preferential tax rate of 12.5% for the years ended December 31, 2015, 2016 and 2017.

In 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, our income tax expenses were RMB38.5 million, RMB27.8 million, RMB37.4 million, RMB22.1 million and RMB31.4 million, respectively.

As of the Latest Practicable Date, we did not have any disputes or unresolved tax issues with the relevant tax authorities.

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Discontinued Operation

In December 2016, we announced the decision to dispose of the entire equity interests held by our Group in Guangzhou Benying Information Technology Co., Ltd. (廣州市本營信息科技有限公司) (“Guangzhou Benying”) and Guangzhou Weizhuo Investment Management Ltd. (廣州市微卓投資管理有限公司) (“Guangzhou Weizhuo”). Guangzhou Benying is principally engaged in the provision of promotion services in social media and Guangzhou Weizhuo is principally engaged in the investment holding of a secondary school in the PRC. Guangzhou Benying and Guangzhou Weizhuo were classified as a disposal group held for sale and as a discontinued operation.

In December 2017, we announced the decision to dispose of the entire equity interests of seven entities held by our Group, namely, Guangdong Zhuoyue Qiancheng Education Services Co., Ltd. (廣東卓越前程教育服務有限公司), Guangzhou Zhuoben Investment Management Co., Ltd. (廣州卓本投資管理有限公司), Guangzhou Mite Information Technology Co., Ltd. (廣州米特信息技術有限公司), Dongguan Frontline Enterprise Management Consulting Co., Ltd. (東莞市前線企業管理諮詢有限公司), Shenzhen Beststudy Animation Technology Co., Ltd. (深圳市卓越動漫科技有限公司), Guangzhou Baizhuo Education Consulting Co., Ltd. (廣州百卓教育諮詢有限公司) and Guangzhou Zhuoyu Education Consulting Co., Ltd. (廣州市卓瑜教育諮詢有限公司). These entities were classified as a disposal group held for sale and as a discontinued operation. See “History and Corporate Structure — 4. Restructuring of non-restricted businesses, non-core businesses and the subsidiaries with no substantive business” for more details.

Our Directors confirm that the aforementioned companies in the disposal group were not involved in any non-compliance with applicable laws and regulations, litigations or arbitrations, or otherwise subject to any investigations during the Track Record Period.

We decided to cease the businesses conducted by the companies indicated above because we plan to focus our resources on our K-12 after-school education services.

Profit for the year from our discontinued operation represented our profit or loss generated from the aforementioned disposed businesses. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017, our loss from discontinued operation was nil, RMB0.2 million, RMB9.6 million and RMB1.3 million, respectively. For the six months ended June 30, 2018, our gains from discontinued operation were RMB914,000. See Note 10 of the Accountants’ Report in Appendix I to this prospectus for details.

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Non-IFRS Measure

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that this non-IFRS measure provides additional information to investors and others in understanding and evaluating our 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 eliminates the effect of non-recurring items and certain items that were not incurred in relation to our principal business. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest IFRS performance measure, which should be considered when evaluating our performance. The following table reconciles our adjusted net profit for the year presented to profit for the year, the most directly comparable financial measure calculated and presented in accordance with IFRS:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period	70,517	58,018	65,809	27,685	82,823
Add:					
Equity-settled share compensation costs ⁽¹⁾	1,225	393	25,960	25,960	1,959
Discontinued operation ⁽²⁾	–	152	9,599	1,289	(914)
Other one-off expenses ⁽³⁾	427	700	5,202	3,763	–
Listing expenses	–	–	–	–	15,714
Less:					
Fair value changes on convertible redeemable preferred shares ⁽⁴⁾	12,403	–	–	–	–
Adjusted net profit	59,766	59,263	106,570	58,697	99,582

Notes:

- (1) Mainly represented equity-settled share compensation costs for employees, which was non-recurring.
- (2) Mainly represented losses generated from discontinued operation of our Group, which was due to be disposed in 12 months. Such business was not expected to be involved in foreseeable plan of our Group.
- (3) Mainly represented professional fees for our proposed A share listing, which was non-recurring.
- (4) Mainly represented fair value fluctuation generated from preferred shares issued by our Group, reflecting an estimated market value acceptable for market participants, which was fluctuated and agreed to be repurchased in 2015. Therefore, it was non-recurring and deducted from the adjusted profit of our Group.

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months ended June 30, 2018 Compared to Six Months ended June 30, 2017

Revenue from Contracts with Customers

Our revenue increased by 28.8% from RMB561.3 million for the six months ended June 30, 2017 to RMB723.1 million for the six months ended June 30, 2018. This increase was primarily driven by an increase in revenue from our Premium Learning Program and Elite Talent Program, mainly due to (1) an increase in the number of tutoring hours delivered as a result of the expansion of our education center network, and (2) an increase in the average tuition fee per tutoring hour we charge.

Premium Learning Program. Our revenue from the Premium Learning Program increased by 29.8% from RMB489.6 million for the six months ended June 30, 2017 to RMB635.5 million for the six months ended June 30, 2018. This increase was primarily due to an increase in the number of tutoring hours delivered from approximately 4.7 million in the six months ended June 30, 2017 to approximately 5.8 million in the six months ended June 30, 2018.

Elite Talent Program. Our revenue from the Elite Talent Program increased by 79.8% from RMB9.9 million for the six months ended June 30, 2017 to RMB17.8 million for the six months ended June 30, 2018. This increase was primarily due to an increase in the number of tutoring hours delivered in the Elite Talent Program from approximately 146,000 in the six months ended June 30, 2017 to approximately 224,000 in the six months ended June 30, 2018 as a result of the popularity of our tutoring products, in particular, Arts of Skillful Questioning and Zhuoyue Macro-Chinese.

Full-time Test Preparation Program. Our revenue from the Full-time Test Preparation Program increased by 10.0% from RMB61.3 million for the six months ended June 30, 2017 to RMB67.4 million for the six months ended June 30, 2018, primarily due to an increase in the tuition fee we charged.

Cost of Sales

Our cost of sales increased by 31.9% from RMB316.4 million for the six months ended June 30, 2017 to RMB417.2 million for the six months ended June 30, 2018. This increase was primarily due to (1) an increase in the average compensation we paid to our teaching staff to retain our existing employees and attract new talents, (2) an increase in rental costs and depreciation and amortization relating to the renovation work of our existing education centers we conducted in the second half of 2017, and (3) an increase in teaching material costs.

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Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 24.9% from RMB244.9 million for the six months ended June 30, 2017 to RMB305.9 million for the six months ended June 30, 2018, primarily as a result of an increase in our revenue. Our gross profit margin decreased slightly from 43.6% in the six months ended June 30, 2017 to 42.3% in the six months ended June 30, 2018, primarily due to lower depreciation and amortization expenses incurred in connection with fewer renovation activities in the first half of 2017.

Other Income and Gains, Net

Our net other income and gains decreased by 66.7% from RMB12.0 million for the six months ended June 30, 2017 to RMB4.0 million for the six months ended June 30, 2018, primarily due to a decrease of RMB6.2 million in interest income as a result of a decrease in the amount of our deposits at banks for purchasing wealth management products.

Investment Income

Our investment income increased significantly from approximately RMB45,000 for the six months ended June 30, 2017 to RMB0.2 million for the six months ended June 30, 2018, primarily due to our increased investment amount in wealth management products.

Selling Expenses

Our selling expenses increased by 15.8% from RMB47.4 million for the six months ended June 30, 2017 to RMB54.9 million for the six months ended June 30, 2018. This increase was primarily due to an increase in advertising and promotion expenses as well as an increase in salaries and benefits paid to our marketing staff, which was in line with the growth of our business.

Research and Development Expenses

Our research and development expenses increased by 29.2% from RMB60.9 million for the six months ended June 30, 2017 to RMB78.7 million in for the six months ended June 30, 2018. This increase was primarily due to an increase in our research and development expenses associated with the development of teaching methodologies, course content and IT systems. See “Business — Curriculum and Teaching Material Development” and “Business — Our Information Technology Platforms” for details.

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Administrative Expenses

Our administrative expenses decreased by 16.1% from RMB94.2 million for the six months ended June 30, 2017 to RMB79.0 million for the six months ended June 30, 2018, primarily due to a decrease of RMB24.0 million in equity-settled share compensation costs in the six months ended June 30, 2018, partially offset by an increase of RMB6.6 million in salaries and benefits paid to our administrative staff at our headquarters as a result of the growth in the number of administrative staff and their overall salary level.

Fair Value Changes on Investments at Fair Value through Profit or Loss

The fair value changes on investments at fair value through profit or loss increased significantly from RMB3.3 million for the six months ended June 30, 2017 to RMB33.3 million for the six months ended June 30, 2018, primarily because (1) we ceased to have significant influence over Hainan Yunjiang Technology Co., Ltd. (海南雲江科技有限公司) (“Yunjiang Technology”), as a result of which we recorded gains from fair value gains on equity investment of RMB17.1 million in the six months ended June 30, 2018; and (2) we increased our investment amount in wealth management products.

Share of Losses of Associates

The share of losses of associates decreased by 67.6% from RMB3.4 million for the six months ended June 30, 2017 to RMB1.1 million for the six months ended June 30, 2018, primarily due to the change of accounting treatment of Yunjiang Technology as disclosed above.

Profit before Taxation

As a result of the foregoing, our profit before tax increased significantly from RMB51.1 million for the six months ended June 30, 2017 to RMB113.3 million for the six months ended June 30, 2018.

Income Tax Expense

Our income tax expense increased by 42.1% from RMB22.1 million for the six months ended June 30, 2017 to RMB31.4 million for the six months ended June 30, 2018, primarily due to an increase in our taxable profit in the six months ended June 30, 2017 as compared to the six months ended June 30, 2018. Our effective tax rate decreased from 43.2% in the six months ended June 30, 2017 to 27.7% in the six months ended June 30, 2018, primarily due to an increase in non-deductible equity-settled share compensation costs in the first half of 2017.

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Profit for the Period

As a result of the foregoing, our profit increased significantly from RMB27.7 million for the six months ended June 30, 2017 to RMB82.8 million for the six months ended June 30, 2018.

Adjusted Net Profit for the Period

Our adjusted net profit increased by 69.7% from RMB58.7 million for the six months ended June 30, 2017 to RMB99.6 million for the six months ended June 30, 2018.

Year ended December 31, 2017 Compared to Year ended December 31, 2016

Revenue from Contracts with Customers

Our revenue increased by 27.4% from RMB896.1 million for the year ended December 31, 2016 to RMB1,141.7 million for the year ended December 31, 2017. This increase was primarily driven by an increase in revenue from our Premium Learning Program and Elite Talent Program, mainly due to (1) an increase in the number of tutoring hours delivered as a result of a higher utilization rate of our classrooms and the expansion of our education center network; and (2) an increase in the average tuition fee per tutoring hour we charge.

Premium Learning Program. Our revenue from the Premium Learning Program increased by 29.0% from RMB785.5 million for the year ended December 31, 2016 to RMB1,013.5 million for the year ended December 31, 2017. This increase was primarily due to an increase in the number of tutoring hours delivered from approximately 8.6 million in 2016 to approximately 10.8 million in 2017.

Elite Talent Program. Our revenue from the Elite Talent Program increased significantly by 94.9% from RMB13.7 million for the year ended December 31, 2016 to RMB26.7 million for the year ended December 31, 2017. This increase was primarily due to an increase in the number of tutoring hours delivered in the Elite Talent Program from approximately 200,000 in 2016 to approximately 400,000 in 2017 as a result of the popularity of new tutoring products we launched, such as Zhuoyue Macro-Chinese.

Full-time Test Preparation Program. Our revenue from the Full-time Test Preparation Program remained relatively stable at RMB96.9 million and RMB100.0 million for the years ended December 31, 2016 and 2017, respectively.

Cost of Sales

Our cost of sales increased by 26.8% from RMB519.8 million for the year ended December 31, 2016 to RMB659.0 million for the year ended December 31, 2017. This increase was primarily due to (1) an increase in the number of teaching staff to accommodate the

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increased student enrollments; (2) an increase in rental costs and depreciation and amortization as we conducted renovation work of our existing education centers and opened 39 new education centers in 2017; and (3) an increase in expenditure on purchasing teaching materials.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 28.3% from RMB376.3 million for the year ended December 31, 2016 to RMB482.8 million for the year ended December 31, 2017, primarily as a result of an increase in our revenue. Our gross profit margin remained relatively stable.

Other Income and Gains, Net

Our other income and gains, net increased by 92.9% from RMB9.8 million for the year ended December 31, 2016 to RMB18.9 million for the year ended December 31, 2017, primarily due to (1) an increase of RMB5.3 million in subsidy income from the PRC government; (2) an increase of RMB2.6 million in interest income; and (3) an increase of RMB1.6 million in others primarily related to liquidated damage paid to us in connection with a contract default by an independent third party.

Investment Income

Our investment income increased by 166.7% from RMB0.3 million for the year ended December 31, 2016 to RMB0.8 million for the year ended December 31, 2017, primarily due to our increased investment amount in wealth management products.

Selling Expenses

Our selling expenses increased by 20.4% from RMB79.0 million for the year ended December 31, 2016 to RMB95.1 million for the year ended December 31, 2017. This increase was primarily due to an increase in advertising and promotion expenses, which was in line with the growth of our business.

Research and Development Expenses

Our research and development expenses increased by 67.4% from RMB83.7 million in 2016 to RMB140.1 million in 2017. This increase was primarily due to an increase in our research and development expenses associated with the development of teaching methodologies and IT systems. See “Business — Curriculum and Teaching Material Development” and “Business — Our Information Technology Platforms” for details.

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Administrative Expenses

Our administrative expenses increased by 44.2% from RMB123.4 million for the year ended December 31, 2016 to RMB177.9 million for the year ended December 31, 2017, primarily due to (1) an increase in the number of administrative staff at our headquarters, (2) an increase of RMB25.6 million in equity-settled share compensation costs in 2017 (see “History and Corporate Structure — History of Our Major PRC Operating Entity — First 2017 capital increase”), and (3) expenses in relation to our Company’s 20th anniversary celebration in 2017.

Fair Value Changes on Investments at Fair Value through Profit or Loss

The fair value changes on investments at fair value through profit or loss increased significantly from RMB2.2 million for the year ended December 31, 2016 to RMB33.3 million for the year ended December 31, 2017, primarily because we ceased to have significant influence over Hainan Yunjiang Technology Co., Ltd. (海南雲江科技有限公司) (“Yunjiang Technology”). As a result, we recorded gain from fair value change of RMB16.5 million in 2017. In addition, the fair value gain of our investment in wealth management products increased from RMB2.2 million in 2016 to RMB13.8 million as we increased our investment amount in such products.

Share of Losses of Associates

The share of losses of associates decreased by 72.1% from RMB14.0 million in 2016 to RMB3.9 million in 2017, primarily due to the change of accounting treatment of Yunjiang Technology as disclosed above.

Profit before Taxation

As a result of the foregoing, our profit before tax increased by 31.3% from RMB85.9 million for the year ended December 31, 2016 to RMB112.8 million for the year ended December 31, 2017.

Income Tax Expense

Our income tax expenses increased by 34.5% from RMB27.8 million for the year ended December 31, 2016 to RMB37.4 million for the year ended December 31, 2017, primarily due to an increase in our taxable profit in 2017 as compared to 2016. Our effective tax rate remains relatively stable at 32.3% and 33.1% in 2016 and 2017, respectively.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 13.4% from RMB58.0 million for the year ended December 31, 2016 to RMB65.8 million for the year ended December 31, 2017.

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Adjusted Net Profit for the Year

Our adjusted net profit increased by 79.8% from RMB59.3 million for the year ended December 31, 2016 to RMB106.6 million for the year ended December 31, 2017.

Year ended December 31, 2016 Compared to Year ended December 31, 2015

Revenue from Contracts with Customers

Our revenue increased by 17.9% from RMB760.0 million for the year ended December 31, 2015 to RMB896.1 million for the year ended December 31, 2016. This increase was primarily driven by an increase in revenue from our Premium Learning Program and Elite Talent Program, mainly due to (1) an increase in the number of tutoring hours delivered, and (2) an increase in the average tuition fee per tutoring hour we charge.

Premium Learning Program. Our revenue from the Premium Learning Program increased by 18.8% from RMB661.4 million for the year ended December 31, 2015 to RMB785.5 million for the year ended December 31, 2016. This increase was primarily due to (1) an increase in the number of tutoring hours delivered from approximately 7.4 million in 2015 to approximately 8.6 million in 2016, and (2) an increase in the average tuition fee per tutoring hour from RMB59 in 2015 to RMB61 in 2016 for small group tutoring and from RMB202 in 2015 to RMB212 in 2016 for individualized tutoring under the Premium Learning Program.

Elite Talent Program. Our revenue from the Elite Talent Program increased significantly from RMB6.1 million for the year ended December 31, 2015 to RMB13.7 million for the year ended December 31, 2016. This increase was primarily due to an increase in the number of tutoring hours delivered in the Elite Talent Program from approximately 91,000 in 2015 to approximately 241,000 in 2016.

Full-time Test Preparation Program. Our revenue from the Full-time Test Preparation Program remained relatively stable at RMB92.4 million and RMB96.9 million for the years ended December 31, 2015 and 2016, respectively.

Cost of Sales

Our cost of sales increased by 17.0% from RMB444.4 million for the year ended December 31, 2015 to RMB519.8 million for the year ended December 31, 2016. This increase was primarily due to (1) an increase in the overall salary level of our teaching staff; (2) an increase in the number of teachers and staff to accommodate the increased student enrollments; and (3) an increase in rental costs which was in line with the expansion of our business.

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Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 19.2% from RMB315.6 million for the year ended December 31, 2015 to RMB376.3 million for the year ended December 31, 2016. Our gross profit margin remained relatively stable at 41.5% and 42.0% for the years ended December 31, 2015 and 2016, respectively.

Other Income and Gains, Net

Our other income and gains, net decreased by 36.4% from RMB15.4 million for the year ended December 31, 2015 to RMB9.8 million for the year ended December 31, 2016. This decrease was primarily due to (1) a decrease in interest income as a result of the decrease in current deposit associated with the repurchase of Sequoia Capital China's preferred shares in our Company, and (2) a decrease of RMB3.2 million in the government grants we received.

Investment Income

Our investment income decreased by 40.0% from RMB0.5 million for the year ended December 31, 2015 to RMB0.3 million for the year ended December 31, 2016, primarily because we decreased our investment in wealth management products due to the decrease in available cash as a result of our repurchase of Sequoia Capital China's preferred shares in our Company.

Selling Expenses

Our selling expenses increased by 23.1% from RMB64.2 million for the year ended December 31, 2015 to RMB79.0 million for the year ended December 31, 2016, primarily due to an increase of RMB12.2 million in advertising and promotion expenses, which was in line with the growth of our business.

Administrative Expenses

Our administrative expenses increased by 24.4% from RMB99.2 million for the year ended December 31, 2015 to RMB123.4 million for the year ended December 31, 2016. This increase mainly reflected an increase of RMB19.6 million in salaries and benefits of our administrative staff as a result of the growth of our administrative team at our headquarters and their overall salary level.

Fair Value Changes on Investments at Fair Value through Profit or Loss

The fair value changes on investments at fair value through profit or loss decreased by 48.8% from RMB4.3 million for the year ended December 31, 2015 to RMB2.2 million for the year ended December 31, 2016, primarily due to a decrease in our investments in wealth management products.

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Fair Value Changes on Convertible Redeemable Preferred Shares

We recognized fair value changes of RMB12.4 million on convertible redeemable preferred shares held by Sequoia Capital China in 2015 and no such fair value changes were recognized in 2016.

Share of Losses of Associates

The share of losses of associates increased by 97.2% from RMB7.1 million in 2015 to RMB14.0 million in 2016, primarily due to an increase in the loss of Yunjiang Technology in which we had significant influence.

Profit before Taxation

As a result of the foregoing, our profit before tax decreased by 21.2% from RMB109.0 million for the year ended December 31, 2015 to RMB85.9 million for the year ended December 31, 2016.

Income Tax Expense

Our income tax expense decreased by 27.8% from RMB38.5 million for the year ended December 31, 2015 to RMB27.8 million for the year ended December 31, 2016, primarily because we accrued a RMB14.2 million withholding tax in 2015 in connection with the repurchase of Sequoia Capital China's preferred shares in our Company. Our effective tax rate decreased from 35.3% in 2015 to 32.3% in 2016.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by 17.7% from RMB70.5 million for the year ended December 31, 2015 to RMB58.0 million for the year ended December 31, 2016.

Adjusted Net Profit for the Year

Our adjusted net profit decreased slightly from RMB59.8 million for the year ended December 31, 2015 to RMB59.3 million for the year ended December 31, 2016.

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DISCUSSION OF CERTAIN ITEMS FROM THE CONSOLIDATED BALANCE SHEET

The following table sets forth our consolidated balance sheet as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2015	2016	2017	2018	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	19,598	28,718	56,228	109,672	142,260
Intangible assets	10,446	10,423	10,644	10,589	9,938
Investments in associates	30,845	71,045	16,230	15,102	15,102
Investments in a joint venture	–	–	5,275	5,240	5,240
Equity investments at fair value through profit or loss	–	8,500	64,581	83,363	83,363
Prepayments for purchase of property, plant and equipment	2,402	5,039	13,608	10,268	18,616
Deferred tax assets	20,040	16,885	4,750	4,594	4,594
	<u>83,331</u>	<u>140,610</u>	<u>171,316</u>	<u>238,828</u>	<u>279,113</u>
Current assets					
Prepayments, deposits and other receivables	208,384	95,150	77,233	95,268	111,567
Amount due from a related party	–	3,000	–	–	–
Short-term investments measured at amortized cost	15,600	10,000	10,008	–	–
Short-term investments measured at fair value through profit or loss	100,344	151,243	561,635	–	–
Short-term debt investments measured at fair value through profit or loss	–	–	–	641,189	637,102
Short-term equity investments measured at fair value through profit or loss	–	–	–	6,222	1,130
Loan to a third party	–	30,000	–	–	–
Restricted cash	–	–	–	296	–
Other current assets	214	171	782	608	903
Cash and cash equivalents	512,279	525,351	162,150	62,976	45,601
Assets of a disposal group classified as held for sale	–	19,015	55,869	–	–
	<u>836,821</u>	<u>833,930</u>	<u>867,677</u>	<u>806,559</u>	<u>796,303</u>

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	As of December 31,			As of June 30,	As of October 31,
	2015	2016	2017	2018	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities					
Contract liabilities	338,364	401,647	517,171	518,603	524,059
Other payables and accruals	75,898	91,124	127,825	144,167	167,004
Tax payable	20,826	15,732	15,193	24,538	16,394
Convertible redeemable preferred shares .	125,411	–	–	–	–
Liabilities directly associated with the assets classified as held for sale	–	–	26,011	–	–
Dividend payables	573	–	–	–	–
	561,072	508,503	686,200	687,308	707,457
Net current assets	275,749	325,427	181,477	119,251	88,846
Total assets less current liabilities	359,080	466,037	352,793	358,079	367,959
Non-current liabilities					
Government grants	1,060	660	–	–	–
Rental payables	5,505	11,298	15,026	30,220	34,179
	6,565	11,958	15,026	30,220	34,179
Net assets	352,515	454,079	337,767	327,859	333,780
Equity					
Share capital	164	164	164	236	236
Reserves	299,962	389,668	254,360	325,418	331,506
Non-controlling interests	52,389	64,247	83,243	2,205	2,038
	352,515	454,079	337,767	327,859	333,780

Property, Plant and Equipment

Our property, plant and equipment primarily represent leasehold improvements, office equipment and electronic equipment. We had property, plant and equipment of RMB19.6 million, RMB28.7 million, RMB56.2 million and RMB109.7 million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively. The increase in our property, plant and equipment from December 31, 2015 to June 30, 2018 was primarily due to the expansion of our education centers and the renovation work we conducted.

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Intangible Assets

Our intangible assets primarily represent computer software, domain name and trademarks. We had intangible assets of RMB10.4 million, RMB10.4 million, RMB10.6 million and RMB10.6 million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively. Our intangible assets remained relatively stable during the Track Record Period.

Investment in a Joint Venture, Associates and Equity Investments at Fair Value through Profit or Loss

The following table sets forth the details of our equity investments and their balance as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Investments in a joint venture . .	—	—	5,275	5,240
Investments in associates	30,845	71,045	16,230	15,102
Equity investments at fair value through profit or loss	—	8,500	64,581	83,363

During the Track Record Period, we made a loan to a joint venture incorporated in Australia which was unsecured, interest-free and had no fixed terms of repayment. In the opinion of our Directors, this loan was considered as part of our Group's net investments in the joint venture. See Note 16 in the Accountants' Report in Appendix I to this prospectus for details. During the Track Record Period, we also made ordinary share investments in certain associates. For our key investment criteria, see "Business — Business Partnership" for details. In June 2017, we derecognized the investment in associates after losing significant influence over Yunjiang Technology, which became a financial asset at fair value through profit or loss. See Notes 15 and 17 in the Accountants' Report in Appendix I to this prospectus for details.

Short term investments measured at fair value through profit or loss

Our short term investments measured at fair value through profit or loss primarily represent our investment in wealth management products, which were primarily short-term wealth management products with low risk, high liquidity and reasonable returns in the view of our Directors. We had short term investments measured at fair value through profit or loss of RMB100.3 million, RMB151.2 million, RMB561.6 million and RMB647.4 million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively.

We typically collect tuition fees from students in advance for the classes they purchase, and we believe we can make better use of such cash by making appropriate low-risk investments in short-term investment products, which generates income without interfering with our business operations. Our investment decisions are made on a case by case basis and after due and careful consideration of a number of factors, including the prevailing market conditions, economic developments, and the cost and potential return of the investment.

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Prepayments, Deposits and Other Receivables

We had prepayments, deposits and other receivables of RMB208.4 million, RMB95.2 million, RMB77.2 million and RMB95.3 million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively.

The following table sets forth the details of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for acquisition	10,674	24,264	—	—
Deposits for repurchase of preferred shares	121,954	—	—	—
Rental and other deposits	19,644	23,125	32,913	38,864
Receivables from payment channels	5,862	10,150	13,395	10,276
Prepaid tax expenses	14,380	6,596	—	—
Prepaid operation expenses	21,550	19,954	15,764	24,028
Loans to employees	7,157	5,344	7,706	11,434
Staff advances	4,183	3,874	1,861	2,211
Government grants receivables . . .	2,234	—	2,846	2,846
Interest receivables	10	600	123	—
Deferred listing expenses	—	—	—	4,654
Others	736	1,243	2,625	955
Total	208,384	95,150	77,233	95,268

Prepayments, deposits and other receivables decreased from RMB208.4 million as of December 31, 2015 to RMB95.2 million as of December 31, 2016, primarily due to a decrease of RMB122.0 million in deposits for repurchase of preferred shares as we received the refund of deposits in connection with the repurchase of the Series A preferred shares of our Company held by Sequoia Capital China.

Prepayments, deposits and other receivables decreased from RMB95.2 million as of December 31, 2016 to RMB77.2 million as of December 31, 2017, primarily because we received the refund of deposits totaling RMB24.3 million for our previously proposed acquisitions in 2017. Our proposed acquisitions included (1) acquisition of a technology company primarily providing educational instruments and equipment and a non-profit international school in Guangzhou, which we terminated due to the lengthy acquisition timeline that exceeded our expectation; (2) acquisition of an educational institution providing arts and cultural training programs, for which we received the refund of a portion of the

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consideration initially paid by us to the seller upon re-negotiation of the acquisition proposals with the seller; and (3) investment in a proposed joint venture, a game company to be engaged in the development and operation of animated video game products, for which we received the refund of the investment amount we previously paid to our joint venture partner due to our exit from the investment. All of our proposed investment and acquisition targets (other than the proposed joint venture which had not been established) were independent third parties.

Prepayments, deposits and other receivables increased from RMB77.2 million as of December 31, 2017 to RMB95.3 million as of June 30, 2018, primarily due to (1) an increase of RMB8.3 million in prepaid operation expenses, (2) an increase of RMB6.0 million in rental and other deposits, (3) an increase of RMB4.7 million in deferred listing expenses, and (4) an increase of RMB3.7 million in loans to employees as a result of the housing loans granted to employees in 2017 which were yet to be paid.

Loan to a Third Party

We made a loan of RMB30.0 million to Guangzhou Hongzhou Culture Communication Company Limited (廣東鴻舟文化傳播有限公司) in 2016, which was later fully settled in 2017.

Our PRC legal advisers are of the view that the loan granted to the related party in their ordinary course of business is lawful and not in violation of applicable PRC laws.

Cash and Cash Equivalents

Our cash and cash equivalents primarily represent our cash and current deposits. Our cash and cash equivalents decreased significantly from RMB525.4 million as of December 31, 2016 to RMB162.2 million as of December 31, 2017 primarily due to (1) a dividend of RMB220.0 million paid in 2017, and (2) RMB405.5 million in our investments in certain wealth management products, partially offset by RMB238.4 million generated from operating activities. Our cash and cash equivalents further decreased to RMB63.0 million as of June 30, 2018 primarily due to our investments in certain wealth management products.

Contract Liabilities

Our contract liabilities primarily represent the unrecognized tuition fees we collect from our students prior to the commencement of the tutoring services. The fees received are initially recorded as contract liabilities, and we recognize revenue after we have delivered the tutoring services. See “— Significant Accounting Policies and Estimates — Revenue Recognition.”

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The following table sets forth the details of our contract liabilities as of the dates indicated:

	As of December 31,			As of
	2015	2016	2017	June 30,
	RMB'000	RMB'000	RMB'000	2018
Premium Learning Program				
– <i>Small group tutoring</i>	129,141	184,020	273,706	267,909
– <i>Individualized tutoring</i>	178,507	189,086	206,391	221,792
Elite Talent Program	809	2,411	5,159	17,886
Full-time Test Preparation Program	28,957	24,860	29,717	5,237
Others	950	1,270	2,198	5,779
Total	338,364	401,647	517,171	518,603

Our contract liabilities increased significantly from RMB338.4 million as of December 31, 2015 to RMB517.2 million as of December 31, 2017, and further increased to RMB518.6 million as of June 30, 2018, which was primarily due to an increase in the tuition fees we received, which was generally consistent with our business growth.

The following table sets forth the aging analysis of our contract liabilities as of the dates indicated:

	As of December 31,			As of
	2015	2016	2017	June 30,
	RMB'000	RMB'000	RMB'000	2018
Less than three months	208,284	260,914	327,395	383,958
Three months to six months	46,549	78,312	74,741	124,691
Six months to nine months	32,545	39,664	52,005	4,184
Nine months to one year	50,530	22,296	61,640	5,492
Over one year	456	461	1,390	278
Total	338,364	401,647	517,171	518,603

As of October 31, 2018, approximately RMB356.6 million, or 68.8% of our contract liabilities as of June 30, 2018 had been settled.

Other Payables and Accruals

Our other payables and accruals primarily consist of accrued staff benefits and payroll. Our Directors confirm that we did not have any material defaults in payment and other payables, loans and borrowings or other financing obligations during the Track Record Period and up to the Latest Practicable Date.

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We had other payables and accruals of RMB75.9 million, RMB91.1 million, RMB127.8 million and RMB144.2 million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively. The increase was primarily due to an increase in the accrued staff benefits and payroll from RMB49.6 million as of December 31, 2015 to RMB61.9 million as of December 31, 2016, and further to RMB98.8 million as of December 31, 2017, which was primarily due to an increase in the number of our teaching and administrative staff. Our other payables and accruals further increased to RMB144.2 million as of June 30, 2018 primarily due to an increase of RMB11.2 million in the payable for listing expenses. See Note 21 in the Accountants' Report in Appendix I to this prospectus for details.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We have financed our operations primarily through cash generated from our operating activities. Our primary uses of cash have been to fund working capital and other recurring expenses. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flow generated from our operating activities, bank borrowings, other funds raised from the capital markets from time to time and the net proceeds from this Global Offering.

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash flows generated from operating activities	190,141	169,603	238,415	95,538	102,402
Net cash flows used in investing activities	(42,185)	(191,061)	(400,580)	(78,580)	(108,583)
Net cash flows (used in)/generated from financing activities	(155,616)	37,011	(191,517)	(201,426)	(100,962)
Net (decrease)/increase of cash and cash equivalents	(7,660)	15,553	(353,682)	(184,468)	(107,143)
Cash and cash equivalents at beginning of the year/period	519,075	512,279	526,195	526,195	169,813
Effect of foreign exchange rate changes, net	864	(1,637)	(2,700)	(1,480)	306
Cash and cash equivalents at the end of the year/period	<u>512,279</u>	<u>526,195</u>	<u>169,813</u>	<u>340,247</u>	<u>62,976</u>

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Net Cash Flows from Operating Activities

During the Track Record Period, our cash inflows from operating activities were generated primarily from tuition fees, which are typically paid in advance before the respect tutoring services are delivered.

For the six months ended June 30, 2018, our net cash flow generated from operating activities was RMB102.4 million, primarily attributable to (1) RMB92.8 million of cash generated from operating activities before working capital adjustments, and (2) an increase of RMB15.2 million in rental payables, partially offset by RMB21.9 million in corporate income tax paid.

For the year ended December 31, 2017, our net cash flow generated from operating activities was RMB238.4 million, primarily attributable to (1) RMB117.9 million of cash generated from operating activities before working capital adjustments, (2) an increase of RMB117.2 million in contract liabilities, and (3) an increase of RMB44.8 million in other payables and accruals, partially offset by (1) RMB25.7 million in corporate income tax paid, and (2) an increase of RMB16.2 million in prepayments, deposits and other receivables.

For the year ended December 31, 2016, our net cash flow generated from operating activities was RMB169.6 million, primarily attributable to (1) RMB110.3 million of cash generated from operating activities before working capital adjustments, (2) an increase of RMB63.3 million in contract liabilities, and (3) an increase of RMB15.0 million in other payables and accruals, partially offset by RMB21.9 million in corporate income tax paid.

For the year ended December 31, 2015, our net cash flow generated from operating activities was RMB190.1 million, primarily attributable to (1) RMB116.9 million of cash generated from operating activities before working capital adjustments, (2) an increase of RMB66.5 million in contract liabilities, and (3) an increase of RMB24.0 million in other payables and accruals, partially offset by RMB30.8 million in corporate income tax paid.

Net Cash Flows from Investing Activities

During the Track Record Period, our investing activities consisted primarily of (1) purchases of short-term investments, (2) receipt from maturity of short-term investments, (3) acquisition of associates, (4) disposal of associates, (5) loan to a third party, and (6) purchase of properties, plant and equipment.

For the six months ended June 30, 2018, our net cash flow used in investing activities was RMB108.6 million, primarily reflecting (1) RMB1,019.7 million used in purchase of short-term investments measured at fair value through profit or loss, and (2) RMB57.4 million used in purchase of items of property, plant and equipment, partially offset by (1) receipt of RMB945.8 million from maturity of short-term investments measured at fair value through profit or loss, and (2) RMB2.8 million of investment income received.

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For the year ended December 31, 2017, our net cash flow used in investing activities was RMB400.6 million, primarily reflecting (1) RMB2,362.5 million used in purchase of short-term investments measured at fair value through profit or loss, (2) RMB87.5 million used in purchase of short-term investments measured at amortized cost, and (3) RMB74.0 million used in purchase of items of property, plant and equipment, partially offset by (1) receipt of RMB1,957.0 million from maturity of short-term investments measured at fair value through profit or loss, (2) receipt of RMB87.9 million from maturity of short-term investments measured at amortized cost, and (3) collection of loan to a third party of RMB30.0 million.

For the year ended December 31, 2016, our net cash flow used in investing activities was RMB191.1 million, primarily reflecting (1) RMB790.4 million used in purchase of short-term investments measured at fair value through profit or loss, (2) RMB66.7 million in acquisition of associates, (3) RMB30.0 million used in purchase of short-term investments measured at amortized cost, (4) loan to a third party of RMB30.0 million, and (5) RMB27.6 million used in purchase of items of property, plant and equipment, partially offset by (1) receipt of RMB739.4 million from maturity of short-term investments measured at fair value through profit or loss, and (2) receipt of RMB35.6 million from maturity of short-term investments measured at amortized cost.

For the year ended December 31, 2015, our net cash flow used in investing activities was RMB42.2 million, primarily reflecting (1) RMB1,457.0 million used in purchase of short-term investments measured at fair value through profit or loss, (2) RMB55.6 million used in purchase of short-term investments measured at amortized cost, and (3) RMB32.0 million in acquisition of associates, and (4) RMB11.8 million used in purchase of items of property, plant and equipment, partially offset by (1) receipt of RMB1,475.6 million from maturity of short-term investments measured at fair value through profit or loss, and (2) receipt of RMB40.0 million from maturity of short-term investments measured at amortized cost.

Net Cash Flows from Financing Activities

During the Track Record Period, our net cash flows from financing activities related primarily to (1) repurchase of preferred shares from Sequoia Capital China in 2016, and (2) dividends paid.

For the six months ended June 30, 2018, our net cash flow used in financing activities was RMB101.0 million, primarily reflecting dividends paid of RMB100.0 million.

For the year ended December 31, 2017, our net cash flow used in financing activities was RMB191.5 million, primarily reflecting (1) dividends paid of RMB220.0 million, and (2) capital contribution of RMB17.7 million made to Guangzhou Beststudy (see “History and Corporate Structure — History of Our Major PRC Operating Entity — Guangzhou Beststudy”).

FINANCIAL INFORMATION

For the year ended December 31, 2016, our net cash flow generated from financing activities was RMB37.0 million, primarily reflecting capital contribution of RMB42.4 million made to Guangzhou Beststudy. See “History and Corporate Structure — History of Our Major PRC Operating Entity — Guangzhou Beststudy.”

For the year ended December 31, 2015, our net cash flow used in financing activities was RMB155.6 million, primarily reflecting (1) payment of RMB122.0 million for the deposit to repurchase preferred shares, and (2) dividends paid of RMB30.8 million.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Taking into account the financial resources available to our Group, including the cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that, after due and careful inquiry, our Group has sufficient available working capital for our present requirements for at least the next 12 months from the date of this prospectus.

CAPITAL EXPENDITURES

Our capital expenditures have been primarily used for the purchase of equipment, lease improvement and purchase of intangible assets. Our capital expenditures amounted to RMB11.6 million, RMB26.9 million, RMB67.9 million and RMB71.8 million in 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

CONTRACTUAL COMMITMENTS

Operating Leases

Our operating lease payments commitments represent rental payables for the premises leased for education centers and offices. These leases are negotiated for lease terms of two to 18 years. The following table below sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Within in one year	77,836	91,052	123,566	153,293
In the second to fifth year inclusive	162,874	231,881	323,846	493,133
Beyond five years	45,722	60,148	71,786	202,937
Total	286,432	383,081	519,198	849,363

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INDEBTEDNESS

As of October 31, 2018, being the latest practicable date for the purpose of this indebtedness statement, we had no bank loans or other borrowings, or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities. As of October 31, 2018, we had no unutilized banking facilities. Our Directors confirm that there has not been any material change in the indebtedness commitments and contingent liabilities of our Group since October 31, 2018.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation against us.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

LISTING EXPENSES

We expect to incur a total of HK\$58.3 million of listing expenses (assuming an Offer Price of HK\$2.55, being the mid-point of the indicative Offer Price range between HK\$2.20 and HK\$2.90, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, of which approximately HK\$37.4 million will be charged to the consolidated statements of profits or loss in 2018 and HK\$20.9 million will be charged to equity upon completion of the Global Offering. During the Track Record Period, we incurred listing expenses of approximately RMB20.4 million, of which approximately RMB15.7 million was charged to our consolidated statements of profit or loss during the Track Record Period, while the remaining amount of approximately RMB4.7 million was recorded as deferred listing expenses and will be capitalized upon the completion of the Global Offering. Listing expenses represent professional fees and other fees incurred in connection with the Listing. The listing expenses above were the best estimate as of the Latest Practicable Date and were for reference only and the actual amount may differ from this estimate.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

The following table sets forth the details of our related party transactions as of the dates indicated:

Amount due from a related party

	As of December 31,			As of
	2015	2016	2017	June 30,
	RMB'000	RMB'000	RMB'000	2018
Beijing Xiaohe Shidai Education and Technology Co., Ltd. (北京小禾時代教育科技有限公司) ("Xiaohe Shidai")	—	3,000	—	—

During the Track Record Period, the balance with related party are all of a non-trade nature.

Amount due from a related party was an unsecured loan of RMB3.0 million to Xiaohe Shidai and has no fixed terms of repayment. We have settled all balances with our related parties as of the Latest Practicable Date.

See Note 33 in the Accountants' Report in Appendix I to this prospectus for further details. Our Directors are of the view that our related party transactions during the Track Record Period were conducted on an arm's length basis and do not distort our track record results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated:

	As of/For the year ended December 31,			As of/For the
	2015	2016	2017	six months ended June 30,
				2018
Gross profit margin ⁽¹⁾	41.5%	42.0%	42.3%	42.3%
Net profit margin ⁽²⁾	9.3%	6.5%	5.8%	11.5%
Adjusted net profit margin ⁽³⁾	7.9%	6.6%	9.3%	13.8%
Return on equity ⁽⁴⁾	21.8%	14.4%	16.6%	24.9%
Return on assets ⁽⁵⁾	8.2%	6.1%	6.5%	7.9%
Current ratio ⁽⁶⁾	1.49	1.64	1.26	1.17

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- (1) Gross profit margin was calculated based on our gross profit for the relevant year/period divided by our total revenue for the same year/period.
- (2) Net profit margin was calculated based on our profit for the year/period divided by our total revenue for the same year/period.
- (3) Adjusted net profit margin was calculated based on our adjusted profit for the year/period divided by our total revenue for the same year/period.
- (4) Return on equity equals profit for the year/period divided by average total equity amounts as of the beginning and end of the year/period.
- (5) Return on assets equals profit for the year/period divided by average total assets as of the beginning and end of the year/period.
- (6) Current ratio was calculated based on our total current assets divided by our total current liabilities as of the end of the year/period.

Gross Profit Margin and Net Profit Margin

During the Track Record Period, our gross profit margin remained relatively stable at 41.5%, 42.0%, 42.3%, 43.6% and 42.3%, respectively, for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018. Our net profit margin decreased from 9.3% for the year ended December 31, 2015 to 6.5% for the year ended December 31, 2016, primarily due to recognition of a fair value gain of RMB12.4 million on convertible redeemable preferred shares held by Sequoia Capital China. Our net profit margin further decreased to 5.8% for the year ended December 31, 2017 primarily due to loss for the year from our discontinued operation. Our net profit margin increased from 4.9% for the six months ended June 30, 2017 to 11.5% for the six months ended June 30, 2018 primarily due to an increase in fair value changes on investments at fair value through profit or loss as a result of fair value gains in equity investments and wealth management products in the first half of 2018 as compared with the first half of 2017.

Adjusted Net Profit Margin

Our adjusted net profit margin remained relatively stable during the Track Record Period and amounted to 7.9%, 6.6%, 9.3%, 10.5% and 13.8% for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively.

Return on Equity

Our return on equity decreased from 21.8% as of December 31, 2015 to 14.4% as of December 31, 2016, primarily due to recognition of a fair value gain of RMB12.4 million on convertible redeemable preferred shares held by Sequoia Capital China. Our return on equity increased from 14.4% as of December 31, 2016 to 16.6% as of December 31, 2017, mainly due to (1) an increase in net profit, (2) an increase in contract liabilities, and (3) a decrease in total equity as a result of dividend of RMB220.0 million paid in 2017. Our return on equity further increased to 24.9% as of June 30, 2018, mainly due to (1) an increase in net profit, and (2) a decrease in total equity as a result of dividends of RMB100.0 million paid in the first half of 2018.

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Return on Assets

Our return on assets decreased from 8.2% as of December 31, 2015 to 6.1% as of December 31, 2016, which was mainly due to (1) a decrease in net profit, and (2) an increase in non-current assets in connection with our investments in associates. Our return on assets increased from 6.1% as of December 31, 2016 to 6.5% as of December 31, 2017, and further increased to 7.9% as of June 30, 2018, mainly due to an increase in net profit, which outpaced the increase in average total assets we recorded in 2017 and 2018.

Current Ratio

Our current ratio increased from 1.49 as of December 31, 2015 to 1.64 as of December 31, 2016, mainly due to a decrease in fair value changes on convertible redeemable preferred shares associated with the repurchase of preferred shares from Sequoia Capital China. Our current ratio decreased from 1.64 as of December 31, 2016 to 1.26 as of December 31, 2017, mainly due to an increase in our contract liabilities. Our current ratio then decreased to 1.17 as of June 30, 2018, primarily due to (1) a decrease in cash and cash equivalents as a result of payment of cash dividends of RMB100.0 million in the first half of 2018, which led to a decrease in current assets, and (2) an increase in contract liabilities resulting from increased tuition we received in the first half of 2018, which led to an increase in current liabilities.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

Liquidity Risk

We regularly review our major funding positions to ensure that we have adequate financial resources in meeting our financial obligations.

The maturity profile of our financial liabilities as at the end of each of the relevant periods, based on the contractual undiscounted payments, is as follows:

	As of December 31, 2015				
	On demand	Within one year	One to five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in					
other payables and accruals	12,721	–	–	12,721	12,721
Dividend payables	573	–	–	573	573
Convertible redeemable preferred					
shares	125,411	–	–	125,411	125,411
Rental payables	–	–	5,505	5,505	5,505
	<u>138,705</u>	<u>–</u>	<u>5,505</u>	<u>144,210</u>	<u>144,210</u>

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As of December 31, 2016					
	On demand	Within one year	One to five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	10,603	–	–	10,603	10,603
Rental payables	–	–	11,298	11,298	11,298
	<u>10,603</u>	<u>–</u>	<u>11,298</u>	<u>21,901</u>	<u>21,901</u>
As of December 31, 2017					
	On demand	Within one year	One to five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	17,232	–	–	17,232	17,232
Rental payables	–	–	15,026	15,026	15,026
	<u>17,232</u>	<u>–</u>	<u>15,026</u>	<u>32,258</u>	<u>32,258</u>
As of June 30, 2018					
	On demand	Within one year	One to five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	42,123	–	–	42,123	42,123
Rental payables	–	–	30,220	30,220	30,220
	<u>42,123</u>	<u>–</u>	<u>30,220</u>	<u>72,343</u>	<u>72,343</u>

DIVIDENDS

Our Group currently does not have a pre-determined dividend policy. The payment and the amount of any future dividends will be subject to the sole discretion of our Board of Directors and will also depend on factors including, among others, our results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that our Board of Directors deems relevant. As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our PRC Operating Entities, which are established in the PRC. Our subsidiaries in the PRC must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and distributing returns to

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their shareholders. Any amount of dividend we pay will be at the discretion of our Board of 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 (including all applicable PRC laws and regulations which our subsidiaries in the PRC are required to comply with). During the Track Record Period, we paid cash dividends of RMB30.8 million, RMB0.6 million, RMB220.0 million, RMB220.0 million and RMB100.0 million in 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018 to our shareholders, respectively.

DISTRIBUTABLE RESERVES

Our Company had reserves of RMB67.2 million available for distribution to the Shareholders as of June 30, 2018.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since June 30, 2018, being the date on which our latest audited consolidated financial statements were prepared, and there is no event since June 30, 2018 which would materially affect the information as set out in the Accountants' Report in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets as of June 30, 2018 as if it had taken place on June 30, 2018.

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The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2018 or any future dates. It is prepared based on our consolidated net tangible assets as of June 30, 2018 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of our Company as of June 30, 2018 <i>RMB'000</i>	Estimated net proceeds from the Global Offering <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share <i>RMB HK\$</i>	
Based on an Offer Price of HK\$2.20 per Share	315,065	261,228	576,293	0.72	0.81
Based on an Offer Price of HK\$2.90 per Share	315,065	352,003	667,068	0.83	0.94

Notes:

- (1) The consolidated net tangible assets attributable to owners of our Company as of June 30, 2018 is extracted from "Appendix I — Accountants' Report," which is based on the audited consolidated equity attributable to owners of our Company as of June 30, 2018 of approximately RMB325,654,000 less intangible assets as of June 30, 2018 of approximately RMB10,589,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.20 per Share or HK\$2.90 per Share, after deduction of the underwriting fees and other related expenses payable by our Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option or future RSU grants pursuant to the RSU Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.8876 prevailing on December 3, 2018.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 804,500,000 Shares in issue immediately following the completion of the Global Offering and does not take into account of any shares which may be issued upon the exercise of the Over-allotment Option or future RSU grants pursuant to the RSU Scheme.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.8876 prevailing on December 3, 2018.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Business Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$2.55 per Share (being the mid-point of the indicative range of the Offer Price of HK\$2.20 to HK\$2.90 per Share), we estimate that the net proceeds of the Global Offering, after deducting the estimated underwriting fees and expenses payable by us in connection with the Global Offering, will be approximately HK\$365.2 million.

We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 50% of the net proceeds, or HK\$182.6 million, for the expansion of our business network, including (1) strengthening our presence in the southern China, and (2) expanding nationally into new cities or counties with unserved or underserved demand for K-12 after-school education services. In particular, we plan to establish approximately 150 new education centers spanning across a number of major cities in Guangdong province and elsewhere in southern China and nationwide by the end of 2020. See “Business — Our Business Strategies — Increase existing market penetration and expand our geographic coverage”;
- approximately 30% of the net proceeds, or HK\$109.6 million, for seeking strategic alliances and acquisitions to support and expand our operations. We will primarily consider the following factors when analyzing and selecting a potential investment and acquisition target: (1) being ranked among the top three K-12 education service providers in the local market; (2) concentrating its business in Guangdong province, southern China and/or other first-tier cities in China; (3) profit-generating or with potential for generating profits; (4) ability to create synergies with our existing education centers and business development strategies; (5) having an experienced and visionary management team with strong initiatives, credibility, as well as sound execution capabilities; (6) possessing technologies and education resources that complement our existing businesses; (7) competitiveness of the relevant market in which the target operates; and/or (8) growth potential of the target’s business. As of the Latest Practicable Date, we had no finalized or definitive understandings, commitments or agreements for investment or acquisition and had not engaged in any related negotiations. See “Business — Our Business Strategies — Pursue selective strategic alliances and acquisitions”; and

FUTURE PLANS AND USE OF PROCEEDS

- approximately 20% of the net proceeds, or HK\$73.0 million, for investments to improve our teaching quality, including (1) investing in new technologies, such as advanced information technology platforms, artificial intelligence and data analytics capabilities to facilitate our teaching process, and (2) developing new education products and services.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed below or above the mid-point of the indicative price range. Any additional proceeds received from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis. In the event that the Over-allotment Option is exercised in full, we will receive net proceeds of HK\$421.1 million (assuming an Offer Price of HK\$2.55 per Share, the mid-point of our indicative Offer Price range).

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into current deposits and/or low-risk wealth management products.

CORNERSTONE INVESTOR

CORNERSTONE INVESTMENT

As part of the International Placing, the Company has entered into a cornerstone investment agreement (the “Cornerstone Investment Agreement”) with Pingyang Zhongjiao Zhixue Investment Management Center (Limited Partnership) (平陽中教智學投資管理中心(有限合伙)) (the “Cornerstone Investor”), details of which are set out below.

The Cornerstone Investor is the beneficiary of a proposed asset management arrangement to be entered into with a certain qualified domestic institutional investor as asset manager and nominee of the Cornerstone Investor. The Cornerstone Investor has agreed to cause such qualified domestic institutional investor to subscribe, at the Offer Price, for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) that may be subscribed for an aggregate amount of approximately HK\$40.0 million.

Assuming an Offer Price of HK\$2.20 (being the low end of the Offer Price range set out in this prospectus), the Cornerstone Investor would subscribe for an aggregate of 18,181,000 Offer Shares, representing (a) approximately 2.14% of the total Shares in issue and approximately 12.01% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and the RSU Allotment and assuming the Over-allotment Option is not exercised and (b) approximately 2.09% of the total number of Shares in issue and approximately 10.44% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and the RSU Allotment and assuming the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$2.55, (being the mid-point of the Offer Price range set out in this prospectus), the Cornerstone Investor would to subscribe for an aggregate of 15,686,000 Offer Shares, representing (a) approximately 1.85% of the total Shares in issue and approximately 10.36% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and the RSU Allotment and assuming the Over-allotment Option is not exercised and (b) approximately 1.80% of the total number of Shares in issue and approximately 9.01% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and the RSU Allotment and assuming the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$2.90 (being the high end of the Offer Price range set out in this prospectus), the Cornerstone Investor would subscribe for an aggregate of 13,793,000 Offer Shares, representing (a) approximately 1.63% of the total Shares in issue and approximately 9.11% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and the RSU Allotment and assuming the Over-allotment Option is not exercised and (b) approximately 1.58% of the total number of Shares in issue and approximately 7.92% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and the RSU Allotment and assuming the Over-allotment Option is exercised in full.

The Offer Shares to be delivered to the Cornerstone Investor pursuant to the Cornerstone Investment Agreement will rank *pari passu* with all other Shares then in issue and to be listed on the Stock Exchange and will count towards the public float of the Shares.

CORNERSTONE INVESTOR

The Offer Shares to be delivered to the Cornerstone Investor will not be affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering or any exercise of the Over-allotment Option, as further described in “Structure of the Global Offering.”

To the best knowledge of our Company, the Cornerstone Investor is a third party being independent from our Company, the connected persons of the Company and their associates. The Cornerstone Investor will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreement disclosed in this section. Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any board representation in our Company, nor will it become a substantial shareholder of our Company. No special right has been granted to the Cornerstone Investor.

Information about the Cornerstone Investor

The Cornerstone Investor is a limited partnership established in the PRC, whose fund manager and general partner is Beijing Jihe Investment Management Co., Ltd. (北京幾何投資管理有限公司) (“Jihe Fund”), a professional private equity investment fund with a focus on education industry. The management team of Jihe Fund has a background of working in top-tier organizations and has years of investment experience as well as deep understanding of the industry. Meanwhile, a large number of external professionals contribute their insights on policies and projects for Jihe Fund.

Technology-driven, quality-focused and growth-oriented enterprises are the key investment targets of Jihe Fund. Jihe Fund is primarily engaged in offering private equity financing, mezzanine financing and assets securitization services. The investors of Jihe Fund include PRC listed companies, large industrial groups, funds of funds and family funds.

CONDITIONS PRECEDENT

The obligation of each Cornerstone Investor to subscribe, and the obligation of the Company to issue and deliver, the Offer Shares pursuant to the Cornerstone Investment Agreement is conditional upon the following:

- (a) the Hong Kong Underwriting Agreement and the International Placing Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the respective underwriting agreements;
- (b) neither of the Hong Kong Underwriting Agreement and the International Placing Agreement having been terminated;

CORNERSTONE INVESTOR

- (c) the Listing Committee of the Stock Exchange having granted the Listing of, and permission to deal in, the Shares (including the Shares subscribed by the Cornerstone Investor) and that such approval or permission having not been revoked;
- (d) no laws shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Placing or herein and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions;
- (e) the respective representations, warranties, undertakings and confirmations of the Cornerstone Investor made in the Cornerstone Investment Agreement are accurate and true in all material respects and not misleading and that there is no material breach of the Cornerstone Investment Agreement on the part of the Cornerstone Investor; and
- (f) the Offer Price having been agreed upon between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed that without the prior written consent of the Company, the Sole Sponsor and the Joint Global Coordinators, and at any time during the six months starting from and inclusive of the Listing Date, it (i) will not, and will cause its affiliates not to, whether directly or indirectly, dispose of any of the Shares subscribed for by it pursuant to the Cornerstone Investment Agreement (the “Relevant Shares”) or any interest in any company or entity holding any Relevant Shares in any way (ii) will not agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of the Relevant Shares (iii) will not allow the change of control (as defined in the Takeovers Code) of itself or at the level of its ultimate beneficial owners; and (iv) will not enter into any transaction which has, directly or indirectly, the same economic impacts as the aforementioned transactions.

The Cornerstone Investor may transfer the Relevant Shares in certain limited circumstances as set out in the Cornerstone Investment Agreement, such as a transfer to a wholly-owned subsidiary of the Cornerstone Investor, subject to the restrictions set out in the Cornerstone Investment Agreement.

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HONG KONG UNDERWRITERS

CMB International Capital Limited
CEB International Capital Corporation Limited
Fortune (HK) Securities Limited
First Shanghai Securities Limited
Haitong International Securities Company Limited
ABCI Securities Company Limited
China Galaxy International Securities (Hong Kong) Co., Limited
Sinolink Securities (Hong Kong) Company Limited
9F Primasia Securities Limited
Ruibang Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on December 11, 2018. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be made available pursuant to the exercise of the Over-allotment Option), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly or jointly and severally to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Placing Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

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Grounds for termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (1) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
 - (i) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any respect, any of the warranties under the Hong Kong Underwriting Agreement or the International Placing Agreement; or
 - (ii) any breach of any of the obligations or undertakings imposed upon any party to the Hong Kong Underwriting Agreement or the International Placing Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters) which has or may have or will have a material adverse effect on the Global Offering; or
 - (iii) that any statement contained in any of this prospectus, the Application Forms, post hearing information pack, and/or in 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 or the Global Offering (including any supplement or amendment thereto) was, when it was issued, or has or may become, untrue, incorrect, inaccurate or misleading in any respect, or that any estimate/forecast, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms, post hearing information pack, 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 or the Global Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting, when taken as a whole; or
 - (iv) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute a misstatement in, or omission from, any of this prospectus, the Application Forms, post hearing information pack and/or in 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 or the Global Offering (including any supplement or amendment thereto); or
 - (v) any matter, event, act or omission which gives or is likely to give rise to any liability of our Company or the Controlling Shareholders or the executive Directors out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties under the Hong Kong Underwriting Agreement

UNDERWRITING

or the International Placing Agreement and/or pursuant to the indemnities given by any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement or the International Placing Agreement; or

- (vi) any material adverse change or development involving a prospective material adverse change in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance, of our Group as a whole and/or any member of our Group which has a substantial business operation, whether or not arising in the ordinary course of business, as determined by the Joint Global Coordinators in their absolute discretion; or
 - (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange to be issued or sold (including any additional new Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Share Option Scheme) under the Global Offering is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (viii) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
 - (ix) any expert named in the prospectus (other than the Sole Sponsor) has withdrawn its consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it appears; or
 - (x) a material portion of the orders in the bookbuilding process or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Joint Global Coordinators, in their absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
- (2) there shall have developed, occurred, happened or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change or development involving a prospective change or development, in local, national, regional or international, financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency

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or currencies), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands or the British Virgin Islands, or any other jurisdiction relevant to any member of our Group (each a “Relevant Jurisdiction”); or

- (ii) any new law or regulation or any change, development or announcement or publication involving a prospective change in existing law or regulations, or any change, development or announcement or publication involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
- (iii) the imposition or declaration of:
 - (a) any moratorium, suspension, restriction or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (b) any general moratorium on commercial banking activities or foreign exchange trading or securities settlement or clearance services in Hong Kong, New York, London, the PRC, the European Union (or any member thereof), Japan, the Cayman Islands, the British Virgin Islands or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (iv) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or
- (v) any material litigation, or claim, or investigation or actions being announced, threatened or instigated against any Group company or the Controlling Shareholders or the executive Directors; or
- (vi) a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (vii) any adverse change or development involving a prospective adverse change (whether permanent or not) in the assets, liabilities, conditions, business affairs, prospects (financial or otherwise), earnings, profits, losses or financial or trading position of or our Group taken as a whole and/or any member of our Group which has a substantial business operation; or

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- (viii) the imposition of economic sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the chairman, chief executive officer or chief financial officer of our Company vacating his or her office; or
- (xi) the commencement by any administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign or supranational (“Authority”) of any investigation, claim, proceedings or other action, or announcing an intention to investigate or take such action, against any Director; or
- (xii) a contravention by any Group company of the Listing Rules or applicable laws, rules or regulations; or
- (xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) pursuant to the Companies (WUMP) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvi) any event or series of events in the nature of force majeure, including, without limitation, acts of government, declaration of a national or international emergency, calamity, crisis, labor disputes, strikes, lock-outs, riots, public disorder, fire, explosion, flooding, earthquake, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), outbreak of diseases or epidemics or pandemics including, but not limited to, Severe Acute Respiratory Syndromes (SARS), H1N1 and H5N1 and such related/mutated forms or accident or interruption or delay in transportation,

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economic sanction and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis; or

- (xvii) 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
- (xviii) order or petition for the winding up or liquidation of any Group company or any composition, compromise or arrangement made by any Group company with its creditors or a scheme of arrangement entered into by any Group company or any resolution for the winding up or liquidation of any Group company is passed or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xix) a demand by any creditor for repayment or payment of any member of our Group’s indebtedness prior to its stated maturity;

which, individually or in the aggregate, in the absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters),

- (i) has or will or may have or is likely to have a material adverse change, or any development involving a prospective material adverse change, in or affecting, whether directly or indirectly, 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 our Group as a whole; or
- (ii) has or will or may 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 Placing or dealings in the Offer Shares in the secondary market; or
- (iii) makes or will or may make or is likely to make it inadvisable or inexpedient or impracticable for any material part of Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (iv) has or will or may have the effect of making any part of Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

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Undertakings to the Stock Exchange pursuant to the Listing Rules

By our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (the “First Six-month Period”) (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the RSU Allotment, the Global Offering (including pursuant to the exercise of the Over-allotment Option), any exercise of the options which may be granted under the Share Option Scheme or any of the circumstances prescribed by Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, except pursuant to (i) the RSU Allotment, (ii) the Global Offering, (iii) any issue of Shares pursuant to any exercise of the Over-allotment Option (if applicable), or (iv) any transfer of Shares under the Stock Borrowing Agreement, he/it shall not and shall procure that the relevant registered holder(s) of the Shares will not:

- (a) in 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 expiration date of the First Six-month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares or securities of our Company in respect of which 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 First Six-month Period expires (the “Second Six-month Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our controlling shareholder (as defined in the Listing Rules).

Each of our Controlling Shareholders has also undertaken to the Stock Exchange and us that, within 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 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any Shares or other securities of our Company beneficially owned by him/it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

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- (b) when he/it receives any indications, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or securities will be disposed of, immediately inform us in writing of any such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of the Controlling Shareholders.

Undertakings to the Hong Kong Underwriters

Pursuant to the Hong Kong Underwriting Agreement, our Company and our Controlling Shareholders have undertaken as follows.

Undertakings by our Company

Except for the RSU Allotment, the offer, allotment and issue of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the issue of Shares pursuant to the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date of the expiry of the First Six-month Period, we have undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Hong Kong Underwriters not to, and to procure each Group company not to, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (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, hedge, 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 any mortgage, charge, pledge, lien, or other security interest or any option, restriction, right of first refusal, right of pre-emption, defect, or other third party claim, right, interest or preference or any other encumbrance, security interest or right of any kind, granted to any third party (“Encumbrance”) over, or contract 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 shares or other securities of such other Group company, 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 subscribe for or purchase, any Shares or other securities of our Company or any shares or any other

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securities of such other Group company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group company, as applicable, with a depository in connection with the issue of depository receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other securities of our Company or any shares or any other securities of such other Group company, 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 subscribe for or purchase, any Shares or any other securities of our Company or any shares or any other securities of such Group company, as applicable);
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to, or agree to, or announce any intention to, effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a) or (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group company, as applicable, or in cash or otherwise (whether or not the allotment and issue of such Shares or other securities of our Company or such shares or other securities of such other Group company, as applicable, will be completed within the First Six-month Period). In the event that, at any time during the Second Six-month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company. Each of the Controlling Shareholders has undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Hong Kong Underwriters and each of them to procure our Company to comply with the undertakings in this paragraph.

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Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders have undertaken to our Company, each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Hong Kong Underwriters and each of them that, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of them will:

- (a) at any time during the First Six-month Period:
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, hedge, 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 shares or other securities of such other Group company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company or any shares or other securities of such other Group company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group company, as applicable, 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 any other securities of our Company or any shares or other securities of such other Group company, 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 our Company or any shares or other securities of such other Group company, as applicable); or
 - (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph(a)(i) or (ii) above; or
 - (iv) offer to, or agree to, or announce any intention to, effect any transaction specified in paragraph(a)(i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraph(a)(i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group company, as applicable, or in cash or

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otherwise (whether or not the allotment and issue of such Shares or other securities of our Company or such shares or other securities of such other Group company, as applicable, will be completed within the First Six-month Period);

- (b) he/it will not, at any time during the Second Six-month Period, enter into any of the transactions specified in paragraph (a)(i), (ii) or (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, he/it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-month period, in the event that he/it enters into any of the transactions specified in paragraph(a)(i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the Shares or other securities of our Company.

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

International Placing

In connection with the International Placing, it is expected that we will enter into the International Placing Agreement with the International Underwriters. Under the International Placing Agreement, subject to the conditions set forth in it, the International Underwriters would severally but not jointly or jointly and severally agree to procure purchasers for or failing which to purchase, the International Placing Shares. It is expected that the International Placing Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Placing Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option and stabilization

Under the International Placing Agreement, our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters after consultation with our Company at any time from the Listing Date up to (and including) the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot

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and issue up to 22,710,000 additional Shares, representing approximately 15.0% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price to, among other things, cover over-allocations in the International Placing, if any.

In connection with the Global Offering, the Stabilizing Manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate Shares or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Please refer to the section headed “Structure of the Global Offering — Stabilization” in this prospectus for details regarding stabilization and “Structure of the Global Offering — Over-allotment Option” for over-allocation.

Underwriting commissions and expenses

The Hong Kong Underwriters will receive an underwriting commission of 3% of the Offer Price of the Public Offer Shares initially offered under the Hong Kong Public Offering out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 3% of the Offer Price of the International Placing Shares offered under the International Placing.

The aggregate commissions and fees, together with listing fees, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$58.3 million (assuming an Offer Price of HK\$2.55, being the mid-point of the indicative offer price range and assuming that the Over-allotment Option is not exercised) in total and are payable by us.

Activities by syndicate members

We describe below a variety of activities that each of the Underwriters of the Hong Kong Public Offering and the International Placing, together referred to as “Syndicate Members,” may individually undertake and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, all of them (except for the Stabilizing Manager or its designated affiliate as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

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The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing, and other activities for their own account and for the accounts of others. In relation to the Shares, those activities could include acting as an agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Syndicate Members or their affiliates of any listed securities having the Shares as their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described under the section headed “Structure of the Global Offering — Stabilization” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares’ share price, and the extent to which this occurs from day to day cannot be estimated.

Underwriters’ interests in our Group

Other than as disclosed in this prospectus, the obligations under the Hong Kong Underwriting Agreement and the International Placing Agreement and, if applicable, the Stock Borrowing Agreement, none of the Underwriters has any shareholding interest in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Sole Sponsor’s independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

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

- (1) the Hong Kong Public Offering of 15,140,000 Public Offer Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described below in the paragraph headed “Hong Kong Public Offering” below; and
- (2) the International Placing of an aggregate of 136,260,000 International Placing Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors, corporate investors and other investors who we anticipate to have a sizable demand for the International Placing Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for Public Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Placing Shares under the International Placing, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 15,140,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the number of the Public Offer Shares will represent approximately 1.79% of our Company’s enlarged issued share capital immediately after completion of the RSU Allotment and the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Hong Kong Public Offering” below.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

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 Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) up to the total value of pool B. Investors should be aware that the allocation ratios for applications in pool A and applications in pool B may be different. If the Public Offer Shares in one (but not both) of the pools are under-subscribed, the unsubscribed Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purposes of this paragraph only, the “price” for Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of 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 7,570,000 Public Offer Shares, being the number of Public Offer Shares initially available under each pool, are liable to be rejected.

Reallocation and clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation.

In accordance with the clawback requirements set out in paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEx-GL91-18 issued by the Stock Exchange (as amended or supplemented from time to time by the Stock Exchange), if the Offer Shares under the International Placing are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 45,420,000, 60,560,000 and 75,700,000 Offer Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any

STRUCTURE OF THE GLOBAL OFFERING

exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be allocated to pool A and pool B.

If (i) the Offer Shares under the International Placing are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100%, but less than 15 times, of the number of Public Offer Shares initially available under the Hong Kong Public Offering; or (ii) the Offer Shares under the International Placing are not fully subscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100% or more of the number of Public Offer Shares initially available under the Hong Kong Public Offering, the Joint Global Coordinators may, at their discretion, reallocate the Offer Shares initially allocated for the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that (i) the maximum number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall not be more than 30,280,000 Offer Shares, representing double the number of Public Offer Shares initially available under the Hong Kong Public Offering and (ii) the Offer Price shall be determined at the lower end of the Offer Price range in accordance with Guidance Letter HKEx-GL91-18 issued by the Exchange.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Applications

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Placing Shares under the International Placing.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.90 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “Pricing and Allocation” below, is less than the maximum price of HK\$2.90 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to the section headed “How to Apply for Public Offer Shares” in this prospectus for further details.

INTERNATIONAL PLACING

Number of Offer Shares initially offered

We are initially offering 136,260,000 Offer Shares under the International Placing representing 90% of the total number of Offer Shares initially available under the Global Offering. The International Placing is subject to the Hong Kong Public Offering becoming unconditional. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent approximately 16.07% of our Company’s enlarged issued share capital immediately after completion of the RSU Allotment and the Global Offering assuming that the Over-allotment Option is not exercised.

Allocation

The International Placing will include selective marketing of Offer Shares to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters after consultation with our Company.

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) after consultation with our Company at any time within 30 days from the last day for lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to 22,710,000 additional Offer Shares representing 15.0% of the initial Offer Shares, at the same price per Offer Share under the International Placing, to cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.61% of our enlarged issued share capital immediately following completion of the RSU Allotment and the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

STOCK BORROWING ARRANGEMENT

To facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 22,710,000 Shares, representing 15.0% of the initial Offer Shares (being the maximum number of Offer Shares which may be offered upon exercise of the Over-allotment Option) initially being offered under the Global Offering, from Elite BVI to cover over-allocations through the stock borrowing arrangement under the Stock Borrowing Agreement, or acquire Shares from other sources.

If such stock borrowing arrangement with Elite BVI is entered into, it will only be effected by the Stabilizing Manager or its agent for settlement of over-allocations in the International Placing. The same number of Offer Shares so borrowed must be returned to Elite BVI or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been sold. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules, and regulatory requirements. No payment will be made to Elite BVI by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the stabilization price will not exceed the initial public offer price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilizing Manager (or its affiliates or any person acting for it) as stabilizing manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate Shares or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than that the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of our Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to conduct any such stabilizing activity, which, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering. The number of our Shares that may be over-allocated will not exceed the number of our Shares that may be sold under the Over-allotment Option, namely, 22,710,000 Shares, which is 15.0% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring International Placing Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of International Placing Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purposes of the various offerings under the Global Offering is expected to be fixed on the Price Determination Date, which is expected to be on or around Monday, December 17, 2018, and in any event on or before Tuesday, December 18, 2018, by agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price will not be more than HK\$2.90 per Offer Share and is expected to be not less than HK\$2.20 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.**

If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) consider the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be inappropriate, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered pursuant to the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or before 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 such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Monday, December 17, 2018, cause notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be published at our website at www.beststudy.com and the website of the Stock Exchange at www.hkexnews.hk, and will, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened 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 Public Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Such announcement and supplemental prospectus shall also include confirmation or revision, as appropriate, of the Global 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. Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. Allocation of the International Placing Shares under the International Placing will be determined by the Joint Global Coordinators 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 Offer Shares after the Listing. Such allocation may be made to professional, institutional or corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Public Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by applicants. The allocation of the 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 the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The applicable Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the basis of allocations of the Public Offer Shares, and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed "How to Apply for Public Offer Shares — F. Publication of results" in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Shares of the RSU Allotment, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme;
- (ii) the Offer Price having been duly agreed between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the execution and delivery of the Price Determination Agreement on or around the Price Determination Date;
- (iii) the execution and delivery of the International Placing Agreement on or around the Price Determination Date; and

STRUCTURE OF THE GLOBAL OFFERING

- (iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Placing Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Placing Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than January 11, 2019, being the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Tuesday, December 18, 2018, the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post and the Hong Kong Economic Times, and on the website of the Stock Exchange at www.hkex.com.hk and our website at www.beststudy.com on the next day following such lapse. In such case, all application monies will be returned, without interest, on the terms set forth in the section headed “How to Apply for Public Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects and (ii) none of the Underwriting Agreements has been terminated in accordance with its terms.

Application for Listing 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 pursuant to the RSU Allotment and the Global Offering (including any Shares which may be issued under the exercise of the Over-allotment Option) and any Shares which may be issued under the Share Option Scheme on the Main Board of the Stock Exchange. None of the Shares or loan capital of our Company are listed on or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek such listing or permission to deal in our Shares on any other stock exchange.

HOW TO APPLY FOR PUBLIC OFFER SHARES

A. APPLICATIONS FOR PUBLIC OFFER SHARES

1. How to Apply

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. Who can Apply for Public Offer Shares

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion, and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the RSU Allotment and the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. Applying for Public Offer Shares

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, December 12, 2018 until 12:00 noon on Monday, December 17, 2018 from:

- (1) any of the following addresses of the Hong Kong Underwriters:

CMB International Capital Limited	45th Floor Champion Tower 3 Garden Road Central Hong Kong
CEB International Capital Corporation Limited	22/F AIA Central 1 Connaught Road Central Hong Kong
Fortune (HK) Securities Limited	43/F COSCO Tower 183 Queen's Road Central Hong Kong
First Shanghai Securities Limited	19/F Wing On House 71 Des Voeux Road Central Hong Kong
Haitong International Securities Company Limited	22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
ABCI Securities Company Limited	10/F Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
China Galaxy International Securities (Hong Kong) Co., Limited	20/F Wing On Centre 111 Connaught Road Central Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

Sinolink Securities (Hong Kong) Company Limited	Units 2503, 2505-06, 25/F Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

9F Primasia Securities Limited	Suite 4806-07, 48/F Central Plaza 18 Harbour Road Wanchai Hong Kong

Ruibang Securities Limited	9/F, Sang Woo Building 227-228 Gloucester Road Wanchai Hong Kong

(2) any of the following branches of the following receiving banks:

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	United Centre Branch	Shop 1021, United Centre, 95 Queensway, Hong Kong
Kowloon	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin, Kowloon
	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
New Territories	City One Sha Tin Branch	Shop Nos. 24-25, G/F, Fortune City One Plus, No.2 Ngan Shing Street, Sha Tin, New Territories
	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories

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CMB Wing Lung Bank Limited

District	Branch Name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
Kowloon	Kennedy Town Branch	28 Catchick Street
	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road

Industrial and Commercial Bank of China (Asia) Limited

District	Branch Name	Address
Hong Kong Island	Fortress Hill Branch	Shop A-C, G/F, Kwong Chiu Terrace, 272-276 King's Road, Hong Kong
Kowloon	Oi Man Branch	Shop F18 & F19, Oi Man Plaza, Oi Man Estate, Homantin, Kowloon
New Territories	Kwai Fong Branch	C63A-C66, 2/F, Kwai Chung Plaza, Kwai Fong, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, December 12, 2018 until 12:00 noon on Monday, December 17, 2018 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CHINA BESTSTUDY 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:

- Wednesday, December 12, 2018 – 9:00 a.m. to 5:00 p.m.
- Thursday, December 13, 2018 – 9:00 a.m. to 5:00 p.m.
- Friday, December 14, 2018 – 9:00 a.m. to 5:00 p.m.
- Saturday, December 15, 2018 – 9:00 a.m. to 1:00 p.m.
- Monday, December 17, 2018 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, December 17, 2018, the last application day or such later time as described in the section headed "E. Effect of bad weather on the opening of the application lists" in this section.

4. Applying through White Form eIPO Service

General

Individuals who meet the criteria in the section headed "2. Who can apply for Public Offer Shares" above, 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 at **www.eipo.com.hk**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the White Form eIPO Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, December 12, 2018 until 11:30 a.m. on Monday, December 17, 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, December 17, 2018 or such later time as described in the section headed "E. Effects of bad weather on the opening of the applications lists" in this section.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 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 (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “China Beststudy Education Group” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

5. Applying by Giving Electronic Application Instructions to HKSCC via CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the monies 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 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).

HOW TO APPLY FOR PUBLIC OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
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 the above 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 Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and the Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, the Hong Kong Share Registrar, the receiving banks and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any 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 a 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 (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Public Offer Shares. Instructions for more than 1,000 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 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:

- Wednesday, December 12, 2018 – 9:00 a.m. to 8:30 p.m.
- Thursday, December 13, 2018 – 8:00 a.m. to 8:30 p.m.
- Friday, December 14, 2018 – 8:00 a.m. to 8:30 p.m.
- Monday, December 17, 2018 – 8:00 a.m. to 12:00 noon

HOW TO APPLY FOR PUBLIC OFFER SHARES

Note:

- (1) These times 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.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, December 12, 2018 until 12:00 noon on Monday, December 17, 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, December 17, 2018 the last application day or such later time as described in the section headed “E. Effect of bad weather on the opening of the application lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of 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 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 (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, the Hong Kong Share Registrar, the receiving banks 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

6. How many applications can you make

Multiple applications for the 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:

- an account number; or
- 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:

- the principal business of that company is dealing in securities; and
- 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:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- 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).

B. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

HOW TO APPLY FOR PUBLIC OFFER SHARES

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agent of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (WUMP) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, the Hong Kong Share Registrar, the receiving banks and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (a) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(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 this prospectus to collect the Share certificate(s) and/or refund check(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (a) 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 (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Additional Instructions for YELLOW Application Forms

You may refer to the **YELLOW** Application Form for details.

C. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **White Form eIPO** service is also only a facility provided 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. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon, Monday, December 17, 2018.

D. HOW MUCH ARE THE 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 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the **WHITE** or **YELLOW** 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 (as defined in the Listing Rules), 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).

For further details on the Offer Price, see the section headed "Structure of the Global Offering — Pricing and allocation" in this prospectus.

HOW TO APPLY FOR PUBLIC OFFER SHARES

E. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 17, 2018. 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 Monday, December 17, 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

F. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Public Offer Shares on Monday, December 24, 2018 in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on our Company’s website at **www.beststudy.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:

- in the announcement to be posted on our Company’s website at **www.beststudy.com** and the Stock Exchange’s website at **www.hkexnews.hk** by no later than 8:00 a.m. on Monday, December 24, 2018;
- 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 Monday, December 24, 2018 to 12:00 midnight on Sunday, December 30, 2018;
- by telephone enquiry line by calling (+852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, December 24, 2018 to Thursday, December 27, 2018; and
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, December 24, 2018, Thursday, December 27, 2018 and Friday, December 28, 2018 at the designated branches of the receiving banks.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

G. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or via the 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 a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications as described in the section headed “A. Applications for Public Offer Shares – 6. How many applications can you make” above;
- 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) Public Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the check or banker’s cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it/they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR PUBLIC OFFER SHARES

H. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.90 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering – 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 Monday, December 24, 2018.

I. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund check(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the 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 check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

HOW TO APPLY FOR PUBLIC OFFER SHARES

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund checks and Share certificates are expected to be posted on or before Monday, December 24, 2018. 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 Thursday, December 27, 2018 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund check(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 Monday, December 24, 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund check(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 Public Offer Shares, your refund check(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, December 24, 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund check(s) will be sent to the address on the relevant Application Form on or before Monday, December 24, 2018, by ordinary post and at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Monday, December 24, 2018, 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 Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "F. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, December 24, 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the 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 Public Offer Shares or more, and your application is wholly or partially successful, you may collect your 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 Monday, December 24, 2018, or such other date as notified by our Company in the announcement published by our Company as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks.

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 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, December 24, 2018 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 check(s) by ordinary post at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, December 24, 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the section headed "F. Publication of results" above on Monday, December 24, 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, December 24, 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, December 24, 2018. Immediately following the credit of the 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 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, December 24, 2018.

J. 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, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong. As described in Appendix V headed “Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus, a copy of the accountants’ report is available for inspection.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
China Beststudy Education Group

CMB International Capital Limited

Dear Sirs,

We report on the historical financial information of China Beststudy Education Group (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-85, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2015, 2016 and 2017 and June 30, 2018 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-4 to I-85 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated December 12, 2018 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the 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 accountants' judgement, 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 accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, 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 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 accountants' report, a true and fair view of the financial position of the Group and the Company as at December 31, 2015, 2016 and 2017 and June 30, 2018 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended June 30, 2017 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information,

respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange 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-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been declared by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

December 12, 2018

I. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "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.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended December 31,			Six months ended June 30,	
	Notes	2015	2016	2017	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CONTINUING OPERATIONS						
Revenue from contracts with customers	5	759,991	896,131	1,141,701	561,298	723,116
Cost of sales		(444,377)	(519,812)	(658,951)	(316,430)	(417,215)
Gross profit		315,614	376,319	482,750	244,868	305,901
Other income and gains, net	5	15,414	9,838	18,858	11,976	4,047
Investment income		504	327	751	45	164
Selling expenses		(64,180)	(79,009)	(95,107)	(47,447)	(54,901)
Research and development expenses		(63,996)	(83,743)	(140,060)	(60,881)	(78,656)
Administrative expenses		(99,190)	(123,392)	(177,856)	(94,199)	(79,009)
Share of losses of associates	15	(7,143)	(14,019)	(3,895)	(3,385)	(1,128)
Share of profits of a joint venture		–	–	–	–	89
Fair value changes on investments at fair value through profit or loss	17	4,320	2,184	33,259	3,301	33,331
Fair value changes on convertible redeemable preferred shares	24	12,403	–	–	–	–
Other expenses		(4,762)	(2,582)	(5,918)	(3,227)	(16,538)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		108,984	85,923	112,782	51,051	113,300
Income tax expense	9	(38,467)	(27,753)	(37,374)	(22,077)	(31,391)
PROFIT FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS		70,517	58,170	75,408	28,974	81,909
DISCONTINUED OPERATIONS						
(Loss)/profit for the year/period from discontinued operations	10	–	(152)	(9,599)	(1,289)	914
PROFIT FOR THE YEAR/PERIOD		70,517	58,018	65,809	27,685	82,823
Attributable to:						
Owners of the parent		59,241	46,388	48,982	21,668	60,054
Non-controlling interests		11,276	11,630	16,827	6,017	22,769
		70,517	58,018	65,809	27,685	82,823
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT						
Basic and diluted	12	N/A	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
PROFIT FOR THE YEAR/PERIOD	<u>70,517</u>	<u>58,018</u>	<u>65,809</u>	<u>27,685</u>	<u>82,823</u>
OTHER COMPREHENSIVE (LOSS)/INCOME					
Other comprehensive (loss)/income may be reclassified to profit or loss in subsequent periods:					
Exchange differences:					
Exchange differences on translation of financial statements	<u>(6,709)</u>	<u>1,135</u>	<u>(2,699)</u>	<u>(1,477)</u>	<u>186</u>
Net other comprehensive (loss)/income may be reclassified to profit or loss in subsequent periods	<u>(6,709)</u>	<u>1,135</u>	<u>(2,699)</u>	<u>(1,477)</u>	<u>186</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR/PERIOD, NET OF TAX	<u>(6,709)</u>	<u>1,135</u>	<u>(2,699)</u>	<u>(1,477)</u>	<u>186</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>63,808</u>	<u>59,153</u>	<u>63,110</u>	<u>26,208</u>	<u>83,009</u>
Attributable to:					
Owners of the parent	53,644	47,335	46,730	20,434	60,203
Non-controlling interests	<u>10,164</u>	<u>11,818</u>	<u>16,380</u>	<u>5,774</u>	<u>22,806</u>
	<u>63,808</u>	<u>59,153</u>	<u>63,110</u>	<u>26,208</u>	<u>83,009</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,			As at June 30,
	Notes	2015	2016	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	19,598	28,718	56,228	109,672
Intangible assets	14	10,446	10,423	10,644	10,589
Investments in associates	15	30,845	71,045	16,230	15,102
Investment in a joint venture	16	—	—	5,275	5,240
Equity investments at fair value through profit or loss	17	—	8,500	64,581	83,363
Prepayments for purchase of property, plant and equipment		2,402	5,039	13,608	10,268
Deferred tax assets	23	20,040	16,885	4,750	4,594
Total non-current assets		83,331	140,610	171,316	238,828
CURRENT ASSETS					
Short-term investments measured at amortized cost	17	15,600	10,000	10,008	—
Short-term investments measured at fair value through profit or loss	17	100,344	151,243	561,635	—
Short-term debt investments measured at fair value through profit or loss	17	—	—	—	641,189
Short-term equity investments measured at fair value through profit or loss	17	—	—	—	6,222
Prepayments, deposits and other receivables	18	208,384	95,150	77,233	95,268
Loan to a third party	19	—	30,000	—	—
Restricted cash	20	—	—	—	296
Cash and cash equivalents	20	512,279	525,351	162,150	62,976
Amount due from a related party	33	—	3,000	—	—
Other current assets		214	171	782	608
Assets of a disposal group classified as held for sale	10	836,821	814,915	811,808	806,559
		—	19,015	55,869	—
Total current assets		836,821	833,930	867,677	806,559
CURRENT LIABILITIES					
Other payables and accruals	21	75,898	91,124	127,825	144,167
Contract liabilities	22	338,364	401,647	517,171	518,603
Convertible redeemable preferred shares	24	125,411	—	—	—
Tax payable		20,826	15,732	15,193	24,538
Dividend payables		573	—	—	—
Liabilities directly associated with the assets classified as held for sale	10	561,072	508,503	660,189	687,308
		—	—	26,011	—
Total current liabilities		561,072	508,503	686,200	687,308
NET CURRENT ASSETS		275,749	325,427	181,477	119,251
TOTAL ASSETS LESS CURRENT LIABILITIES		359,080	466,037	352,793	358,079
NON-CURRENT LIABILITIES					
Government grants	25	1,060	660	—	—
Rental payables		5,505	11,298	15,026	30,220
Total non-current liabilities		6,565	11,958	15,026	30,220
Net assets		352,515	454,079	337,767	327,859
EQUITY					
Equity attributable to owners of the parent					
Share capital	26	164	164	164	236
Reserves	27	299,962	389,668	254,360	325,418
Non-controlling interests		300,126	389,832	254,524	325,654
		52,389	64,247	83,243	2,205
Total equity		352,515	454,079	337,767	327,859

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to owners of the parent										
Notes	Share capital	Share premium	Share-based payment reserve*	Statutory surplus reserve*	Other reserve*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total
	RMB'000 Note 26	RMB'000	RMB'000 Note 28	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2015										
At January 1, 2015	164	–	11,397	35,032	4,597	(14,966)	215,973	252,197	41,855	294,052
Profit for the year	–	–	–	–	–	–	59,241	59,241	11,276	70,517
Other comprehensive loss for the year:										
Exchange differences on translation of financial statements	–	–	–	–	–	(5,597)	–	(5,597)	(1,112)	(6,709)
Total comprehensive income for the year	–	–	–	–	–	(5,597)	59,241	53,644	10,164	63,808
Equity-settled share option arrangements	–	–	1,225	–	–	–	–	1,225	–	1,225
Acquisition of non-controlling interests	27(a(1))	–	–	–	(6,940)	–	–	(6,940)	(60)	(7,000)
Establishment of a subsidiary with non-controlling interests	27(b(1))	–	–	–	–	–	–	–	430	430
Transfer from retained profits	27(d)	–	–	22,313	–	–	(22,313)	–	–	–
At December 31, 2015	164	–	12,622	57,345	(2,343)	(20,563)	252,901	300,126	52,389	352,515
Year ended December 31, 2016										
At January 1, 2016	164	–	12,622	57,345	(2,343)	(20,563)	252,901	300,126	52,389	352,515
Profit for the year	–	–	–	–	–	–	46,388	46,388	11,630	58,018
Other comprehensive income for the year:										
Exchange differences on translation of financial statements	–	–	–	–	–	947	–	947	188	1,135
Total comprehensive income for the year	–	–	–	–	–	947	46,388	47,335	11,818	59,153
Equity-settled share option arrangements	–	–	393	–	–	–	–	393	–	393
Acquisition of non-controlling interests	27(a(2))	–	–	–	(470)	–	–	(470)	40	(430)
Capital contribution	27(c(1))	–	–	–	42,448	–	–	42,448	–	42,448
Transfer from retained profits	27(d)	–	–	17,762	–	–	(17,762)	–	–	–
At December 31, 2016	164	–	13,015	75,107	39,635	(19,616)	281,527	389,832	64,247	454,079
Year ended December 31, 2017										
At January 1, 2017	164	–	13,015	75,107	39,635	(19,616)	281,527	389,832	64,247	454,079
Profit for the year	–	–	–	–	–	–	48,982	48,982	16,827	65,809
Other comprehensive loss for the year:										
Exchange differences on translation of financial statements	–	–	–	–	–	(2,252)	–	(2,252)	(447)	(2,699)
Total comprehensive income for the year	–	–	–	–	–	(2,252)	48,982	46,730	16,380	63,110
Equity-settled share option arrangements	–	–	25,960	–	16,192	–	–	42,152	–	42,152
Repurchase of vested share option	–	–	(3,960)	–	–	–	–	(3,960)	–	(3,960)
Acquisition of non-controlling interests	27(a(3))	–	–	–	(230)	–	–	(230)	(580)	(810)
Establishment of subsidiaries with non-controlling interests	27(b(2))	–	–	–	–	–	–	–	940	940
Capital contribution	27(c(2))	–	–	–	–	–	–	–	554	554
Deregistration of a subsidiary with non-controlling interests	–	–	–	–	–	–	–	–	1,702	1,702
Dividends paid	11	–	–	–	–	–	(220,000)	(220,000)	–	(220,000)
Transfer from retained profits	27(d)	–	–	27,527	–	–	(27,527)	–	–	–
Conversion into a joint stock limited company	27(e)	–	–	(22,451)	61,809	–	(39,358)	–	–	–
At December 31, 2017	164	–	35,015	80,183	117,406	(21,868)	43,624	254,524	83,243	337,767

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the parent									
Notes		Share capital	Share premium	Share-based payment reserve*	Statutory surplus reserve*	Other reserve*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 26		Note 28							
Period ended June 30, 2018											
At January 1, 2018		164	–	35,015	80,183	117,406	(21,868)	43,624	254,524	83,243	337,767
Profit for the period		–	–	–	–	–	–	60,054	60,054	22,769	82,823
Other comprehensive income for the period:											
Exchange differences on translation of financial statements		–	–	–	–	–	149	–	149	37	186
Total comprehensive income for the period		–	–	–	–	–	149	60,054	60,203	22,806	83,009
Issue of shares	26	72	–	–	–	–	–	–	72	–	72
Equity-settled share option arrangements		–	–	1,959	–	–	–	–	1,959	–	1,959
Acquisition of non-controlling interests	27 (a(4))	–	–	–	–	2,283	–	–	2,283	(2,793)	(510)
Disposal of subsidiaries with non-controlling interests	29	–	–	–	–	–	–	–	–	5,562	5,562
Reorganization	27(f)	–	–	–	–	106,613	–	–	106,613	(106,613)	–
Dividends paid	11	–	–	–	–	–	–	(100,000)	(100,000)	–	(100,000)
At June 30, 2018		236	–	36,974	80,183	226,302	(21,719)	3,678	325,654	2,205	327,859
Year ended June 30, 2017											
At January 1, 2017		164	–	13,015	75,107	39,635	(19,616)	281,527	389,832	64,247	454,079
Profit for the period (unaudited)		–	–	–	–	–	–	21,668	21,668	6,017	27,685
Other comprehensive loss for the period (unaudited):											
Exchange differences on translation of financial statements		–	–	–	–	–	(1,234)	–	(1,234)	(243)	(1,477)
Total comprehensive income for the period (unaudited)		–	–	–	–	–	(1,234)	21,668	20,434	5,774	26,208
Equity-settled share option arrangements		–	–	25,960	–	16,192	–	–	42,152	–	42,152
Repurchase of vested share option		–	–	(3,960)	–	–	–	–	(3,960)	–	(3,960)
Acquisition of non-controlling interests	27(a(3))	–	–	–	–	(230)	–	–	(230)	(580)	(810)
Establishment of subsidiaries with non-controlling interests	27(b(2))	–	–	–	–	–	–	–	–	490	490
Capital contribution	27(c(2))	–	–	–	–	–	–	–	–	554	554
Dividends paid	11	–	–	–	–	–	–	(220,000)	(220,000)	–	(220,000)
Conversion into a joint stock limited company	27(e)	–	–	–	(22,451)	61,809	–	(39,358)	–	–	–
At June 30, 2017 (unaudited)		164	–	35,015	52,656	117,406	(20,850)	43,837	228,228	70,485	298,713

* These reserve accounts comprise the reserves of RMB299,962,000, RMB389,668,000, RMB254,360,000 and RMB325,418,000 in the consolidated statements of financial position as at December 31, 2015, 2016 and 2017 and June 30, 2018, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,			Six months ended June 30,	
	Notes	2015	2016	2017	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax						
From continuing operations		108,984	85,923	112,782	51,051	113,300
From discontinued operations	10	—	(152)	(9,648)	(1,289)	965
Adjustments for:						
Finance cost		—	—	695	17	524
Interest income	5	(8,407)	(5,055)	(7,655)	(6,860)	(617)
Investment income		(504)	(327)	(751)	(45)	(164)
(Gain)/loss on disposal of items of property, plant and equipment	6	(10)	12	119	(3)	200
Deregistration of subsidiaries	6	—	—	50	—	—
Impairment of other receivables	6	2,000	—	—	—	—
Equity-settled share compensation costs	6	1,225	393	25,960	25,960	1,959
Depreciation	13	21,296	15,736	24,611	9,534	17,152
Amortization of intangible assets	14	1,940	1,979	1,280	907	1,029
Share of losses of associates	15	7,143	14,019	3,895	3,385	1,128
Share of profits of a joint venture		—	—	—	—	(89)
Change in fair value of investments measured at fair value through profit or loss	17	(4,320)	(2,184)	(33,259)	(3,301)	(33,331)
Change in fair value of preferred shares	24	(12,403)	—	—	—	—
Gain on disposal of subsidiaries	29	—	—	(152)	(152)	(9,298)
		116,944	110,344	117,927	79,204	92,758
Decrease/(increase) in prepayments, deposits and other receivables		3,469	(3,993)	(16,180)	(3,221)	(23,800)
(Increase)/decrease in amount due from a related party		—	(3,000)	3,000	3,000	—
Decrease/(increase) in other current assets		1,123	43	(13,769)	(176)	174
Increase in other payables and accruals		24,000	14,976	44,784	20,551	37,845
Increase in contract liabilities		66,548	63,283	117,201	465	1,432
Increase/(decrease) in rental payables		423	5,793	3,728	(445)	15,194
Decrease in government grants		—	(400)	(660)	(350)	—
Cash generated from operations		212,507	187,046	256,031	99,028	123,603
Interest received		8,397	4,465	8,132	7,413	740
Corporate income tax paid		(30,763)	(21,908)	(25,748)	(10,903)	(21,941)
Net cash flows from operating activities		190,141	169,603	238,415	95,538	102,402

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ACCOUNTANTS' REPORT

Notes	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income received	6,954	2,632	7,509	1,815	2,806
Purchase of short-term investments measured at fair value through profit or loss	(1,456,950)	(790,400)	(2,362,491)	(1,280,500)	(1,019,670)
Receipt from maturity of short-term investments measured at fair value through profit or loss	1,475,640	739,379	1,957,037	1,195,535	945,809
Purchase of short-term investments measured at amortized cost	(55,600)	(30,000)	(87,544)	(67,500)	–
Receipt from maturity of short-term investments measured at amortized cost	40,000	35,600	87,928	27,500	10,000
Purchase of equity investments at fair value through profit or loss	–	(8,500)	(1,000)	–	–
Proceeds from disposal of an equity investment at fair value through profit or loss	–	–	500	500	–
Proceeds from disposal of items of property, plant and equipment and intangible assets	837	108	6	4	105
Purchases of items of property, plant and equipment	(11,792)	(27,615)	(73,977)	(43,109)	(57,409)
Purchases of items of intangible assets	(1,172)	(1,956)	(2,482)	(1,161)	(1,239)
Acquisition of associates	(31,988)	(66,719)	(750)	–	–
Disposal of associates	–	–	29,939	29,916	–
Purchase of a shareholding in a joint venture	–	–	(5,275)	–	–
Loan to a third party	–	(30,000)	–	–	–
Collection of loan to a third party	–	–	30,000	30,000	–
Acquisition of subsidiaries	–	–	(8,400)	–	–
Disposal of subsidiaries	–	–	156	156	11,015
Payment for the deposit for investments	(8,114)	(17,950)	–	–	–
Receipt of the deposit for investments	–	4,360	28,264	28,264	–
Net cash flows used in investing activities	(42,185)	(191,061)	(400,580)	(78,580)	(108,583)
CASH FLOWS FROM FINANCING ACTIVITIES					
Deposit paid for repurchase of preferred shares	(121,954)	–	–	–	–
Receipt for the deposit paid for repurchase of preferred shares	–	121,954	–	–	–
Payment for repurchase of preferred shares	–	(122,638)	–	–	–
Borrowings from a non-controlling interest	–	–	15,889	6,125	–
Capital contribution	430	42,448	17,686	17,236	72
Dividends paid	(30,842)	(573)	(220,000)	(220,000)	(100,000)
Interest paid	–	–	(322)	(17)	(524)
Repurchase of vested share options	–	–	(3,960)	(3,960)	–
Acquisition of non-controlling interests of subsidiaries	(3,250)	(4,180)	(810)	(810)	(510)
Net cash flows (used in)/from financing activities	(155,616)	37,011	(191,517)	(201,426)	(100,962)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	(7,660)	15,553	(353,682)	(184,468)	(107,143)
Effect of foreign exchange rate changes, net	519,075	512,279	526,195	526,195	169,813
	864	(1,637)	(2,700)	(1,480)	306
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	512,279	526,195	169,813	340,247	62,976
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	20	366,279	449,351	162,150	321,864
Term deposits	20	146,000	76,000	–	–
Cash and cash equivalents as stated in the statements of financial position		512,279	525,351	162,150	321,864
Restricted cash pledged as security for property preservation		–	–	–	(296)
Cash and bank balances attributable to discontinued operations	10	–	844	7,663	18,383
Cash and cash equivalents as stated in the statements of cash flows		512,279	526,195	169,813	340,247
		62,976			

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at December 31,			As at June 30,
	Notes	2015	2016	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSET					
Investment in a subsidiary		331	331	331	331
CURRENT ASSETS					
Amounts due from shareholders		140	149	140	142
Amount due from a subsidiary of the Group	33	66,860	71,426	67,278	68,127
Cash and bank balances	20	–	48	46	90
Total current assets		67,000	71,623	67,464	68,359
CURRENT LIABILITIES					
Other payables and accruals		–	–	–	3
Amounts due to subsidiaries of the Group		1,215	1,332	1,254	1,269
Convertible redeemable preferred shares	24	125,411	–	–	–
Total current liabilities		126,626	1,332	1,254	1,272
NET CURRENT (LIABILITIES)/ASSETS					
		(59,626)	70,291	66,210	67,087
TOTAL ASSETS LESS CURRENT LIABILITIES					
		(59,295)	70,622	66,541	67,418
Net assets		(59,295)	70,622	66,541	67,418
EQUITY					
Share capital	26	164	164	164	236
Reserves	27	(59,459)	70,458	66,377	67,182
		(59,295)	70,622	66,541	67,418

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on August 27, 2010. The registered office address of the Company is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were engaged in the provision of the Kindergarten to Grade 12 ("K-12") after-school education services, including small group tutoring courses and tutoring courses for individuals, extra-curricular education programs and full-time test preparation courses (collectively the "Listing Businesses") in Mainland China.

The Company and its subsidiaries now comprising the Group underwent the Reorganization as more fully explained in the section headed "History and Corporate Structure" in this Prospectus. Apart from the Reorganization, the Company did not conduct any business or operation during the Relevant Periods.

As at the end of Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies and private non-enterprise units (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
China Bestudy Education Group ("Bestudy") (note a)	Cayman Islands August 30, 2010	United States dollar ("US\$") 50,000	100	–	Investment holding
China Beststudy Education (HK) Limited ("Beststudy HK") (note a)	Hong Kong September 9, 2010	US\$12,860	–	100	Investment holding
Guangzhou Zhuoxue Information Technology Co., Ltd. 廣州市卓學信息科技有限公司 ("Zhuoxue Information") (note q)	PRC/Mainland China October 19, 2016	US\$2,000,000	–	100	Provision of management consultancy services
Guangzhou Beststudy Enterprise Co., Ltd. 廣州市卓越里程教育科技有限公司 ("Guangzhou Beststudy") (note c)	PRC/Mainland China June 2, 2000	RMB43,000,000	–	100	K-12 after school education services
Foshan Nanhai Beststudy Frontline Education and Training Center 佛山市南海區卓越前線教育培訓中心 ("Foshan Nanhai Beststudy") (note b)	PRC/Mainland China October 21, 2013	RMB300,000	–	100	K-12 after school education services
Guangzhou Baiyun Beststudy Education and Training School 廣州市白雲區卓越教育培訓學校 ("Guangzhou Baiyun") (note b)	PRC/Mainland China March 1, 2012	RMB200,000	–	100	K-12 after school education services
Guangzhou Conghua Beststudy Education and Training Center 廣州市從化區卓越教育培訓中心 ("Guangzhou Conghua") (note b)	PRC/Mainland China July 1, 2013	RMB50,000	–	100	K-12 after school education services
Guangzhou Panyu Learning Frontline Education and Training Center 廣州市番禺區學習前線教育培訓中心 ("Guangzhou Panyu") (note b)	PRC/Mainland China October 16, 2009	RMB100,000	–	100	K-12 after school education services

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ACCOUNTANTS' REPORT

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Guangzhou Haizhu Beststudy Education and Training Center 廣州市海珠區卓越教育培訓中心 ("Guangzhou Haizhu") (note b)	PRC/Mainland China October 26, 2012	RMB100,000	–	100	K-12 after school education services
Guangzhou Zengcheng Beststudy Education and Training Center 廣州市增城區卓越教育培訓中心 ("Zengcheng Beststudy") (note b)	PRC/Mainland China May 15, 2012	RMB100,000	–	100	K-12 after school education services
Guangzhou Huadu Beststudy Education and Training Center 廣州市花都區卓越教育培訓中心 ("Huadu Beststudy") (note b)	PRC/Mainland China April 26, 2011	RMB300,000	–	100	K-12 after school education services
Guangzhou Beststudy Education and Training Center 廣州卓越教育培訓中心 ("Guangzhou Beststudy Center") (note b)	PRC/Mainland China 15 January 2007	RMB100,000	–	100	K-12 after school education services
Guangzhou Gaofen Network Technology Co., Ltd. 廣州高分網絡科技有限公司 ("Guangzhou Gaofen") (note c)	PRC/Mainland China December 21, 2015	RMB1,000,000	–	100	Internet information services
Guangzhou Qizuo Education Consulting Co., Ltd. 廣州奇作教育諮詢有限公司 ("Guangzhou Qizuo") (note c)	PRC/Mainland China December 20, 2010	RMB5,000,000	–	100	Internet information services
Guangzhou Yuyou Education Technology Co., Ltd. 廣州譽優教育科技有限公司 ("Guangzhou Yuyou") (note c)	PRC/Mainland China October 28, 2014	RMB5,080,000	–	100	K-12 after school education services
Guangzhou Fengbei Network Technology Co., Ltd. 廣州蜂背網絡科技有限公司 ("Guangzhou Fengbei") (note c)	PRC/Mainland China March 12, 2015	RMB100,000	–	100	Internet information services
Guangzhou Zhuoye Information Technology Co., Ltd. 廣州卓業信息技術有限公司 ("Guangzhou Zhuoye") (note c)	PRC/Mainland China December 6, 2010	RMB19,779,000	–	100	Provision of technical support and development services
Dongguan Dongcheng Learning Frontline Training Center 東莞市東城學習前線培訓中心 ("Dongguan Frontline") (note d)	PRC/Mainland China December 27, 2011	RMB278,188	–	100	K-12 after school education services
Dongguan Dongcheng Beststudy Second Training Center 東莞市東城卓越第二培訓中心 ("Dongguan Second") (note d)	PRC/Mainland China October 11, 2014	RMB200,337	–	100	K-12 after school education services
Dongguan Guancheng Beststudy Training Center 東莞市莞城卓越培訓中心 ("Dongguan Guancheng") (note d)	PRC/Mainland China March 6, 2013	RMB150,000	–	100	K-12 after school education services
Dongguan Houjie Beststudy Training Center 東莞市厚街卓越培訓中心 ("Dongguan Houjie") (note d)	PRC/Mainland China October 10, 2014	RMB150,000	–	100	K-12 after school education services

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ACCOUNTANTS' REPORT

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Foshan Chancheng Learning Frontline Education and Training Center 佛山市禪城區學習前線教育培訓中心 ("Foshan Chancheng") (note e)	PRC/Mainland China 4 June 2013	RMB300,000	–	100	K-12 after school education services
Foshan Nanhai Xinzhuoyue Education and Training Center 佛山市南海區新卓越教育培訓中心 ("Foshan Nanhai Xinzhuoyue") (note e)	PRC/Mainland China May 16, 2013	RMB300,000	–	80	K-12 after school education services
Foshan Shunde Lecong Learning Frontline Education and Training Center 佛山市順德區樂從鎮學習前線教育培訓中心 ("Shunde Lecong") (note e)	PRC/Mainland China June 25, 2013	RMB200,000	–	100	K-12 after school education services
Shenzhen Bosijie Culture Development Co., Ltd. 深圳市博思傑文化發展有限公司 ("Shenzhen Bosijie") (note f)	PRC/Mainland China June 26, 2009	RMB200,000	–	90	K-12 after school education services
Shenzhen Beststudy Education and Training Center 深圳市卓越教育培訓中心 ("Shenzhen Beststudy Center") (note f)	PRC/Mainland China November 17, 2011	RMB15,200,000	–	100	K-12 after school education services
Shenzhen Wandie Education and Training Center 深圳萬碟教育培訓中心 ("Shenzhen Wandie Education") (note f)	PRC/Mainland China November 17, 2011	RMB2,000,000	–	100	K-12 after school education services
Zhuhai Chuangsi Language Training School 珠海創思語言培訓學校 ("Zhuhai Chuangsi") (note g)	PRC/Mainland China May 26, 1998	RMB1,100,000	–	100	K-12 after school education services
Zhuhai Xiangzhou District Siqu Cultural Training Center 珠海市香洲區思奇文化培訓中心 ("Zhuhai Siqu") (note g)	PRC/Mainland China October 28, 2004	RMB100,000	–	100	K-12 after school education services
Shanghai Yangpu Beststudy Education and Training Center 上海楊浦區卓越教育培訓中心 ("Shanghai Yangpu") (note h)	PRC/Mainland China April 9, 2012	RMB2,000,000	–	100	K-12 after school education services
Zhongshan Zhuoyue Consulting Management Co., Ltd. 中山市卓業諮詢管理顧問有限公司 ("Zhongshan Zhuoyue") (note i)	PRC/Mainland China October 26, 2011	RMB300,000	–	100	K-12 after school education services
Zhongshan East District Zhuoyue Boda Jiahui Garden Education and Training Center 中山市東區卓業博達嘉惠苑教育培訓中心 ("Zhongshan Jiahui Garden") (note j)	PRC/Mainland China February 10, 2012	RMB50,000	–	100	K-12 after school education services
Zhongshan East District Zhuoyue Boda Shuiyunxuan Education and Training Center 中山市東區卓業博達水雲軒教育培訓中心 ("Zhongshan Shuiyunxuan") (note j)	PRC/Mainland China February 10, 2012	RMB50,000	–	100	K-12 after school education services
Zhongshan East District Zhuoyue Boda Zhuyuan Education and Training Center 中山市東區卓業博達竹苑教育培訓中心 ("Zhongshan Zhuyuan") (note j)	PRC/Mainland China February 10, 2012	RMB50,000	–	100	K-12 after school education services

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ACCOUNTANTS' REPORT

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Zhongshan Shizhuo Zhuoye Boda Hengji Education and Training Center 中山市石岐卓業博達恆基教育培訓中心 ("Zhongshan Hengji") (note j)	PRC/Mainland China February 10, 2012	RMB50,000	–	100	K-12 after school education services
Zhongshan Shizhuo Zhuoye Boda Guanxi Education and Training Center 中山市石岐卓業博達岐關西教育培訓中心 ("Zhongshan Qiguanxi") (note j)	PRC/Mainland China April 17, 2013	RMB50,000	–	100	K-12 after school education services
Zhongshan West District Zhuoye Boda Huating Education and Training Center 中山市西區卓業博達華庭教育培訓中心 ("Zhongshan Huating") (note j)	PRC/Mainland China January 17, 2012	RMB50,000	–	100	K-12 after school education services
Zhongshan Xiaolan Zhuoye Boda Education and Training Center 中山市小欖卓業博達教育培訓中心 ("Zhongshan Xiaolan") (note j)	PRC/Mainland China July 29, 2008	RMB50,000	–	100	K-12 after school education services
Zhuhai Beststudy Enterprise Co., Ltd. 珠海市卓越里程企業有限公司 ("Zhuhai Beststudy") (note j)	PRC/Mainland China December 16, 2015	RMB100,000	–	100	K-12 after school education services
Guangzhou Aiyuwen Technology Information Consulting Co., Ltd. 廣州市愛語文科技諮詢有限公司 ("Guangzhou Aiyuwen") (note q)	PRC/Mainland China 18 December 2015	RMB750,000	–	100	Internet information service
Guangzhou Liwan Beststudy Education and Training Center 廣州市荔灣區卓越教育培訓中心 ("Liwan Beststudy") (note k)	PRC/Mainland China February 19, 2016	RMB100,000	–	100	K-12 after school education services
Guangzhou Huangpu Beststudy Education and Training Center 廣州市黃埔區卓越教育培訓中心 ("Guangzhou Huangpu") (note k)	PRC/Mainland China November 30, 2016	RMB100,000	–	100	K-12 after school education services
Beijing Niushibang Education Technology Co., Ltd. 北京牛師幫教育科技有限公司 ("Beijing Niushibang") (note l)	PRC/Mainland China September 29, 2015	RMB1,538,461,000	–	64	Internet information service
Beijing Qiaowen Education Technology Co., Ltd. 北京巧問教育科技有限公司 ("Beijing Qiaowen") (note l)	PRC/Mainland China October 11, 2014	RMB2,000,000	–	100	K-12 after school education services
Dongguan Zhuoyue Education Consulting Service Co., Ltd. 東莞市卓越教育諮詢服務有限公司 ("Dongguan Zhuoyue") (note m)	PRC/Mainland China December 11, 2015	RMB100,000	–	100	K-12 after school education services
Foshan Beststudy Culture Communication Co., Ltd. 佛山市卓越里程文化傳播有限公司 ("Foshan Culture") (note n)	PRC/Mainland China December 18, 2015	RMB100,000	–	100	K-12 after school education services

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ACCOUNTANTS' REPORT

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Shenzhen Zhuoyue Education Training Co., Ltd. 深圳市卓越教育培訓有限公司 ("Shenzhen Zhuoyue Education") (note o)	PRC/Mainland China December 7, 2015	RMB100,000	–	100	K-12 after school education services
Shenzhen Wandie Culture Development Co., Ltd. 深圳市萬碟文化發展有限公司 ("Shenzhen Wandie Culture") (note q)	PRC/Mainland China December 8, 2006	RMB4,100,000	–	100	K-12 after school education services
Tibet Zhuoyue Venture Capital Investment Management Co., Ltd. 西藏卓業創業投資管理有限公司 ("Tibet Zhuoyue") (note q)	PRC/Mainland China April 21, 2016	RMB30,000,000	–	100	Investment and shareholding
Guangxi Nanning YuZhiYou Education Technology Co., Ltd. 廣西南寧譽智優教育科技有限公司 ("Nanning YuZhiYou") (note q)	PRC/Mainland China April 21, 2017	RMB2,010,000	–	99	K-12 after school education services
Huizhou Yuyou Education Technology Co., Ltd. 惠州譽優教育科技有限公司 ("Huizhou Yuyou") (note q)	PRC/Mainland China October 19, 2017	RMB1,000,000	–	85	K-12 after school education services
Guangzhou Beststudy Wendao Travel Service Co., Ltd. (廣州卓越問道旅行社有限公司) ("Guangzhou Wendao")	PRC/Mainland China March 20, 2018	RMB0	–	80	Consulting services
Nanning Beststudy Education Technology Co., Ltd. 南寧卓越里程教育科技有限公司 ("Nanning Beststudy")	PRC/Mainland China April 25, 2018	RMB150,000	–	100	Investment and shareholding
Guangzhou GROW Education Technology Co., Ltd. 廣州市果肉教育科技有限公司 ("Guangzhou GROW")	PRC/Mainland China May 10, 2018	RMB1,000,000	–	60	Internet information services and internet culture services
Dongguan Nancheng Beststudy Training Center Co., Ltd. 東莞市南城卓越培訓中心有限公司 ("Dongguan Nancheng Zhuoyue")	PRC/Mainland China June 20, 2018	RMB215,765	–	100	K-12 after school education services

Notes:

- No audited financial statements have been prepared as it was incorporated in a jurisdiction which does not have any statutory audit requirements.
- The statutory financial statements for the years ended December 31, 2015 and 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Guangzhou Degong Certified Public Accountants (廣州德公會計師事務所有限公司), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.
- The statutory financial statements for the years ended December 31, 2015 and 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Guangzhou Degong Certified Public Accountants (廣州德公會計師事務所有限公司), certified public accountants registered in the PRC. No audited financial statements have been prepared for the year ended December 31, 2017.

- (d) The statutory financial statements for the years ended December 31, 2015 and 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Dongguan Yongsheng Certified Public Accountants (東莞市永勝會計師事務所(普通合夥)), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.
- (e) The statutory financial statements for the year ended December 31, 2015 prepared in accordance with relevant accounting principles and financial regulations were audited by Foshan Yongde Beisi Certified Public Accountants (佛山永德貝斯特會計師事務所有限公司), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Foshan Dacheng Certified Public Accountants (佛山大城會計師事務所有限公司), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.
- (f) The statutory financial statements for the year ended December 31, 2015 prepared in accordance with relevant accounting principles and financial regulations were audited by Shenzhen Zhongxingxin Certified Public Accountants (深圳中興信會計師事務所(普通合夥)), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Shenzhen Yuandong Certified Public Accountants (深圳遠東會計師事務所(普通合夥)), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.
- (g) The statutory financial statements for the year ended December 31, 2015 prepared in accordance with relevant accounting principles and financial regulations were audited by Zhuhai Zhongshuiwang Guorui Certified Public Accountants (珠海中稅罔國睿會計師事務所(普通合夥)), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Shenzhen Zhongxingxin Certified Public Accountants (深圳中興信會計師事務所(普通合夥)), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.
- (h) The statutory financial statements for the years ended December 31, 2015 and 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Shanghai Huacheng Certified Public Accountants (上海華城會計師事務所有限公司), certified public accountants registered in the PRC. No audited financial statements have been prepared for the year ended December 31, 2017.
- (i) The statutory financial statements for the year ended December 31, 2015 prepared in accordance with relevant accounting principles and financial regulations were audited by Zhongshan Chengnuo Certified Public Accountants (中山市成諾會計師事務所有限公司), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Shenzhen Zhongxingxin Certified Public Accountants (深圳中興信會計師事務所(普通合夥)), certified public accountants registered in the PRC. No audited financial statements have been prepared for the year ended December 31, 2017.
- (j) No audited financial statements have been prepared for the year ended December 31, 2015. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Shenzhen Zhongxingxin Certified Public Accountants (深圳中興信會計師事務所(普通合夥)), certified public accountants registered in the PRC. The statutory financial

statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.

- (k) No audited financial statements have been prepared for the year ended December 31, 2015 as these entities were newly incorporated in 2016. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Guangzhou Degong Certified Public Accountants (廣州德公會計師事務所有限公司), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.
- (l) No audited financial statements have been prepared for the year ended December 31, 2015. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Beijing Zhongxin Tianhua Certified Public Accountants (北京中新天華會計師事務所有限公司), certified public accountants registered in the PRC. No audited financial statements have been prepared for the year ended December 31, 2017.
- (m) No audited financial statements have been prepared for the year ended December 31, 2015. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Dongguan Yongsheng Certified Public Accountants (東莞市永勝會計師事務所(普通合夥)), certified public accountants registered in the PRC. No audited financial statements have been prepared for the years ended December 31, 2017.
- (n) No audited financial statements have been prepared for the year ended December 31, 2015. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Foshan Dacheng Certified Public Accountants (佛山大城會計師事務所有限公司), certified public accountants registered in the PRC. No audited financial statements have been prepared for the year ended December 31, 2017.
- (o) No audited financial statements have been prepared for the year ended December 31, 2015. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Shenzhen Yuandong Certified Public Accountants (深圳遠東會計師事務所(普通合夥)), certified public accountants registered in the PRC. The statutory financial statements for the year ended December 31, 2017 prepared in accordance with relevant accounting principles and financial regulations were audited by BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch (立信會計師事務所(特殊普通合夥)廣東分所), certified public accountants registered in the PRC.
- (p) No audited financial statements have been prepared for the year ended December 31, 2015. The statutory financial statements for the year ended December 31, 2016 prepared in accordance with relevant accounting principles and financial regulations were audited by Shenzhen Puruihua Certified Public Accountants (深圳普瑞華會計師事務所(普通合夥)), certified public accountants registered in the PRC. No audited financial statements have been prepared for the year ended December 31, 2017.
- (q) No audited financial statements have been prepared for the years ended December 31, 2015, 2016 and 2017.
- * The English names of all the above companies represent the best effort made by the directors of the Company (the "Directors") to translate the Chinese names as these companies have not been registered with any official English names.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in the paragraph headed "Corporate Reorganization" in the section "History and Corporate Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group on June 18, 2018.

Due to regulatory restrictions on foreign ownership in the business of K-12 after-school education services in the PRC, the Listing Businesses were carried out by Guangzhou Beststudy and its subsidiaries (collectively, the “PRC Operating Entities”) during the Relevant Periods. Pursuant to the Reorganization, Zhuoxue Information, the Company’s wholly-owned subsidiary, has entered into structured contracts (“Structured Contracts”) with, among others, the PRC Operating Entities and their respective equity holders. The arrangements of the Structured Contracts enable Zhuoxue Information to exercise effective control over the PRC Operating Entities and obtain substantially all economic benefits of the PRC Operating Entities. Accordingly, the PRC Operating Entities are controlled by the Company based on the Structured Contracts though the Company does not have any direct or indirect equity interest in the PRC Operating Entities. Details of the Structured Contracts are disclosed in the section headed “Structured Contracts” in the Prospectus.

The companies now comprising the Group, including the PRC Operating Entities, were under the common control of Mr. Junying Tang, Mr. Junjing Tang and Mr. Gui Zhou (collectively, the “Controlling Shareholders”) before and after the Reorganization. Accordingly, for the purposes of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting base on the assumption that the Reorganization had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the six months ended June 30, 2017 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where the shorter period shall prevail. The consolidated statements of financial position of the Group as at December 31, 2015, 2016 and 2017 and June 30, 2018 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders’ perspective. No adjustments are made to reflect fair values, or to recognize any new assets or liabilities as a result of the Reorganization.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholders, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”).

The Historical Financial Information has been prepared under the historical cost convention, except for certain equity investments, short-term investments and convertible redeemable preferred shares which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 10 to the Historical Financial Information. The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 NEW AND AMENDED STANDARDS EARLY ADOPTED BY THE GROUP

Except for IFRS 9 *Financial Instruments*, all IFRSs effective for the accounting period commencing from January 1, 2018, including IFRS 15 *Revenue from Contracts with Customers* and amendments to IFRS 15 *Classification to IFRS 15 Revenue from Contracts with Customers*, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Group has applied IFRS 9, effective for the period beginning on January 1, 2018. The Group has not restated History Financial Information from January 1, 2015 to December 31, 2017 for financial instruments in the scope of IFRS 9. The History Financial Information for the years ended December 31, 2015, 2016 and 2017 is reported under IAS 39 *Financial Instruments: Recognition and Measurement* and is not comparable to the History Financial Information presented for the six months ended June 30, 2018.

The effect of adopting IFRS 9 is described below:

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The following describes the classification of the Group's financial assets upon the adoption of IFRS 9 as of January 1, 2018:

- Financial assets included in prepayments, deposits and other receivables of RMB59,608,000 previously classified as loans and receivables under IAS 39 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost.
- Under IAS 39, wealth management products of RMB10,008,000, of which the principal and interests are guaranteed, were previously classified as financial assets at amortized costs. Other wealth management products of RMB547,567,000 were classified as financial assets at profit or loss. Under IFRS 9, they are now all classified and measured as financial assets at fair value through profit or loss (debt instruments). The return on these wealth management products is contractually linked to a pool of investments with concentration of credit risks through subordination and/or guarantee. The Group has no access to the underlying pool of investments and thus classifies the wealth management products at fair value through profit or loss in accordance with IFRS 9.B4.1.26. For those wealth management products reclassified from financial assets at amortized costs to fair value through profit or loss, on the date of initial application of IFRS 9, the fair value of the wealth management products approximates its amortized costs.
- Equity investments in both listed and non-listed companies, amounting to RMB14,068,000 and RMB64,581,000, respectively, previously were designated as financial assets at fair value through profit or loss under IAS 39. Upon the adoption of IFRS 9, the Group did not elect to designate these equity investments as fair value through other comprehensive income, and these equity investments thus are classified and measured at fair value through profit or loss.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, the Group assessed that the ECLs for financial assets included in prepayment, deposits and other receivables, short-term investments measured at amortized cost and cash and cash equivalents were immaterial.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

As at the end of each reporting period, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the end of the reporting period and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and, forward looking analysis.

For the purposes of impairment assessment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using an allowance account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the impairment provision reverts from lifetime ECL to 12-month ECL.

2.4 ISSUED BUT NOT YET EFFECTIVE IFRSs

IFRS 16	<i>Leases¹</i>
IFRS 17	<i>Insurance Contracts⁴</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments¹</i>
Amendments to IFRS 3	<i>Definition of a business³</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁵</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material²</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement¹</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures¹</i>
Annual Improvements 2015-2017 Cycle	<i>IFRS 3, IFRS 11, IAS 12 and IAS 23¹</i>

¹ Effective for annual periods beginning on or after January 1, 2019

² Effective for annual periods beginning on or after January 1, 2020

³ Effective for business combination for which the acquisition date is on or after January 1, 2020 and to asset acquisition that occur on or after the beginning of that period

⁴ Effective for annual periods beginning on or after January 1, 2021

⁵ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. For lessee accounting, the standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). For lessor accounting, IFRS 16 is substantially unchanged from the accounting requirements under IAS 17. Accordingly, lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases, and to account for those two types of leases differently.

The Group will adopt IFRS 16 from January 1, 2019. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at January 1, 2019.

As at June 30, 2018 the Group had payment commitments under non-cancellable operating leases of approximately RMB849,363,000 as disclosed in note 30 to the Historical Financial Information. Based on the preliminary assessment by the Directors, assuming all non-cancellation operating lease commitments as disclosed in note 30 to the Historical Financial Information meet the IFRS 16 criteria, the adoption of IFRS 16 will result in a recognition of ROU assets and financial liabilities of approximately RMB710,884,000. The financial liabilities will be measured on an amortized cost basis and the interest expense of RMB138,479,000 will be allocated over the lease term using the effective interest rate method. As for the financial performance impact in profit or loss, rental expenses will be replaced with straight-line depreciation expense on the ROU asset and interest expenses on the lease liability. The combination of the 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 consolidated statements of profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The Directors anticipate that the application of IFRS 16 in the future will result in an increase in financial assets and financial liabilities, which is likely to have significant impact on the Group's financial position. However, the Directors anticipate that the net impact on the Group's financial performance is not significant. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under IFRS 16, Lease payments in relation to lease liability will be allocated into principal and interest portions which will be presented as financing cash flows.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group 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 (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statements of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) as at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made as at the end of each of the Relevant Periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Office equipment	19.00% to 33.33%
Electronic equipment	31.67% to 33.33%
Motor vehicles	19.00% to 20.00%
Leasehold improvements	20.00% to 33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least as at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least as at each financial year end.

Intangible assets are qualified as having a finite life and are stated at cost less any impairment losses and are amortised on a straight-line basis over the respective estimated useful life. The annual rates used for this purpose are as follow:

Computer software	10%-100%
Trademarks and domain names	10%

The annual rates for computer software are determined in accordance with the useful lives of the software which were assessed by the Group considering different purposes and usage of the software. The software served as basement IT system or teaching platform system is amortised over a long period up to 10 years. Other software requiring fast updating is amortised over a shorter period.

Trademarks and domain names are depreciated over the estimated useful life of the Directors' best estimation.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

IAS 39 Financial Instruments: Recognition and Measurement (replaced by IFRS 9 for periods beginning on January 1, 2018)***Investments and other financial assets****Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognized in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each of the Relevant Periods whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of profit or loss, is removed from other comprehensive income and recognized in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss – is removed from other comprehensive income and recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals, an amount due to a related party and convertible redeemable preferred shares.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Convertible redeemable preferred shares

The convertible redeemable preferred shares are designated as at fair value through profit or loss on initial recognition.

A financial liability may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The convertible redeemable preferred shares with embedded derivatives whose economic risks and characteristics are not closely related to those of the host contract (the liability component) as a whole are designated as financial liabilities at fair value through profit or loss on initial recognition.

Transaction costs that are directly attributable to the issue of the convertible redeemable preferred shares designated as financial liabilities at fair value through profit or loss are recognized immediately in the statement of profit or loss.

Subsequent to initial recognition, the convertible redeemable preferred shares are measured at fair value, with changes in fair value arising on re-measurement recognized directly in the statement of profit or loss in the period in which they arise.

Loans and borrowings

After initial recognition, other than convertible redeemable preferred shares, financial liabilities are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Group's statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

IFRS 9 Financial Instruments (replacement of IAS 39 for periods beginning on January 1, 2018)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section (e) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost are mainly cash and cash equivalents and restricted cash, financial assets included in prepayments, deposits and other receivables.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group don't have debt instruments at fair value through OCI during the Relevant Periods.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have equity instruments at fair value through OCI during the Relevant Periods.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes wealth management products, unlisted and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The Group generally considers there is a significant increase in credit risk when the contractual payments are 30 days past due.

The Group also 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. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forward-looking information.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities are mainly included in other payables and accruals.

Subsequent measurement

Financial liabilities at amortized cost

After initial recognition, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences as at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed as at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed as at the end of each of the Relevant Periods and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

(a) Revenue from contracts with customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Rendering of services

The Group offers various types of after-school education services to help students improve their academic performance and qualify for their desired schools and universities, including: (i) small group tutoring of premium learning program; (ii) individualized group tutoring of premium learning program; (iii) full-time test preparation program; and (iv) elite talent program.

Bundled package of services

Certain programs are offered at a discount or free of charge if ordered in a bundled package. Each program are identified as a separate performance obligation. The Group allocate the transaction price to each performance obligation based on the relative stand-alone selling price.

The performance obligations are satisfied over time because the customer simultaneously receives and consumes the benefits provided by the Group. Revenue for these services are recognized over time using an output method based on unit of classes delivered to measure progress towards complete satisfaction of the service.

Advances received from customers

Generally, the Group receives short-term advances from its customers and recognized such advances as contract liabilities. The Group expects, at contract inception, that the period between the time the customer pays for the service and when the Group transfers that promised service to the customer will be one year or less.

Variable consideration

Certain contracts provide customers with a right of refund when the customers complete the program but fail to achieve the predetermined test result. Rights of refund give rise to variable consideration.

At contract inception, the Group uses the expected value method to estimate the amount that will be refunded because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Group records the amount that will be refunded as a refund liability in other payables and accruals in the consolidated statement of financial position. The revenue recognition is deferred until the associated uncertainty is subsequently resolved.

(b) Interest income

Interest income from a financial asset is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(c) *Revenue from operating leases*

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for operating leasing above.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the Historical Financial Information.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each of the Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information is presented in RMB. The functional currency of the Company is the United States dollar. Each entity in the Group determines its own functional currency and items included in the Historical Financial Information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling as at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

The functional currencies of the certain overseas subsidiaries are currencies other than RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing as at the end of each of the Relevant Periods and their consolidated statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Historical Financial Information:

Contractual arrangements

The PRC Operating Entities are mainly engaged in the provision of K-12 after-school education services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

As disclosed in note 2.1 to the Historical Financial Information, as part of the Reorganization, the Group exercises control over the PRC Operating Entities and enjoys substantially all economic benefits of the PRC Operating Entities through the Structured Contracts.

The Company does not have any equity interest in the PRC Operating Entities. However, as a result of the Structured Contracts, the Company has power over the PRC Operating Entities, has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities and is therefore considered to have control over the PRC Operating Entities. Consequently, the Company regards the PRC Operating Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the PRC Operating Entities in the Historical Financial Information for the Relevant Periods.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets as at the end of each of the Relevant Periods. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value measurement of financial assets at fair value through profit or loss

The fair value measurement of financial assets at fair value through profit or loss that are measured within Level 3 of the fair value hierarchy requires significant estimates, which include estimating the future cash flows, determining appropriate discount rates and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. The Group monitors its investments for their fair value assessment by considering factors including, but not limited to, current economic and market conditions, recent fund raising transactions undertaken by the investees, the operating performance of the investees including current earnings trends and other company-specific information.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed as at the end of each of the Relevant Periods. Further details of the property, plant and equipment are set out in note 13 to the Historical Financial Information.

Fair value of share-base compensation to employees

As set out in note 28 to the Historical Financial Information below, the Group awarded equity interests to the key employees during the years ended December 31, 2011, 2012, 2013, 2017 and 2018. The Group used the discounted cash flow method to determine the fair value of these awards. Significant judgements on key assumptions, such as discount rate and projection of future performance are required to be made by the Group.

The share-based compensation expenses related to the awards for the year ended December 31, 2015, December 31, 2016, December 31, 2017 and the six months ended June 30, 2018 would have RMB1,225,000 RMB393,000, RMB25,960,000 and RMB1,959,000, respectively.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of K-12 after-school education services in Mainland China.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the Directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the Relevant Periods, the Group operated within one geographical segment because all of its revenue was generated in Mainland China and all of its long-term assets/capital expenditure were located/incurred in Mainland China. Accordingly, no further geographical segment information is presented.

Information about major customers

No service provided to a single customer amounted to 10% or more of total revenue of the Group during the Relevant Periods.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS

Revenue from contracts with customers represents the value of services rendered, net of value-added tax ("VAT") and other sales tax, after allowances for refunds and discounts during the Relevant Periods and the six months ended June 30, 2017.

An analysis of revenue from contracts with customers, other income and gains is as follows:

Note	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue from contracts with customers					
Premium learning programs					
– Small group tutoring	341,665	417,254	554,769	246,379	339,718
– Individualized tutoring	319,767	368,208	458,694	243,176	295,817
Full-time test preparation programs	92,422	96,850	99,981	61,295	67,421
Elite talent programs	6,137	13,719	26,695	9,935	17,848
Others	–	100	1,562	513	2,312
	<u>759,991</u>	<u>896,131</u>	<u>1,141,701</u>	<u>561,298</u>	<u>723,116</u>
Other income and gains, net					
Interest income	8,407	5,055	7,655	6,860	617
Other service income, net	1,912	2,859	2,918	1,414	924
Subsidy income from the PRC government	25 3,764	552	5,816	2,331	1,656
Site use income	503	265	276	31	78
Licensing and consulting income	711	978	449	447	597
Others	117	129	1,744	893	175
	<u>15,414</u>	<u>9,838</u>	<u>18,858</u>	<u>11,976</u>	<u>4,047</u>

The subsidy income represents subsidies granted by the local government to Guangzhou Beststudy, Shanghai Yangpu, Guangzhou Zhuoye and Zhuhai Siqu as compensation for their operating expenses and as encouragement for their contribution to the local economy. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

Notes	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Employee benefit expense (excluding Directors' remuneration) (note 7):					
Wages and salaries	327,798	414,677	554,081	262,713	346,771
Pension scheme contributions	40,023	50,762	66,645	29,959	37,369
Equity-settled share option expense	1,225	393	25,960	25,960	1,959
	369,046	465,832	646,686	318,632	386,099
Cost of services provided*	444,377	519,812	658,951	316,430	417,215
Depreciation 13	21,296	15,736	24,611	9,534	17,152
Amortization of intangible assets 14	1,940	1,979	1,280	907	1,029
Minimum lease payments under operating leases	91,487	114,336	142,460	65,272	91,118
Fair value (gain)/loss:					
Unlisted equity investments at fair value through profit or loss 17	–	–	(19,427)	(707)	(18,758)
Listed equity investments 17	–	–	–	–	1,235
Wealth management products issued by banks 17	(4,320)	(2,184)	(13,832)	(2,594)	(15,808)
Convertible redeemable preferred shares 24	(12,403)	–	–	–	–
Auditor's remuneration	603	299	3,735	2,563	457
Listing expenses	–	–	–	–	15,714
(Gain)/loss on disposal of items of property, plant and equipment**	(10)	12	119	(3)	200
Impairment of other receivables**	2,000	–	–	–	–
Interest income**	(8,407)	(5,055)	(7,655)	(6,860)	(617)
Subsidy income from the PRC government** 25	(3,764)	(552)	(5,816)	(2,331)	(1,656)
Foreign exchange difference, net**	1,786	1,668	(1,613)	(1,003)	296
Derecognition of subsidiaries**	–	–	50	–	–

* The staff costs of RMB310,422,000, RMB372,492,000, RMB460,746,000, RMB228,425,000 and RMB290,912,000 and the depreciation and amortization of RMB14,361,000, RMB10,593,000, RMB18,255,000, RMB7,468,000 and RMB13,262,000 are included in "Cost of services provided" in the consolidated statements of profit or loss.

** Included in "Other income and gains, net (note 5)" or "Other expenses" in the consolidated statements of profit or loss.

7. DIRECTORS' REMUNERATION

Mr. Junjing Tang was appointed as director on August 27, 2010 and designated as an executive director on June 13, 2018, and was appointed as the chairman of the board and chief executive officer on June 13, 2018. Mr. Junying Tang and Mr. Gui Zhou were appointed as directors on January 21, 2011 and designated as executive directors on June 13, 2018. Mr. Wenhui Xu was appointed as a director as on January 21, 2011 and designated as a non-executive director on June 13, 2018. Ms. Wen Li was appointed as a non-executive director on June 13, 2018. Ms. Yu Long, Mr. Yingmin Wu and Mr. Peng Xue were appointed as independent non-executive directors on December 3, 2018.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors which has been recorded in the financial statements of the Group's subsidiaries is set out below:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fees	—	—	34	16	30
Other emoluments:					
Salaries, allowances and benefits in kind	1,605	1,965	2,129	1,042	1,567
Performance related bonuses	2,874	2,470	2,818	1,409	2,279
Pension scheme contributions	91	96	102	48	54
	4,570	4,531	5,049	2,499	3,900
	4,570	4,531	5,083	2,515	3,930

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods and the six months ended June 30, 2017 were as follows:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Ms. Yu Long	—	—	17	8	15
Mr. Yingmin Wu	—	—	17	8	15
Mr. Peng Xue	—	—	—	—	—
	—	—	34	16	30

There were no emoluments payable to the independent non-executive directors during the Relevant Periods and the six months ended June 30, 2017.

(b) Executive directors, non-executive directors and the chief executive

Year ended December 31, 2015	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:				
Mr. Junjing Tang	543	958	30	1,531
Mr. Junying Tang	543	958	30	1,531
Mr. Gui Zhou	519	958	31	1,508
	1,605	2,874	91	4,570
Non-executive directors:				
Mr. Wenhui Xu	–	–	–	–
Ms. Wen Li	–	–	–	–
	–	–	–	–
	1,605	2,874	91	4,570
Year ended December 31, 2016	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:				
Mr. Junjing Tang	663	840	32	1,535
Mr. Junying Tang	663	815	32	1,510
Mr. Gui Zhou	639	815	32	1,486
	1,965	2,470	96	4,531
Non-executive directors:				
Mr. Wenhui Xu	–	–	–	–
Ms. Wen Li	–	–	–	–
	–	–	–	–
	1,965	2,470	96	4,531
Year ended December 31, 2017	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:				
Mr. Junjing Tang	718	958	34	1,710
Mr. Junying Tang	718	930	34	1,682
Mr. Gui Zhou	693	930	34	1,657
	2,129	2,818	102	5,049
Non-executive directors:				
Mr. Wenhui Xu	–	–	–	–
Ms. Wen Li	–	–	–	–
	–	–	–	–
	2,129	2,818	102	5,049

Period ended June 30, 2017 (Unaudited)	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:				
Mr. Junjing Tang	354	479	16	849
Mr. Junying Tang	354	465	16	835
Mr. Gui Zhou	334	465	16	815
	1,042	1,409	48	2,499
Non-executive directors:				
Mr. Wenhui Xu	—	—	—	—
Ms. Wen Li	—	—	—	—
	—	—	—	—
	1,042	1,409	48	2,499
	<u>1,042</u>	<u>1,409</u>	<u>48</u>	<u>2,499</u>
Period ended June 30, 2018				
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:				
Mr. Junjing Tang	523	752	18	1,293
Mr. Junying Tang	523	752	18	1,293
Mr. Gui Zhou	521	775	18	1,314
	1,567	2,279	54	3,900
Non-executive directors:				
Mr. Wenhui Xu	—	—	—	—
Ms. Wen Li	—	—	—	—
	—	—	—	—
	1,567	2,279	54	3,900
	<u>1,567</u>	<u>2,279</u>	<u>54</u>	<u>3,900</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six months ended June 30, 2017.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods and the six months ended June 30, 2017 included three directors, details of whose remuneration are set out in note 7 to the Historical Financial Information above. Details of the remuneration for the Relevant Periods and the six months ended June 30, 2017 of the remaining two highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	2,078	2,049	2,325	1,116	1,287
Performance related bonuses	482	1,246	1,385	692	721
Pension scheme contributions	31	63	67	32	35
Equity-settled share option expense	242	78	805	805	–
	<u>2,833</u>	<u>3,436</u>	<u>4,582</u>	<u>2,645</u>	<u>2,043</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
				(Unaudited)	
HK\$1,000,001 to HK\$1,500,000	1	–	–	–	2
HK\$1,500,001 to HK\$2,000,000	–	1	–	2	–
HK\$2,000,001 to HK\$2,500,000	1	1	1	–	–
HK\$2,500,001 to HK\$3,000,000	–	–	1	–	–
	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the Relevant Periods and the six months ended June 30, 2017, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to these senior management personnel as an inducement to join or upon joining the Group or as compensation for loss of office.

During the Relevant Periods and the six months ended June 30, 2017, share options were granted to a non-director and non-chief executive highest paid employees in respect of his services to the Group, further details of which are included in the disclosures in note 28 to the Historical Financial Information. The fair values of such options, which have been recognized in the statements of profit or loss over the vesting periods, were determined as at the date of grant and the amounts included in the financial statements for the Relevant Periods and the six months ended June 30, 2017 are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods and the six months ended June 30, 2017.

PRC Corporate Income Tax ("CIT")

Guangzhou Zhuoye was accredited as a Software Enterprise in 2013 and was exempted from CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing either from the first year of commercial operation or from the first year of profitable operation after offsetting tax losses generated from prior years. As a result, Guangzhou Zhuoye was entitled to a preferential tax rate of 12.5% for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018.

Tibet Zhuoye, established in the Tibet Autonomous Region of PRC, was entitled to a preferential tax rate of 9% for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018.

Zhongshan Jiahui Garden and Zhongshan Qiguanxi were certified as small and micro-sized enterprises ("SME") and were entitled to a preferential tax rate of 20% for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018.

Pursuant to the CIT Law and the respective regulations, the other PRC subsidiaries were subject to income tax at a statutory rate of 25% for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018.

CIT of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the Relevant Periods and the six months ended June 30, 2017.

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current – the PRC					
Charge for the year/period	41,881	24,598	25,288	16,900	31,186
Deferred (<i>note 23</i>)	(3,414)	3,155	12,086	5,177	205
Total tax charge for the year/period from continuing operations	38,467	27,753	37,374	22,077	31,391
Total tax (credit)/charge for the year/period from discontinued operations	–	–	(49)	–	51
	<u>38,467</u>	<u>27,753</u>	<u>37,325</u>	<u>22,077</u>	<u>31,442</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the majority of the Group's subsidiaries to the tax expense at the effective tax rate for each of the Relevant Periods and the six months ended June 30, 2017 is as follows:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before tax from continuing operations	108,984	85,923	112,782	51,051	113,300
(Loss)/profit before tax from discontinued operations	—	(152)	(9,648)	(1,289)	965
	<u>108,984</u>	<u>85,771</u>	<u>103,134</u>	<u>49,762</u>	<u>114,265</u>
Tax at the statutory tax rate	27,246	21,443	25,784	12,441	28,566
Lower tax rates for specific provinces or enacted by local authority	(3,136)	(679)	945	(426)	—
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	14,231	—	—	—	—
Losses attributable to the associates	1,786	3,505	974	846	261
Income not subject to tax	(1,384)	(36)	(345)	—	(4,889)
Expenses not deductible for tax	1,170	798	5,694	5,665	2,400
Tax losses utilized from previous periods	(4,910)	(790)	(852)	—	(105)
Tax losses not recognized	<u>3,464</u>	<u>3,512</u>	<u>5,125</u>	<u>3,551</u>	<u>5,209</u>
	<u>38,467</u>	<u>27,753</u>	<u>37,325</u>	<u>22,077</u>	<u>31,442</u>
Tax charge from continuing operations at the effective rate	38,467	27,753	37,374	22,077	31,391
Tax (credit)/charge from discontinued operations at the effective rate	<u>—</u>	<u>—</u>	<u>(49)</u>	<u>—</u>	<u>51</u>

Withholding tax was charged on the repurchase of convertible redeemable preferred shares for the year ended December 31, 2015.

10. DISCONTINUED OPERATIONS

On December 31, 2016, the Company announced the decision of its board of directors to dispose of the entire equity interests of Guangzhou Benying Information Technology Co., Ltd. ("Guangzhou Benying") and Guangzhou Weizhuo Investment Management Ltd. ("Guangzhou Weizhuo") held by the Group. Guangzhou Benying engages in the provision of promotion services in social media and Guangzhou Weizhuo engages in the investment holding of a secondary school in the PRC. The Group has decided to cease these business because it plans to focus its resources

on its K-12 after-school education services. The disposals of Guangzhou Benying and Guangzhou Weizhuo were completed on May 25, 2017 and May 18, 2017, respectively. As at December 31, 2016, final negotiations for the sale were in progress and Guangzhou Benying and Guangzhou Weizhuo were classified as a disposal group held for sale and as a discontinued operations.

On December 5, 2017, the Company announced the decision of its board of directors to dispose of the entire equity interests of 7 entities held by the Group, namely Guangdong Zhuoyue Qiancheng Education Services Co., Ltd. ("Guangdong Zhuoyue Qiancheng"), Shenzhen Beststudy Animation Technology Co., Ltd. ("Shenzhen Animation"), Dongguan Frontline Enterprise Management Consulting Co., Ltd. ("Dongguan Frontline"), Guangzhou Mite Information Technology Co., Ltd. ("Guangzhou Mite"), Guangzhou Zhuoben Investment Management Co., Ltd. ("Guangzhou Zhuoben"), Guangzhou Baizhuo Education Consulting Co., Ltd. ("Guangzhou Baizhuo") and Guangzhou ZhuoYu Education Consulting Co., Ltd. ("Guangzhou ZhuoYu"). The disposals were completed on June 30, 2018. As at December 31, 2017, final negotiations for the sale were in progress and these entities were classified as disposal groups held for sale and as discontinued operations.

The results of the disposal groups for the Relevant Periods and the six months ended June 30, 2017 are presented below:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	–	19	11,064	1,038	9,771
Cost of sales	–	–	(13,219)	(843)	(12,761)
Other income, net	–	–	–	91	67
Other expense	–	–	(133)	–	–
Gain from disposal of subsidiaries	–	–	152	152	9,298
Selling and distribution expenses	–	(92)	(359)	(89)	(266)
Administrative expenses	–	(79)	(6,458)	(1,621)	(4,620)
Finance costs	–	–	(695)	(17)	(524)
(Loss)/profit before tax from the discontinued operation	–	(152)	(9,648)	(1,289)	965
Income tax credit/(expense)	–	–	49	–	(51)
(Loss)/profit for the year/period from the discontinued operations	–	(152)	(9,599)	(1,289)	914

The disposals were completed on June 30, 2018. And the major classes of assets and liabilities of the disposal groups classified as held for sale as at December 31, 2015, 2016 and 2017 are as follows:

	As at December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<i>Assets</i>			
Property, plant and equipment	–	4	13,162
Intangible assets	–	–	981
Investment in an associate	–	12,500	–
Goodwill	–	–	8,400
Deferred tax assets	–	–	49
Prepayments, deposits and other receivables	–	5,667	10,382
Cash and cash equivalents	–	844	7,663
Other current assets	–	–	15,232
Assets classified as held for sale	–	19,015	55,869

	As at December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<i>Liabilities</i>			
Other payables and accruals	–	–	9,749
Long-term loan	–	–	8,298
Other long term liabilities	–	–	7,964
Liabilities directly associated with the assets classified as held for sale	–	–	26,011
Net assets directly associated with the disposal group	–	19,015	29,858

11. DIVIDENDS

No dividend had been declared by the Company during the Relevant Periods and the six months ended June 30, 2017.

During the six months ended June 30, 2017 and 2018, Guangzhou Beststudy, a subsidiary of the Company, declared and paid cash dividends of RMB220,000,000 and RMB100,000,000 to its then shareholders, respectively.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purposes of this report, is not considered meaningful due to the Reorganization and the basis of presentation as disclosed in note 2.1 to the Historical Financial Information above.

13. PROPERTY, PLANT AND EQUIPMENT

December 31, 2015	Office equipment	Electronic equipment	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015:					
Cost	13,629	16,883	3,290	82,436	116,238
Accumulated depreciation	(10,844)	(12,414)	(2,573)	(59,078)	(84,909)
Net carrying amount	2,785	4,469	717	23,358	31,329
At January 1, 2015, net of accumulated depreciation	2,785	4,469	717	23,358	31,329
Additions	1,712	2,795	–	5,885	10,392
Disposals	(447)	(380)	–	–	(827)
Depreciation provided during the year (note 6)	(1,585)	(2,605)	(272)	(16,834)	(21,296)
At December 31, 2015, net of accumulated depreciation	2,465	4,279	445	12,409	19,598
At December 31, 2015					
Cost	14,022	18,126	3,290	88,321	123,759
Accumulated depreciation	(11,557)	(13,847)	(2,845)	(75,912)	(104,161)
Net carrying amount	2,465	4,279	445	12,409	19,598

APPENDIX I
ACCOUNTANTS' REPORT

December 31, 2016	Office equipment	Electronic equipment	Motor vehicles	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2016:					
Cost	14,022	18,126	3,290	88,321	123,759
Accumulated depreciation	(11,557)	(13,847)	(2,845)	(75,912)	(104,161)
Net carrying amount	<u>2,465</u>	<u>4,279</u>	<u>445</u>	<u>12,409</u>	<u>19,598</u>
At January 1, 2016, net of accumulated depreciation	2,465	4,279	445	12,409	19,598
Additions	2,052	7,919	181	14,828	24,980
Disposals	(63)	(56)	(1)	–	(120)
Assets included in a discontinued operations (note 10)	–	(4)	–	–	(4)
Depreciation provided during the year (note 6)	<u>(1,256)</u>	<u>(3,133)</u>	<u>(250)</u>	<u>(11,097)</u>	<u>(15,736)</u>
At December 31, 2016, net of accumulated depreciation	<u>3,198</u>	<u>9,005</u>	<u>375</u>	<u>16,140</u>	<u>28,718</u>
At December 31, 2016:					
Cost	15,425	25,015	3,341	103,149	146,930
Accumulated depreciation	(12,227)	(16,010)	(2,966)	(87,009)	(118,212)
Net carrying amount	<u>3,198</u>	<u>9,005</u>	<u>375</u>	<u>16,140</u>	<u>28,718</u>
December 31, 2017	Office equipment	Electronic equipment	Motor vehicles	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2017:					
Cost	15,425	25,015	3,341	103,149	146,930
Accumulated depreciation	(12,227)	(16,010)	(2,966)	(87,009)	(118,212)
Net carrying amount	<u>3,198</u>	<u>9,005</u>	<u>375</u>	<u>16,140</u>	<u>28,718</u>
At January 1, 2017, net of accumulated depreciation	3,198	9,005	375	16,140	28,718
Additions	6,998	11,689	165	46,557	65,409
Disposals	(36)	(83)	(7)	–	(126)
Assets included in a discontinued operations (note 10)	(4)	(7)	–	(13,151)	(13,162)
Depreciation provided during the year (note 6)	<u>(3,514)</u>	<u>(6,450)</u>	<u>(191)</u>	<u>(14,456)</u>	<u>(24,611)</u>
At December 31, 2017, net of accumulated depreciation	<u>6,642</u>	<u>14,154</u>	<u>342</u>	<u>35,090</u>	<u>56,228</u>
At December 31, 2017:					
Cost	21,239	34,242	3,267	135,585	194,333
Accumulated depreciation	(14,597)	(20,088)	(2,925)	(100,495)	(138,105)
Net carrying amount	<u>6,642</u>	<u>14,154</u>	<u>342</u>	<u>35,090</u>	<u>56,228</u>

June 30, 2018	Office equipment	Electronic equipment	Motor vehicles	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2018:					
Cost	21,239	34,242	3,267	135,585	194,333
Accumulated depreciation	(14,597)	(20,088)	(2,925)	(100,495)	(138,105)
Net carrying amount	<u>6,642</u>	<u>14,154</u>	<u>342</u>	<u>35,090</u>	<u>56,228</u>
At January 1, 2018, net of accumulated depreciation	6,642	14,154	342	35,090	56,228
Additions	4,681	3,691	1,189	61,075	70,636
Disposals	(9)	(13)	(18)	–	(40)
Depreciation provided during the period (<i>note 6</i>)	(1,804)	(3,651)	(82)	(11,615)	(17,152)
At June 30, 2018, net of accumulated depreciation	<u>9,510</u>	<u>14,181</u>	<u>1,431</u>	<u>84,550</u>	<u>109,672</u>
At June 30, 2018:					
Cost	19,404	25,917	3,475	196,660	245,456
Accumulated depreciation	(9,894)	(11,736)	(2,044)	(112,110)	(135,784)
Net carrying amount	<u>9,510</u>	<u>14,181</u>	<u>1,431</u>	<u>84,550</u>	<u>109,672</u>

14. INTANGIBLE ASSETS

	Computer software	Domain names	Trademarks	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
December 31, 2015				
At January 1, 2015:				
Cost	6,290	2,658	8,000	16,948
Accumulated amortization	(2,395)	(739)	(2,600)	(5,734)
Net carrying amount	<u>3,895</u>	<u>1,919</u>	<u>5,400</u>	<u>11,214</u>
Cost at January 1, 2015, net of accumulated amortization	3,895	1,919	5,400	11,214
Additions	1,172	–	–	1,172
Amortization provided during the year (<i>note 6</i>)	(874)	(266)	(800)	(1,940)
At December 31, 2015	<u>4,193</u>	<u>1,653</u>	<u>4,600</u>	<u>10,446</u>
At December 31, 2015:				
Cost	7,462	2,657	8,000	18,119
Accumulated amortization	(3,269)	(1,004)	(3,400)	(7,673)
Net carrying amount	<u>4,193</u>	<u>1,653</u>	<u>4,600</u>	<u>10,446</u>

	Computer software	Domain names	Trademarks	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
December 31, 2016				
Cost at January 1, 2016, net of accumulated amortization	4,193	1,653	4,600	10,446
Additions	1,956	–	–	1,956
Amortization provided during the year (<i>note 6</i>)	(913)	(266)	(800)	(1,979)
At December 31, 2016	<u>5,236</u>	<u>1,387</u>	<u>3,800</u>	<u>10,423</u>
At December 31, 2016:				
Cost	9,418	2,657	8,000	20,075
Accumulated amortization	(4,182)	(1,270)	(4,200)	(9,652)
Net carrying amount	<u>5,236</u>	<u>1,387</u>	<u>3,800</u>	<u>10,423</u>
	Computer software	Domain names	Trademarks	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
December 31, 2017				
Cost at January 1, 2017, net of accumulated amortization	5,236	1,387	3,800	10,423
Additions	2,482	–	–	2,482
Assets included in a discontinued operations (<i>note 10</i>)	(981)	–	–	(981)
Amortization provided during the year (<i>note 6</i>)	(211)	(269)	(800)	(1,280)
At December 31, 2017	<u>6,526</u>	<u>1,118</u>	<u>3,000</u>	<u>10,644</u>
At December 31, 2017:				
Cost	11,900	2,657	8,000	22,557
Accumulated amortization	(5,374)	(1,539)	(5,000)	(11,913)
Net carrying amount	<u>6,526</u>	<u>1,118</u>	<u>3,000</u>	<u>10,644</u>
	Computer software	Domain names	Trademarks	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
June 30, 2018				
Cost at January 1, 2018, net of accumulated amortization	6,526	1,118	3,000	10,644
Additions	1,239	–	–	1,239
Disposal	(265)	–	–	(265)
Amortization provided during the period (<i>note 6</i>)	(497)	(132)	(400)	(1,029)
At June 30, 2018	<u>7,003</u>	<u>986</u>	<u>2,600</u>	<u>10,589</u>
At June 30, 2018:				
Cost	12,837	2,658	8,000	23,495
Accumulated amortization	(5,834)	(1,672)	(5,400)	(12,906)
Net carrying amount	<u>7,003</u>	<u>986</u>	<u>2,600</u>	<u>10,589</u>

15. INVESTMENTS IN ASSOCIATES

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Investments in associates accounted for using the equity method – unlisted entities	30,845	71,045	16,230	15,102
	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	6,000	30,845	71,045	16,230
Addition (note a)	31,988	66,719	750	–
Disposal (note b)	–	–	(17,438)	–
Transfer (note c)	–	(12,500)	(34,232)	–
Share of losses (note d)	(7,143)	(14,019)	(3,895)	(1,128)
At the end of the year/period	30,845	71,045	16,230	15,102

The Group directly holds solely ordinary shares of the associates. Redemption options were provided to the Group by certain investees if these investees are not about to complete qualified IPO before the pre-determined time. Based on the current situation of the investees, the redemption option is not material. As at December 31, 2015, 2016 and 2017 and June 30, 2018, the Group invested in 3, 10, 6 and 6 associates respectively.

- (a) The Group acquired certain associates and made additional investments in existing associates, with an aggregate amount of RMB31,988,000, RMB66,719,000 and RMB750,000 during the years ended December 31, 2015, 2016 and 2017 respectively. These associates are principally engaged in the provision of education technologies and services.
- (b) The Group disposed of 3 associates to a related party of the Group for the consideration of RMB10,000,000, RMB500,000 and RMB6,938,000 respectively during the year ended December 31, 2017.
- (c) Guangzhou Weizhuo was classified as held for sale at December 31, 2016 and was disposed of to a related party for the consideration of RMB12,500,000 in May 2017. In June 2017, the Group derecognized the investment in the associate after losing significant influence over Hainan Yunjiang Technology Co., Ltd. 海南雲江科技有限公司 (“Yunjiang Technology”), which has become a financial asset at fair value through profit or loss.
- (d) The share loss of the associates with an aggregate amount of RMB7,143,000, RMB13,361,000 and RMB3,253,000 respectively during the years ended December 31, 2015, 2016 and 2017 was derived from the material associate of the Group, Yunjiang Technology. Considering such impairment indicator, management performed impairment test accordingly. The recoverable amount of the interest in Yunjiang Technology is determined by fair value less cost of disposal. Based on management's assessment results, no impairment provision was made during the years ended December 31, 2015, 2016 and 2017.

In the opinion of the Directors, the Group has significant influence over these associates, with a total carrying amount of RMB30,845,000, RMB71,045,000, RMB16,230,000 and RMB15,102,000 as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively, and determined that it has significant influence through the board representation, even though the respective shareholdings of some investments are below 20%. Accordingly, these investments have been classified as associates.

Set out below is the material associate of the Group as of December 31, 2015, 2016 and 2017 and June 30, 2018. The associate as shown below is an ordinary share investment, which is held directly by the Group. Mainland China is its principal place of business.

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group				Principal activities
			Year 2015	Year 2016	Year 2017	Six months ended June 30, 2018	
Yunjiang Technology	Ordinary shares	PRC/Mainland China	10.00	9.20	N/A	N/A	Development and provision of education technologies

Set out below is the summarized financial information of the material associate:

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	146,026	121,065	N/A	N/A
Non-current assets	306	562	N/A	N/A
Current liabilities	(2,995)	(8,448)	N/A	N/A
Non-controlling interests	–	106	N/A	N/A
Equity attributable to owners of the parent	(143,337)	(113,285)	N/A	N/A
Reconciliation to carrying amount:				
Proportion of the Group's ownership	10%	9.2044%	N/A	N/A
Group's share of net assets attributable to owners of the associates	14,334	10,427	N/A	N/A
Adjustment:				
Goodwill	7,512	27,058	N/A	N/A
Carrying amount	21,846	37,485	N/A	N/A

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3,495	19,292	N/A	4,192	N/A
Loss and total comprehensive loss for the year/period	(71,431)	(145,158)	N/A	(35,345)	N/A

In June 2017, the Group derecognized the investment in associate after losing significant influence over Yunjiang Technology as the Group no longer had the right to appoint any director of Yunjiang Technology since the previous representative of the Group had resigned as a director. Accordingly Yunjiang Technology become a financial asset at fair value through profit or loss afterwards.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	As at December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Share of the associates' loss for the year/period	–	(659)	(642)	(109)	(1,128)
Share of the associates' total comprehensive loss	–	(659)	(642)	(109)	(1,128)
Aggregate carrying amount of the Group's investments in the associates	8,999	33,560	16,230	16,013	15,102

16. INVESTMENT IN A JOINT VENTURE

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	–	–	33	89
Loan to a joint venture	–	–	5,093	4,864
Exchange realignment	–	–	149	287
	–	–	5,275	5,240

The loan to the joint venture is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Directors, this loan is considered as part of the Group's net investments in the joint venture.

Particulars of the Group's joint venture is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Gowise Education Holdings Pty Ltd.	Registered capital of Australian dollar 5 each	Australia	50	50	50	Property management and investment

Gowise Education Holdings Pty Ltd. was established in June 2017 by Beststudy HK and Hyperproperty Pty Ltd., an entity incorporated in Australia.

The following table illustrates the summarized financial information in respect of Gowise Education Holdings Pty Ltd. adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	As at December 31,	As at June 30,
	2017	2018
	RMB'000	RMB'000
Cash and cash equivalents	192	182
Freehold land	5,093	4,863
Loan to a related party	4,966	4,861
	10,251	9,906
Loans from shareholders	(10,186)	(9,728)
Net assets	65	178
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture	33	89
Carrying amount of the investment	33	89
Interest income	–	195
Administrative expenses	–	(17)
Income and total comprehensive income for the year/period	–	178

17. OTHER INVESTMENTS

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Short-term investments measured at amortized cost (i)	15,600	10,000	10,008	–
Short-term investments measured at fair value through profit or loss (ii)	100,344	151,243	561,635	–
Short-term debt investments measured at fair value through profit or loss (ii)	–	–	–	641,189
Short-term equity investments measured at fair value through profit or loss (ii)	–	–	–	6,222
	115,944	161,243	571,643	647,411
Non-current assets				
Equity investments at fair value through profit or loss				
– Unlisted equity investments (iii)	–	8,500	64,581	83,363

(i) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are wealth management products and national debts with guaranteed returns. They are denominated in RMB. None of these investments are past due.

(ii) Short-term investments measured at fair value through profit or loss

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity investments	40	22	14,068	6,222
Wealth management products	100,304	151,221	547,567	641,189
	100,344	151,243	561,635	647,411

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs.

Wealth management products were denominated in RMB, with an expected rate of return ranging from 2.10% to 5.00%, 2.25% to 3.10%, 3.83% to 5.10% and 5.30% to 5.50% per annum for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

None of these investments are past due. The fair values are based on cash flow discounted using the expected return based on management judgement and are within level 2 of fair value hierarchy.

(iii) Unlisted equity investments

The fair values of the unlisted securities are measured using a valuation technique with unobservable inputs and hence categorized within level 3 of the fair value hierarchy. The major assumptions used in the valuation for investments in private companies are set out in note 35 to the Historical Financial Information.

(iv) Amounts recognized in profit or loss

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fair value changes on unlisted equity investments	–	–	19,427	707	18,758
Fair value changes on listed equity investments	–	–	–	–	(1,235)
Fair value changes on wealth management products issued by banks	4,320	2,184	13,832	2,594	15,808
	4,320	2,184	33,259	3,301	33,331

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid operation expenses	21,550	19,954	15,764	24,028
Prepaid tax expenses	14,380	6,596	–	–
Prepayment for acquisition	10,674	24,264	–	–
Deposits for repurchase of preferred shares	121,954	–	–	–
Rental and other deposits	19,644	23,125	32,913	38,864
Receivables from payment channels	5,862	10,150	13,395	10,276
Loans to employees	7,157	5,344	7,706	11,434
Deferred listing expenses	–	–	–	4,654
Government grants receivables	2,234	–	2,846	2,846
Staff advances	4,183	3,874	1,861	2,211
Interest receivables	10	600	123	–
Others	736	1,243	2,625	955
	<u>208,384</u>	<u>95,150</u>	<u>77,233</u>	<u>95,268</u>

Included in the balance above, rental and other deposits, receivables from payment channels, loans to employees, government grant receivables and others are financial assets. None of the above financial assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

Since 1 January 2018, the Group applies the general approach to provide for expected credit loss of the financial assets measured at amortised cost including rental and other deposits, receivables from payment channels, loans to employees, government grant receivables and others prescribed by IFRS 9. The Group assessed that the credit standing of the government and the payment agents is very strong, and the tenor of such receivables is short. For the loans to employees and the rental deposits, in situation of a default, the Group might reduce the loss by negotiating settlement based on obtaining services or a right of use over lease assets. No expected credit losses were provided as it is assessed that the overall expected credit loss rate for above financial assets measured at amortised cost is less than 1%.

As at June 30, 2018 financial assets included in prepayments, deposits and other receivables were in Stage 1, and the provisions for impairment were assessed to be immaterial.

The above balances except for loans to employees are interest-free and are not secured with collateral.

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

19. LOAN TO A THIRD PARTY

The outstanding balances with a third party with a principal amount of RMB30,000,000 bear interest at a rate of 20% per annum for a period of 4 months. The principal and interest were collected during the year ended December 31, 2017.

20. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The Group

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	366,279	449,351	162,150	63,272
Term deposits	146,000	76,000	–	–
Less: Restricted cash	–	–	–	(296)
Cash and cash equivalents	<u>512,279</u>	<u>525,351</u>	<u>162,150</u>	<u>62,976</u>
Denominated in:				
RMB	512,022	504,325	157,168	55,262
US\$	<u>257</u>	<u>21,026</u>	<u>4,982</u>	<u>7,714</u>
Cash and cash equivalents	<u>512,279</u>	<u>525,351</u>	<u>162,150</u>	<u>62,976</u>

As at June 30, 2018, cash and cash equivalent were in Stage 1, and the provisions for impairment were assessed to be immaterial.

The RMB is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Term deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and term deposits are deposited with creditworthy banks with no recent history of default.

As at June 30 2018, a subsidiary of the Group is in a dispute with a supplier. Pursuant to the property preservation, bank balance amounting to RMB296,000 is restricted.

The Company

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	<u>–</u>	<u>48</u>	<u>46</u>	<u>90</u>
Denominated in:				
US\$	<u>–</u>	<u>48</u>	<u>46</u>	<u>90</u>

21. OTHER PAYABLES AND ACCRUALS

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued staff benefits and payroll	49,573	61,935	98,790	85,017
Other tax payables	10,370	14,666	7,516	11,121
Refund liabilities	3,234	3,920	4,287	5,906
Payable for operating activities	5,113	5,853	11,312	23,728
Payable for listing expenses	–	–	–	11,241
Payable for acquisition of non-controlling interest	3,750	–	–	–
Deposits	1,071	1,354	2,196	3,885
Others	2,787	3,396	3,724	3,269
	<u>75,898</u>	<u>91,124</u>	<u>127,825</u>	<u>144,167</u>

The above balances are unsecured and non-interest bearing. The carrying amounts of other payables and accruals as at the end of each of the Relevant Periods approximated to their fair values due to their short term maturities.

22. CONTRACT LIABILITIES

The following table provides information about contract liabilities from contracts with customers:

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities:				
– Tutoring fees	<u>338,364</u>	<u>401,647</u>	<u>517,171</u>	<u>518,603</u>

The contract liabilities primarily relate to the advance consideration received from the students for contracts, for which revenue is recognized when the services have been rendered.

Changes in contract liabilities during the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	271,816	338,364	401,647	517,171
Revenue recognized that was included in the contract liabilities at the beginning of the year/period	(271,159)	(336,728)	(398,766)	(513,347)
Increases due to cash received, excluding amounts recognized as revenue during the year/period	<u>337,707</u>	<u>400,011</u>	<u>514,290</u>	<u>514,779</u>
At the end of the year/period	<u>338,364</u>	<u>401,647</u>	<u>517,171</u>	<u>518,603</u>

23. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax liabilities

	Fair value adjustments arising from financial assets at fair value through profit or loss	Other	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2015	–	–	–
Deferred tax charged to the statement of profit or loss during the year	–	225	225
Gross deferred tax liabilities at December 31, 2015 and January 1, 2016	–	225	225
Deferred tax charged to the statement of profit or loss during the year	52	–	52
Gross deferred tax liabilities at December 31, 2016 and January 1, 2017	52	225	277
Deferred tax charged to the statement of profit or loss during the year	5,836	–	5,836
Gross deferred tax liabilities at December 31, 2017 and January 1, 2018	5,888	225	6,113
Deferred tax charged/(credited) to the statement of profit or loss during the period	975	(225)	750
Gross deferred tax liabilities at June 30, 2018	<u>6,863</u>	<u>–</u>	<u>6,863</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

As at December 31, 2015, 2016 and 2017 and June 30, 2018, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's earnings will be retained in Mainland China, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As at December 31, 2015, 2016 and 2017 and June 30, 2018, the aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totaled approximately RMB388,973,000, RMB296,958,000, RMB73,076,000 and RMB46,866,000, respectively.

Deferred tax assets

	Impairment losses	Deductable temporary differences	Tax losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2015	6,820	9,806	–	16,626
Deferred tax credited to the statement of profit or loss during the year	413	3,226	–	3,639
Gross deferred tax assets at December 31, 2015 and January 1, 2016	7,233	13,032	–	20,265
Deferred tax (charged)/credited to the statement of profit or loss during the year	(169)	(9,276)	6,342	(3,103)
Gross deferred tax assets at December 31, 2016 and January 1, 2017	7,064	3,756	6,342	17,162
Deferred tax (charged)/credited to the statement of profit or loss during the year	(1,557)	733	(5,426)	(6,250)
Gross deferred tax assets at December 31, 2017 and January 1, 2018	5,507	4,489	916	10,912
Deferred tax credited/(charged) to the statement of profit or loss during the period	1,576	(1,851)	820	545
Gross deferred tax assets at June 30, 2018	7,083	2,638	1,736	11,457

As at December 31, 2015, 2016, 2017 and June 30, 2018, the Group has tax losses arising in Mainland China of RMB19,941,000, RMB18,571,000, RMB42,874,000 and RMB54,900,000, respectively, which will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognized as it is not probable that taxable profits will be available against which the above items can be utilized.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets recognized in the consolidated statements of financial position	20,265	17,162	10,912	11,457
Deferred tax liabilities recognized in the consolidated statements of financial position	(225)	(277)	(6,113)	(6,863)
Net deferred tax assets included in the disposal group (note 10)	–	–	49	–
Net deferred tax assets recognized in the consolidated statements of financial position	20,040	16,885	4,848	4,594

24. CONVERTIBLE REDEEMABLE PREFERRED SHARES

Since the date of incorporation, the Company has completed one round of financing by issuing Preferred Shares. For details, please refer to the following table:

	<u>Date of issuance</u>	<u>Purchase price</u>	<u>Number of shares</u>	<u>Total consideration</u>	
		(US\$/share)		US\$	RMB
Series A Preferred Shares	January 27, 2011	0.1513	68,048,345	10,296,312	68,315,000

The key terms of the Preferred Shares are summarized as follows:

(a) Anti-dilution

If the Company shall at any time issue or sell any ordinary shares or ordinary share equivalents at a price per ordinary share that is less than the Series A conversion price in effect on the date on which the Company fixes the offering price for the ordinary share or ordinary share equivalents (treating the price per ordinary share, in the case of the issuance of any ordinary share equivalents, as equal to (x) the sum of the price for such ordinary share equivalents plus any anti-dilution adjustments) upon the conversion, exchange or exercise of such ordinary share equivalent divided by (y) the number of ordinary shares into which such ordinary share equivalent is initially convertible or exchangeable), then, and in each such case, the Series A conversion price in effect immediately prior to such issuance shall be adjusted to equal the new issue price. Such adjustment shall be made whenever such ordinary share or ordinary share equivalents are issued, and shall become effective immediately following such issuance. In determining the price per ordinary share in the case of the issuance of any ordinary share equivalents, the value of non-cash consideration shall be determined based on the fair market value of such consideration.

(b) Conversion feature

Optional conversion: Each fully paid Series A Preferred Share may be converted, at any time from time to time, at the option of the holder thereof, into the number of fully paid and non-assessable ordinary shares equal to the Series A original issue price divided by the Series A conversion price then in effect.

Mandatory conversion: Immediately (A) prior to the completion of a qualified IPO (as defined below) or (B) upon the written consent of the holders of at least 75% of the Series A Preferred Shares in issue, each fully paid Series A Preferred Share shall be converted into the number of fully paid and non-assessable ordinary shares equal to the Series A original issue price divided by the Series A conversion price then in effect.

Qualified IPO means an initial public offering of ordinary shares on an internationally recognized stock exchange outside of the PRC or any stock exchange in the PRC ("PRC SE"), (i) immediately following the completion of which the Company has a market capitalization of not less than the equivalent of US\$200 million and not less than the minimum percentage of ordinary shares then in issue required by the relevant stock exchange are publicly traded in a freely convertible currency and (ii) in which the ordinary shares held by the investors can gain full liquidity after the expiration of any lock-up period.

(c) Redemption feature

Without limiting any other rights that the holders of the Preferred Shares ("Investors") may have hereunder, in the event that (a) a Qualified IPO has not been completed after the fourth anniversary of the completion of subscription and issuance of the Preferred Shares ("Failed IPO Triggering Event"); (b) any Regulatory Material Adverse Changes have occurred ("Regulatory Material Adverse Changes Triggering Event") or (c) any material breach by the Company, the ordinary shareholders or the ultimate ordinary shareholders of the basic documents or the onshore contracts has occurred ("Material Breach Triggering Event"), each of the Investors has the right to but not the obligation to have all, but not less than all the Preferred Shares redeemed by the Company: (A) upon the occurrence of the Failed IPO Triggering Event or the Regulatory Material Adverse Changes Triggering Event, at a price equal to the higher of (i) and (ii) below: (i) the original consideration paid for such Preferred Shares, plus all accumulated and unpaid dividends payable to the Investors or pro rata for a partial year, for each year in which the Preferred Shares are outstanding, plus a premium calculated by multiplying such original consideration by an annual return rate, 15% for the first three years, 17% for the fourth year and the interest rate of the five-year term PRC

treasury bond thereafter, compounded annually during the period from the completion date of subscription and issuance of the Preferred Shares ("Completion Date") to the date when the redemption price with respect to such Shares are paid in full; and (ii) the fair market value of the Preferred Shares (or ordinary share issue upon conversion thereof or otherwise derived therefrom); and (B) upon the occurrence of the Material Breach Triggering Event, at a price equal to the original consideration paid for such Shares, plus all accumulated and unpaid dividends payable to the Investors or pro rata for a partial year, for each year in which the Preferred Shares are outstanding, plus a premium calculated by multiplying such original consideration by the interest rate of the five-year term PRC treasury bond compounded annually during the period from the Completion Date to the date when the redemption price with respect to such Shares are paid in full, provided that no interest shall accrue on such original consideration during the first twelve (12) months since the issuance of the written notice by the Investors exercising their redemption right.

(d) Liquidation preferences

On return of capital on liquidation or otherwise:

- (i) If the total amount of proceeds available for distribution to the members from the liquidation divided by the total number of ordinary shares outstanding on a fully diluted basis is more than three times of the Series A conversion price then in effect, the Company's assets available for distribution among the members shall be distributed to the holders of the ordinary shares and the Series A Preferred Shares pro rata based on the number of ordinary shares held by each holder (as if the Series A Preferred Shares had been converted into ordinary shares at the then applicable Series A conversion price prior to the liquidation);
- (ii) If the total amount of proceeds available for distribution to the members from the liquidation divided by the total number of ordinary shares outstanding on a fully diluted basis is not more than three times of the Series A conversion price then in effect, the Company's assets available for distribution among the members shall first be applied in payment of the following amounts (in cash to the extent available) to holders of the Series A Preferred Shares, based on their pro rata holding of the total number of the Series A Preferred Shares, before any payment or distribution is made to any other class or series of capital shares ranking junior to the Series A Preferred Shares (including but not limited to the ordinary shares): (a) an amount equal to 125% of the Series A original issue price, multiplied by the total number of Series A Preferred Shares; and (b) the amount of all declared but unpaid dividends that the holders of the Series A Preferred Shares are entitled to.

If, on return of capital on liquidation or otherwise, the assets of the Company available for distribution to the holders of the Series A Preferred Shares shall be insufficient to permit payment in full to such holders of the sums which such holders are entitled to receive, then all of the assets available for distribution to holders of the Series A Preferred Shares shall be distributed among and paid to such holders ratably in proportion to the amounts that would be payable to such holders if such assets were sufficient to permit payment in full.

Upon the completion of the distribution to the holders of the Series A Preferred Shares, the remaining assets of the Company available for distribution to members shall be distributed to the holders of the ordinary shares and the Series A Preferred Shares pro rata based on the number of ordinary shares held by each holder (as if the Series A Preferred Shares had been converted into ordinary share at the then applicable Series A conversion price prior to the liquidation).

The Group does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of profit or loss.

The movements of the convertible redeemable preferred shares are set out below:

	<i>Note</i>	<i>RMB'000</i>
At January 1, 2015		130,242
Changes in fair value	6	(12,403)
Currency translation differences		7,572
At December 31, 2015 and January 1, 2016		125,411
Currency translation differences		(2,773)
Redemption		(122,638)
At December 31, 2016 and 2017 and June 30, 2018		–

The Series A Preferred Shares contain the financial liability and embedded derivatives and the entire instrument was designed as a financial liability at fair value through profit or loss. The Group used the discounted cash flow method to determine the underlying share value of the Company and adopted the equity allocation model to determine the fair value of the Preferred Shares as of the date of issuance and at the end of each of the Relevant Periods.

On December 18, 2015, the Group entered into a share repurchase agreement with the investor of the Series A Preferred Shares to repurchase all the Series A Preferred Shares in issue at a consideration of US\$19,313,000 approximately and was subsequently settled on January 27, 2016 at amount equivalent to RMB122,638,000. All the rights attached with the Series A Preferred Shares have been terminated upon entering into such repurchase agreement and the instrument has been measured at amortized cost since December 18, 2015.

There is no convertible redeemable preferred shares, and thus no fair value measurement at the end of each of the Relevant Periods.

The key assumptions used to determine the fair value of the Preferred Shares are as follows:

	As of January 1, 2015
Discount rate	20.28%
Risk-free interest rate	3.26%
Discount for Lack of Marketability (“DLOM”)	35.00%
Volatility	44.22%

The discount rate (post tax) was estimated by the weighted average cost of capital as of the valuation date. The Group estimated the risk-free interest rate based on the yield of China Government Bond with maturity life close to one year timing as of the valuation date. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. The volatility was estimated based on implied volatility of comparable companies as of the valuation date. Probability weight under each of the redemption feature and liquidation preferences were based on the Group's best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of the Preferred Shares on the valuation date.

Changes in the fair value of the Preferred Shares were recognized in “fair value changes of convertible redeemable preferred shares”. Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

25. GOVERNMENT GRANTS

	Year ended December 31,			Six months ended June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	1,060	1,060	660	–
Grants received during the year/period	3,764	152	5,156	1,656
Recognized as income during the year/period (note 5)	(3,764)	(552)	(5,816)	(1,656)
At the end of the year/period	1,060	660	–	–

These government grants are related to the subsidies received from the local government as compensation of the Group's operating expenses and as encouragement for the contribution to the local economy. There are no unfulfilled conditions or contingencies attached to these grants.

26. SHARE CAPITAL

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on August 27, 2010 with authorized share capital of US\$50,000 divided into 1,000,000,000 ordinary shares of a par value of US\$0.00005 each.

On May 20, 2018, the Company allotted and issued an aggregate of 223,100,000 new shares at par value to the shareholders.

Save for the aforesaid and the Reorganization, the Company has not conducted any business during the Relevant Periods.

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Issued and fully paid:				
430,000,000 ordinary shares at each of the year ended December 31, 2015, 2016 and 2017 and 653,100,000 ordinary shares at June 30, 2018 of US\$0.00005 each	164	164	164	236

27. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

(a) Transaction with the non-controlling interests

(1) Huadu Beststudy

On September 9, 2015, Guangzhou Beststudy acquired a 20% equity interest in Huadu Beststudy from Guangzhou Huadu Zhuoya Consulting Service Department (General Partnership) with a consideration of RMB7,000,000. Upon completion of the equity transfer, Huadu Beststudy became a wholly-owned subsidiary of Guangzhou Beststudy.

(2) *Guangzhou Mite*

On June 13, 2016, Guangzhou Beststudy acquired a 43% equity interest in Guangzhou Mite from the Non-controlling Interests of Mite, as defined below, with the consideration of RMB430,000. Upon completion of the equity transfer, Guangzhou Mite became a wholly-owned subsidiary of Guangzhou Beststudy.

(3) *Guangzhou Yuyou*

In March 2017, Guangzhou Beststudy acquired a 30% equity interest in Guangzhou Yuyou from Mrs. Zhang Wenyi with a total consideration of RMB810,000. Upon completion of such equity transfer, Guangzhou Yuyou became a wholly-owned subsidiary of Guangzhou Beststudy.

(4) *Foshan Nanhai Xinzhuoyue*

During the six months ended June 30, 2018, Guangzhou Beststudy acquired a 20% equity interest in Foshan Nanhai Xinzhuoyue from the Non-controlling Interests with the consideration of RMB510,000. Upon completion of the equity transfer, Foshan Nanhai Xinzhuoyue became a wholly-owned subsidiary of Guangzhou Beststudy.

(b) Establishment of subsidiaries**(1) *Guangzhou Mite***

On June 30, 2015, Guangzhou Mite was established by Guangzhou Beststudy, together with Mr. Zhihua Yan, Mr. Kun Ling, Mr. Zhihe Zhang, Mr. Yongpeng Xu and Mrs. Fengliang Li (collectively “Non-controlling Interest of Mite”) with the contribution of RMB570,000 and RMB430,000 for 57% and 43% equity interests, respectively.

(2) *Guangzhou Baizhuo and Guangzhou ZhuoYu*

On March 20, 2017, Guangzhou Baizhuo was established by Guangzhou Beststudy with the contribution of RMB510,000 for a 51% equity interest and Guangzhou Baiyao Education Consulting Co Ltd. with the contribution of RMB490,000 for a 49% equity interest.

On July 7, 2017, Guangzhou ZhuoYu was established as a limited liability company by Guangzhou Beststudy with the contribution of RMB550,000 for a 55% equity interest and Mr. Weiyu Xu with the contribution of RMB450,000 for a 45% equity interest.

(c) Capital contribution

- (1) In October 2016, Guangzhou Beststudy increased its registered capital from RMB1,199,000 to RMB43,000,000. The capital investment injected by Tibet Zhuoben Investment Co., Ltd., Tibet Zhuoyan Investment Co., Ltd., Tibet Zhuomiao Investment Co., Ltd. and Tibet Zhuohe Investment Co., Ltd., entities controlled by shareholders of the Company, amounted to RMB12,071,000, RMB10,134,000, RMB10,062,000 and RMB9,534,000, respectively.

Pursuant to the shareholders' agreement also in October 2016, the registered capital of Guangzhou Beststudy was increased from RMB43,000,000 to RMB43,647,000 which was contributed by Tibet Zhuomiao Investment Co., Ltd.

- (2) In June 2017, capital contribution from the non-controlling interests of Beijing Niushibang, a subsidiary of the Group, Mr. Yucong Liu, Mrs. Fang Shi and Mrs. Feng Wang, amounted to RMB400,000, RMB92,000 and RMB62,000, respectively.

(d) Statutory surplus reserve

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant subsidiaries in the PRC. These reserves include (i) the general reserve of the limited liability companies; and (ii) the development fund of private non-enterprise units.

- (1) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve can be converted to share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

- (2) According to the relevant PRC laws and regulations, private non-enterprise units which require for reasonable returns are required to appropriate for the development fund no less than 25% of the net income of the relevant institutions as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the schools or procurement or upgrade of educational equipment.

(e) Conversion into a joint stock limited company

On February 28, 2017, Guangzhou Beststudy was converted into a joint stock limited company in accordance with the PRC laws and renamed as Guangzhou Beststudy Educational Co., Ltd. Pursuant to the approval of shareholders and the board of directors, Guangzhou Beststudy's equity was converted into 44,902,109 ordinary shares with a par value of RMB1.00 each issued proportionately to its existing shareholders.

(f) Reorganization

No subsidiaries have material non-controlling interests during the Relevant Periods and the six months ended June 30, 2017. The equity interests in the Company held by persons other than the Controlling Shareholders were deemed to be non-controlling interests until completion of the Reorganization when the equity interests held by persons other than the Controlling Shareholders were deemed to be acquired by the Company with nil consideration and the entire balance of non-controlling interests have been transferred to capital reserve by applying the principles of merger accounting.

The Company

	Exchange fluctuation reserve	Retained profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2015	(19,032)	(49,053)	(68,085)
Profit for the year	–	12,404	12,404
Exchange differences on translation of financial statements	(3,778)	–	(3,778)
As at December 31, 2015	(22,810)	(36,649)	(59,459)
Profit for the year	–	128,359	128,359
Exchange differences on translation of financial statements	1,558	–	1,558
As at December 31, 2016	(21,252)	91,710	70,458
Profit for the year	–	1	1
Exchange differences on translation of financial statements	(4,082)	–	(4,082)
As at December 31, 2017	(25,334)	91,711	66,377
Loss for the period	–	(31)	(31)
Exchange differences on translation of financial statements	836	–	836
As at June 30, 2018	(24,498)	91,680	67,182
As at December 31, 2016	(21,252)	91,710	70,458
Profit for the period (unaudited)	–	2	2
Exchange differences on translation of financial statements	(1,648)	–	(1,648)
As at June 30, 2017 (unaudited)	(22,900)	91,712	68,812

28. SHARE OPTION SCHEME

On August 10, 2011, Bestudy operates a share scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Eligible participants include the Group's management, key teachers and other employees. The Scheme became effective on August 10, 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Bestudy granted 12,162,200, 10,225,447, and 2,992,180 option shares to 243, 253 and 31 employees eligible under the Scheme at an exercise price of RMB0.20, RMB0.45, and RMB0.50 per share on August 31, 2011, August 31, 2012, and December 31, 2013, respectively. The exercise period of these share options granted is determinable by the Directors, and commences after a vesting period of one to four years and ends on the expiry date of the Scheme. Every 25% of granted shares are vested on the first, second, third, and fourth anniversaries of the grant date respectively, on condition that employees remain in service without any performance requirements. Accordingly, Bestudy measured the fair value of these shares and recorded the excess of the fair value over the subscription as share-based compensation expense over the 4-year service period. In February 2017, due to group restructuring, the options exercisable into Bestudy's ordinary shares have been modified to the options exercisable into Guangzhou Beststudy's ordinary shares in the same pro rata (10 Bestudy's option shares equal to approximately 1 Guangzhou Beststudy's option share) without changes in other vesting terms. There was no significant incremental value noted before and after the modification given Guangzhou Beststudy has represented substantially all of the businesses owned by Bestudy.

On June 20, 2017, Guangzhou Beststudy granted 1,134,367 shares to 17 employees at the consideration of RMB4.78 per share without any service period requirement. Accordingly, Guangzhou Beststudy measured the fair value of these shares and recorded the excess of the fair value over the subscription price as equity-settled compensation costs amounted to RMB25,889,000 (RMB22.90 each) on the grant date.

On May 10, 2018, Guangzhou Beststudy granted 159,728 restricted shares to 15 employees at RMB6.72 per share, which will be vested on condition that employees remain in service before the Group went public. Accordingly, Guangzhou Beststudy measured the fair value of these shares and recorded the excess of the fair value over the subscription price as share-based compensation expense over the estimated service period. The above options exercisable into Guangzhou Beststudy's ordinary shares have been exchanged to the options exercisable into Bestudy's ordinary shares in the same pro-rata basis (1 Guangzhou Beststudy's option shares equal to approximately 10 Bestudy's option share) without changing other vesting terms.

The following share options of Bestudy were outstanding under the Scheme during the Relevant Periods:

	Year ended December 31,						Six months ended June 30,	
	2015		2016		2017		2018	
	Weighted average exercise price RMB per share	Number of options '000	Weighted average exercise price RMB per share	Number of options '000	Weighted average exercise price RMB per share	Number of options '000	Weighted average exercise price RMB per share	Number of options '000
At the beginning of the year/period	0.34	19,701	0.33	16,957	0.32	14,788	—	—
Forfeited	0.4	(2,744)	0.38	(2,169)	0.28	(308)	—	—
Exchange to Guangzhou Beststudy option*	—	—	—	—	0.33	(12,237)	—	—
Exchange from Guangzhou Beststudy option*	—	—	—	—	—	—	0.67	1,597
Repurchase of vested share option	—	—	—	—	0.29	(2,243)	—	—
Expired	—	—	—	—	—	—	—	—
At the end of the year/period	0.33	16,957	0.32	14,788	—	—	0.67	1,597

The following share options of Guangzhou Beststudy were outstanding under the Scheme during the Relevant Periods:

	As at December 31,		Six months ended June 30,	
	2017		2018	
	Weighted average exercise price <i>RMB per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>RMB per share</i>	Number of options <i>'000</i>
At the beginning of the year/period	—	—	—	—
Exchange from Bestudy option*	3.22	1,255	—	—
Granted	—	—	6.72	160
Forfeited	—	—	—	—
Exercised	—	—	—	—
Expired	3.22	(1,255)	—	—
Exchange to Bestudy option [#]	—	—	6.72	(160)
At the end of the year/period	—	—	—	—

* In February 2017, 12,236,723 option shares of Bestudy exchanged to 1,255,091 option shares of Guangzhou Beststudy. The weighted average share price at the date of exchange for share options was RMB0.33 per share of Bestudy during the Relevant Periods.

[#] In May 2018, 159,728 option shares of Guangzhou Beststudy exchanged to 1,597,280 option shares of Bestudy. The weighted average share price at the date of exchange for share options was RMB0.67 per share of Bestudy during the Relevant Periods.

2018

Number of options <i>'000</i>	Exercise price* <i>RMB per share</i>	Exercise period
1,597	0.67	2018-5-10 to 2018-12-31
1,597		

2016

Number of options <i>'000</i>	Exercise price* <i>RMB per share</i>	Exercise period
7,828	0.20	2012-12-31 to 2021-12-31
5,657	0.45	2013-12-31 to 2021-12-31
1,303	0.50	2014-12-31 to 2021-12-31
14,788		

2015

Number of options '000	Exercise price* RMB per share	Exercise period
8,556	0.20	2012-12-31 to 2021-12-31
6,610	0.45	2013-12-31 to 2021-12-31
1,791	0.50	2014-12-31 to 2021-12-31
16,957		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of ordinary shares of Guangzhou Beststudy and Bestudy was estimated as at the date of grant. The following table lists the inputs to the discounted cash flow method used to estimate the fair value:

	2017 Guangzhou Beststudy	2018 Bestudy
Weighted average cost of capital (%)	18.77%	19.18%
Discount for lack of marketability (%)	14.33%	6.71%
Weighted average share price (RMB per share)	27.60	4.768

At June 30, 2018, the Group had 1,597,000 share options outstanding under the Scheme.

29. DISPOSAL OF SUBSIDIARIES

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net assets disposed of:					
Property, plant and equipment	—	—	4	4	12,393
Intangible assets	—	—	—	—	981
Goodwill	—	—	—	—	10,763
Deferred tax assets	—	—	—	—	8
Prepayments, deposits and other receivables	—	—	—	—	21,548
Cash and cash equivalent	—	—	844	844	9,620
Other current assets	—	—	—	—	12,516
Contract liabilities	—	—	—	—	(1,246)
Other payables and accruals	—	—	—	—	(44,546)
Other long-term liabilities	—	—	—	—	(8,298)
Long-term loan	—	—	—	—	(7,964)
Non-controlling interests	—	—	—	—	5,562
	—	—	848	848	11,337
Gain on disposal of subsidiaries	—	—	152	152	9,298
	—	—	1,000	1,000	20,635
Satisfied by:					
Cash	—	—	1,000	1,000	20,635

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash consideration	–	–	1,000	1,000	20,635
Cash and bank balances disposed of	–	–	(844)	(844)	(9,620)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	–	156	156	11,015

The net cash flows incurred by the disposal groups are as follows:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities	–	(5,156)	(16)	(1,248)	1,528
Investing activities	–	6,000	(4,631)	1,018	(1,637)
Financing activities	–	–	7,125	7,125	2,005
Net cash flows	–	844	2,478	6,895	1,896

30. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 2 to 18 years. As at the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	77,836	91,052	123,566	153,293
In the second to fifth years, inclusive	162,874	231,881	323,846	493,133
Beyond five years	45,722	60,148	71,786	202,937
	286,432	383,081	519,198	849,363

31. CONTINGENT LIABILITIES

As at December 31, 2015, 2016 and 2017 and June 30, 2018, the Group did not have any significant contingent liabilities.

32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in liabilities arising from financing activities during the Relevant Periods and the six months ended June 30, 2017 is as follows:

Year ended December 31 2015

	Dividend payables
	<i>RMB'000</i>
As at January 1, 2015	31,415
Changes from financing cash flows	(30,842)
	<u>573</u>
As at December 31, 2015	<u><u>573</u></u>

Year ended December 31, 2016

	Convertible redeemable preferred shares	Dividend payables
	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1, 2016	125,411	573
Changes from financing cash flows	(122,638)	(573)
Currency translation differences	(2,773)	—
	<u>—</u>	<u>—</u>
As at December 31, 2016	<u><u>—</u></u>	<u><u>—</u></u>

Year ended December 31, 2017

	Dividend payables	Long-term loan and other long term liabilities included in liabilities directly associated with the liabilities classified as held for sale
	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1, 2017	—	—
Changes from financing cash flows	(220,000)	15,567
Dividend declared	220,000	—
Interest expense included in loss for the year from discontinued operations	—	695
	<u>—</u>	<u>16,262</u>
As at December 31, 2017	<u><u>—</u></u>	<u><u>16,262</u></u>

Period ended June 30, 2018

	Dividend payables	Long-term loan and other long term liabilities included in liabilities directly associated with the liabilities classified as held for sale
	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1, 2018	–	16,262
Changes from financing cash flows	(100,000)	(524)
Dividend declared	100,000	–
Interest expense included in profit for the period from discontinued operations	–	524
Decrease arising from disposal of subsidiaries	–	(16,262)
As at June 30, 2018	–	–

Period ended June 30, 2017

	Dividend payables	Long-term loan and other long term liabilities included in liabilities directly associated with the liabilities classified as held for sale
	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1, 2017	–	–
Changes from financing cash flows	(220,000)	6,108
Dividend declared	220,000	–
Interest expense included in loss for the period from discontinued operations	–	17
As at June 30, 2017	–	6,125

33. RELATED PARTY TRANSACTIONS AND BALANCES

The Directors are of the view that the following individuals/companies are related parties that had material transactions or balances with the Group during the Relevant Periods and the six months ended June 30, 2017.

(a) Name and relationship of related parties

Name	Relationship
Yunjiang Technology (<i>Note (i)</i>)	Associate of the Group
Beijing Xiaohe Shidai Education and Technology Co., Ltd. 北京小禾時代教育科技有限公司 (“Xiaohe Shidai”)	Associate of the Group
Huoguoosi Lexue Venture Capital Co., Ltd. 霍爾果斯樂學創業投資有限公司 (“Lexue Venture Capital”)	Controlled by three directors
Guangzhou Lexue Equity Investment Management Co., Ltd. 廣州市樂學股權投資管理有限公司 (“Guangzhou Lexue Equity Investment”)	Controlled by three directors

Note:

- (i) Formerly named as Beijing Yunjiang Technology Co., Ltd. and name was changed to Hainan Yunjiang Technology Co., Ltd. in January 2017.

Since June 29, 2017, the Group has ceased to be a related party with Yunjiang Technology, as Yunjiang Technology was no longer the associate of the Group but became financial assets measured at fair value through profit or loss as detailed in note 15 to the Historical Financial Information since then.

(b) Outstanding balances with related parties

The Group

As disclosed in the consolidated statements of financial position, the Group had outstanding balance with its related party at December 31, 2015, 2016 and 2017 and June 30, 2018 as follows:

Amount due from a related party

	As at December 31,			As at
	2015	2016	2017	June 30,
	RMB'000	RMB'000	RMB'000	2018
Xiaohe Shidai	–	3,000	–	–

The amount due from Xiaohe Shidai is non-trade in nature, unsecured, interest bearing at 8% per annum and settled during the year ended December 31, 2017.

The company

Amount due from a subsidiary of the Group

	As at December 31,			As at
	2015	2016	2017	June 30,
	RMB'000	RMB'000	RMB'000	2018
Beststudy HK	66,860	71,426	67,278	68,127

The balances were unsecured, non-interest-bearing and repayable on demand.

(c) Transactions with related parties

(1) Sales of consulting services to a related party

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Yunjiang Technology	–	–	388	388	–

The prices for the above services were determined according to the published prices and conditions offered to other customers of the Group.

(2) *Purchases of teaching material and technology support services from a related party*

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Yunjiang Technology	3,200	—	—	—	—

The purchase of teaching material and technology support services was conducted on normal commercial terms and the purchase price was determined with reference to the prevailing market price.

(3) *Transfer of investments to a related party*

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Lexue Venture Capital	—	—	31,438	31,438	3,776
Guangzhou Lexue Equity Investment	—	—	—	—	13,945
	—	—	31,438	31,438	17,721

The Group transferred the six equity investments including 4 associates (note 15(b) and 15(c)), an unlisted equity investment (note 35) and a subsidiary (note 29) to Lexue Venture Capital for a total consideration of RMB31,438,000 during the year ended December 31, 2017 with gain on disposal of RMB152,000 (note 29).

The Group transferred 3 subsidiaries of Guangzhou Zhuoben, Guangzhou Bai Zhuo and Dongguan Frontline to Guangzhou Lexue Equity Investment for a consideration of RMB13,945,000 with gain on disposal of RMB1,647,000 and 3 subsidiaries of Guangdong Zhuoyue Qiancheng, Shenzhen Animation and Guangzhou Mite to Lexue Venture Capital for a consideration of RMB3,776,000 with gain on disposal of RMB2,393,000 during the period ended June 30, 2018 (note 10).

(4) *Loan to a related party*

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Xiaohe Shidai	—	3,000	—	—	—

The amount due from Xiaohe Shidai is unsecured, interest bearing at 8% per annum. It was settled during the year ended December 31, 2017 with interest expense of RMB55,000.

(d) Compensation of key management personnel of the Group

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Short term employee benefits	7,878	8,759	10,959	6,785	8,156
Pension scheme contributions	164	221	265	257	169
Equity-settled share option expense	271	80	805	805	1,275
Total compensation paid to key management personnel	8,313	9,060	12,029	7,847	9,600

Further details of directors' and the chief executive officer's emoluments are included in note 7 to the Historical Financial Information.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the Relevant Periods are as follows:

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss				
Equity investments at fair value through profit or loss	–	8,500	64,581	83,363
Short-term investments measured at fair value through profit or loss	100,344	151,243	561,635	–
Short-term debt investments measured at fair value through profit or loss	–	–	–	641,189
Short-term equity investments measured at fair value through profit or loss	–	–	–	6,222
	100,344	159,743	626,216	730,774

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets – loans and receivables/Financial assets at amortized costs				
Financial assets included in prepayments, deposits and other receivables	157,597	40,462	59,608	64,375
Short-term investments measured at amortized cost	15,600	10,000	10,008	–
Amount due from a related party	–	3,000	–	–
Loan to a third party	–	30,000	–	–
Restricted cash	–	–	–	296
Cash and cash equivalents	512,279	525,351	162,150	62,976
	685,476	608,813	231,766	127,647

	As at December 31,			As at
				June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at amortized cost				
Financial liabilities included in other payables and accruals	12,721	10,603	17,232	42,123
Dividend payables	573	—	—	—
Rental payables	5,505	11,298	15,026	30,220
Convertible redeemable preferred shares	125,411	—	—	—
	<u>144,210</u>	<u>21,901</u>	<u>32,258</u>	<u>72,343</u>

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	As at December 31, 2015	
	Carrying amount	Fair value
	RMB'000	RMB'000
Financial assets		
Short-term investments measured at fair value through profit or loss	<u>100,344</u>	<u>100,344</u>
	As at December 31, 2016	
	Carrying amount	Fair value
	RMB'000	RMB'000
Financial assets		
Short-term investments measured at fair value through profit or loss	151,243	151,243
Equity investments at fair value through profit or loss	<u>8,500</u>	<u>8,500</u>
	<u>159,743</u>	<u>159,743</u>
	As at December 31, 2017	
	Carrying amount	Fair value
	RMB'000	RMB'000
Financial assets		
Short-term investments measured at fair value through profit or loss	561,635	561,635
Equity investments at fair value through profit or loss	<u>64,581</u>	<u>64,581</u>
	<u>626,216</u>	<u>626,216</u>

	As at June 30, 2018	
	Carrying amount	Fair value
	RMB'000	RMB'000
Financial assets		
Short-term debt investments measured at fair value through profit or loss	641,189	641,189
Short-term equity investments measured at fair value through profit or loss	6,222	6,222
Equity investments at fair value through profit or loss	83,363	83,363
	<u>730,774</u>	<u>730,774</u>
	As at December 31, 2015	
	Carrying amount	Fair value
	RMB'000	RMB'000
Financial liabilities		
Convertible redeemable preferred shares	<u>125,411</u>	<u>125,411</u>

Management has assessed that the fair values of cash and cash equivalent, restricted cash, amount due from a related party, financial assets included in prepayments, deposits and loans receivables, short-term investments measured at amortized cost, a loan to a third party, financial liabilities included in other payables and accruals, dividend payables, rental payables and convertible redeemable preferred shares approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) Financial instruments in level 1

The fair value of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair value based on the quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

The fair values of wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows including expected future interest return on maturity of the wealth management products. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in the consolidated statements of profit or loss, are reasonable, and that they were the most appropriate values at the end of each of the Relevant Periods.

(c) Financial instruments in level 3

Level 3 instruments of the Group's assets and liabilities is equity investments in unlisted companies.

The fair values of the equity investments in unlisted companies have been estimated using a comparable transactions approach, major assumptions used in the valuation include recent market transactions of the investees and other exposure, etc. The fair value of the equity investments in unlisted companies determined by the Group requires significant judgement, including the likelihood of non-performance by the investee company and financial performance of the investee company.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at December 31, 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term investments measured at fair value through profit or loss				
– Listed equity investments	40	–	–	40
– Wealth management products	–	100,304	–	100,304
	40	100,304	–	100,344

As at December 31, 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term investments measured at fair value through profit or loss				
– Listed equity investments	22	–	–	22
– Wealth management products	–	151,221	–	151,221
Equity investments at fair value through profit or loss	–	–	8,500	8,500
	22	151,221	8,500	159,743

As at December 31, 2017

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term investments measured at fair value through profit or loss				
– Listed equity investments	14,068	–	–	14,068
– Wealth management products	–	547,567	–	547,567
Equity investments at fair value through profit or loss	–	–	64,581	64,581
	14,068	547,567	64,581	626,216

As at June 30, 2018

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term equity investments measured at fair value through profit or loss				
– Listed equity investments	6,222	–	–	6,222
Short-term debt investments measured at fair value through profit or loss				
– Wealth management products	–	641,189	–	641,189
Equity investments at fair value through profit or loss	–	–	83,363	83,363
	6,222	641,189	83,363	730,774

The movements in fair value measurements within level 3 during the Relevant Periods are as follows:

	Year ended December 31,			Six months ended June 30,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments at fair value through profit or loss:				
At the beginning of the year/period	–	–	8,500	64,581
Total gains recognized in the statements of profit or loss	–	–	19,427	18,758
Additions	–	8,500	37,154	–
Disposals	–	–	(500)	–
Exchange realignment	–	–	–	24
At the end of the year/period	–	8,500	64,581	83,363

The fair values of equity investments at fair value through profit or loss have been estimated using market approach. The market approach method primarily makes reference to the historical transaction prices in the most recent mergers and acquisition transactions without any adjustment for each of the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018 (the “Valuation Date”) between the Group and independent third parties. In addition, the Company obtained corroborative evidence to justify the reasonableness of the fair values as at the Valuation Date.

As of December, 31 2017 and June 30, 2018, it is estimated that if the fair value of the equity investments at fair value through profit or loss were 5% higher/lower, the Group's profit before tax would have been increased/decreased by RMB3.2 million and RMB4.2 million, respectively.

The Group did not have any financial liabilities measured at fair value at the end of each of the Relevant Periods.

During the Relevant Periods, there were no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances and term deposits. The Group has various other financial assets and liabilities such as an amount due from a related party, deposits and other receivables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments is liquidity risk. The board of directors reviews and agrees policies for managing the risks and it is summarized below.

Credit risk

IAS 39 (replaced by IFRS 9 for periods beginning on January 1, 2018)

The credit risk of the Group's financial assets, which comprise cash and cash equivalents, restricted cash, short-term investments measured at amortized cost, loan to a third party, deposits and other receivables and an amount due from a related party, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group transacts mainly with recognized and creditworthy third parties including creditworthy banks, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as at December 31, 2015, 2016 and 2017.

IFRS 9 (for the periods beginning on or after January 1, 2018)

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligation. The Group has no concentration of credit risk from third party debtors. The carrying amounts of restricted cash, cash and cash equivalents, financial assets included in prepayments, deposits and other receivables in the statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

All restricted cash and cash and cash equivalents were deposited in high-credit-quality financial institutions without significant credit risk.

The Group has established a policy to perform an assessment of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the credit risk of default occurring over the remaining life of the financial instrument. The Group groups its other receivables into Stage 1 and Stage 2, as described below:

Stage 1	When other receivables are first recognized, the Group records an allowance based on 12 months' expected credit loss ECLs
Stage 2	When other receivables have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs

Management also regularly reviews the recoverability of these receivables and follow up the disputes or amount overdue, if any. The Management is of the opinion that the risk of default by counterparties 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. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forward-looking information.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected loss allowance provision for these balances was not material during the Relevant Periods.

The Group has applied IFRS 9, effective for the periods beginning on or after January 1, 2018. As at June 30, 2018, the credit rating of other receivables was performing. The Group assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method. Thus no loss allowance provision was recognized during the Relevant Periods.

Liquidity risk

The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at December 31, 2015					
	On demand	Within 1 year	1 to 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	12,721	–	–	12,721	12,721
Dividend payable	573	–	–	573	573
Rental payables	–	–	5,505	5,505	5,505
Convertible redeemable preferred shares	125,411	–	–	125,411	125,411
	<u>138,705</u>	<u>–</u>	<u>5,505</u>	<u>144,210</u>	<u>144,210</u>

As at December 31, 2016

	On demand	Within 1 year	1 to 5 years	Total	Carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	10,603	–	–	10,603	10,603
Rental payables	–	–	11,298	11,298	11,298
	<u>10,603</u>	<u>–</u>	<u>11,298</u>	<u>21,901</u>	<u>21,901</u>

As at December 31, 2017

	On demand	Within 1 year	1 to 5 years	Total	Carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	17,232	–	–	17,232	17,232
Rental payables	–	–	15,026	15,026	15,026
	<u>17,232</u>	<u>–</u>	<u>15,026</u>	<u>32,258</u>	<u>32,258</u>

As at June 30, 2018

	On demand	Within 1 year	1 to 5 years	Total	Carrying amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	42,123	–	–	42,123	42,123
Rental payables	–	–	30,220	30,220	30,220
	<u>42,123</u>	<u>–</u>	<u>30,220</u>	<u>72,343</u>	<u>72,343</u>

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debt. The Group's overall strategy remains unchanged from prior years.

The Group monitors capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of each of the Relevant Periods were as follows:

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total liabilities	567,637	520,461	701,226	717,528
Total assets	920,152	974,540	1,038,993	1,045,387
Debt-to-asset ratios	62%	53%	67%	69%

37. EVENTS AFTER THE RELEVANT PERIODS

On December 3, 2018, the board of directors and the shareholders of the Company resolved that 43,540,000 Shares will be allotted and issued at par value to Soarise Bulex Limited on the Listing Date, to provide for future RSU grants pursuant to the RSU Scheme.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2018.

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The pro forma financial information should be read in conjunction with the "Financial Information" section in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets as of June 30, 2018 as if it had taken place on June 30, 2018.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of June 30, 2018 or any future dates. It is prepared based on the consolidated net tangible assets as of June 30, 2018 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of the Company as of June 30, 2018 RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets RMB'000	Unaudited pro forma adjusted consolidated net tangible assets per Share RMB HK\$ (Note 3) (Note 4)	
Based on an Offer Price of HK\$2.20 per Share	315,065	261,228	576,293	0.72	0.81
Based on an Offer Price of HK\$2.90 per Share	315,065	352,003	667,068	0.83	0.94

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as of June 30, 2018 is extracted from “Appendix I – Accountants’ Report”, which is based on the audited consolidated equity attributable to owners of the Company as of June 30, 2018 of approximately RMB325,654,000 less intangible assets as of June 30, 2018 of approximately RMB10,589,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.20 per Share or HK\$2.90 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option or future RSU grants pursuant to the RSU Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.8876 prevailing on December 3, 2018.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 804,500,000 Shares in issue immediately following the completion of the Global Offering and does not take into account of any shares which may be issued upon the exercise of the Over-allotment Option or future RSU grants pursuant to the RSU Scheme.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.8876 prevailing on December 3, 2018.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of China Beststudy Education Group

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Beststudy Education Group (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at June 30, 2018 and related notes as set out on page II-1 of the prospectus dated December 12, 2018 (the “Prospectus”) issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on page II-1 of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at June 30, 2018 as if the transaction had taken place at June 30, 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended June 30, 2018, on which an accountants' report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the 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 (“AG”) 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the “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 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 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 accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 issued by 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 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 Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 transaction would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

December 12, 2018

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN
COMPANIES LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Companies law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 27, 2010 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the *Memorandum*) and its Amended and Restated Articles of Association (the *Articles*).

1. Memorandum of Association

- 1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. Articles of Association

The Articles were conditionally adopted on December 3, 2018. A summary of certain provisions of the Articles is set out below.

2.1 Shares*(a) Classes of shares*

The share capital of the Company consists of ordinary shares.

(b) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified 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 general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(d) Transfer of shares

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (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).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(g) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

2.2 Directors

(a) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The

period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board 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 among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. 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.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) Compensation or payments for loss of office

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

(g) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(h) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) 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 his close associate(s) has/have himself/themselves assumed responsibility in whole or in part 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 his close associate(s) 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 the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates 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 his close associate(s) 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 his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. 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.

2.4 Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.5 Meetings of member

(a) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is 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 members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting;
or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that 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.

(c) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(d) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business 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 must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) 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 holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(e) 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, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(f) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(g) Members' requisition for meetings

Extraordinary general meetings shall be convened on the requisition of one or more members holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such

meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

2.6 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any

general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.7 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members 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 Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. 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.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.8 *Inspection of corporate records*

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

2.9 *Rights of minorities in relation to fraud or oppression*

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3.6 of this Appendix.

2.10 *Procedures on liquidation*

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are 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 in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.11 Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. Cayman Companies Law

The Company was incorporated in the Cayman Islands as an exempted company on August 27, 2010 subject to the Cayman Companies Law. Certain provisions of the Cayman Companies law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also 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 amount of its authorised share capital.

3.2 Share capital

Under the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the 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, the following:

- (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) any manner provided in section 37 of the Cayman Companies Law;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, 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.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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 issued shares of the company other than shares held as treasury shares. In addition, 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.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court 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 the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

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 for certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of a company have no general right 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.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands.

3.15 Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are 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 member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 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 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the 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 members.

3.19 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. General

Harney Westwood & Riegels, the Company's legal adviser on the Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of the Cayman Companies law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY, SUBSIDIARIES AND PRC OPERATING ENTITIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands on August 27, 2010 as an exempted company with limited liability. Our registered office address is at 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in the section headed "Summary of Articles of Association and the Cayman Companies Law" in Appendix III to this prospectus.

Our registered place of business in Hong Kong is at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 27, 2018 with the Registrar of Companies in Hong Kong. Ms. Chau Hing Ling has been appointed as the authorised representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

As at the date of this prospectus, our Company's head office is located at 35/F, Tower B, Chinese International Center, No. 33 Zhongshansan Road, Yuexiu District, Guangzhou, Guangdong, the PRC.

2. Changes in the share capital of our Company

Our authorized share capital as of the date of our incorporation is US\$50,000 divided into 1,000,000,000 Shares of US\$0.00005 each, which was increased to US\$150,000 divided into 3,000,000,000 Shares of US\$0.00005 each on December 3, 2018 pursuant to the resolutions of our Shareholders passed on December 3, 2018. The following changes in the share capital of our Company took place during the two years immediately preceding the date of this prospectus:

- (a) On January 27, 2016, our Company repurchased the entire 68,048,345 Series A preferred shares of the Company held by Sequoia Capital China, at a consideration of approximately US\$19.3 million, which was fully settled on January 27, 2016.
- (b) On May 20, 2018, our Company allotted and issued 223,100,000 shares of par value of US\$0.00005 each in the following manners:
 - a. 27,674,101 shares to Elite BVI;
 - b. 19,888 shares to Texcellence BVI;
 - c. 70,512,742 shares to Jameson Ying BVI;

- d. 6,051,179 shares to Agile Gain Limited;
- e. 3,024,799 shares to Binguose Limited;
- f. 5,294,832 shares to Orange bear Limited;
- g. 46,366,566 shares to Commqua Holding Co. Ltd.;
- h. 3,000,915 shares to ChuangSi Education Management Co. Ltd.;
- i. 33,862,582 shares to GDC Global Limited; and
- j. 27,292,396 shares to Soarise Bulex Limited.

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this prospectus.

3. Changes in the share capital of our subsidiaries and PRC Operating Entities

A summary of the corporate information and the particulars of our subsidiaries and PRC Operating Entities are set out in note 1 to the Accountants' Report as set out in Appendix I to this prospectus.

Saved as disclosed above and those described in the "History and Corporate Structure — History of Our Major PRC Operating Entity" in this prospectus, there has been no alteration in the share capital of any of our subsidiaries and PRC Operating Entities of our Company within the two years immediately preceding the date of this prospectus.

4. Resolutions of the then shareholders of our Company dated December 3, 2018

Written resolutions of the then shareholders of our Company entitled to vote at general meeting of our Company were passed on December 3, 2018, pursuant to which, among others:

- (a) the Memorandum and Articles of Association were approved and adopted conditional upon Listing;
- (b) the authorized share capital of the Company was increased from US\$50,000 divided into 1,000,000,000 shares of par value of US\$0.00005 each to US\$150,000 divided into 3,000,000,000 shares of par value of US\$0.00005 each;
- (c) the Share Option Scheme be conditionally adopted, which will become effective subject to (i) the Listing Committee of the Stock Exchange granting approval of the Share Option Scheme, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme; and (ii) the commencement of dealing in the Shares on the Stock Exchange;

- (d) conditional upon all the conditions set out in the section headed “Structure of the Global Offering” in this prospectus being fulfilled:
 - (1) the Global Offering, the Over-allotment Option and the Listing were approved and our Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to effect and implement the Global Offering and allot and issue the Offer Shares pursuant to the Global Offering;
 - (2) our Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the Global Offering; and
 - (3) our Board (or any committee thereof established by our Board pursuant to the Articles) was authorized to agree to the price per Offer Share with the Joint Global Coordinators;
- (e) our Directors were authorized to allot and issue, on the Listing Date, a total of 43,540,000 Shares credited as fully paid at par value to Soarise Bulex Limited to provide for RSU to be granted pursuant to the RSU Scheme, and the Shares allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (f) our Directors were authorized to approve and adopt the RSU Scheme and amend the same from time to time as they think fit;
- (g) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the Global Offering or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme or similar arrangements pursuant to a specific authority granted by our Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the Shares in issue immediately following the RSU Allotment and the Global Offering (without taking into account the exercise of the Over-allotment Option, or any options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in a general meeting, whichever is the earliest;

- (h) a general unconditional mandate was given to our Directors authorizing them to exercise all the powers of our Company to repurchase, on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the Shares in issue immediately following the RSU Allotment and the Global Offering (without taking into account the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in a general meeting, whichever occurs first; and
- (i) it was approved that the general mandate mentioned in paragraph (g) above shall be extended by the addition, to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate, of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to purchase shares referred to in paragraph (h) above.

5. Repurchase of our own securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities.

(a) Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholder's approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our shareholders on December 3, 2018, a general unconditional mandate (the “Repurchase Mandate”) was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the RSU Allotment and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme, with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

(ii) Source of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of the Cayman Islands law, any repurchases by the Company may be made out of the Company’s profits or the Company’s share premium account, or out of the proceeds of a new issue of shares made for the purpose of the repurchase, or, if so authorised by the Articles of Association of the Company, out of capital. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be out of the profits of the Company, or from sums standing to the credit of the Company’s share premium account, or, if so authorised by the Articles of Association of the Company, out of capital.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares

on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A listed company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased Shares

The listing of all purchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorised share capital under Cayman Islands law.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Core connected persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of us as disclosed in this prospectus and taking into account the current working capital position of us, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of us 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 these circumstances, have a material 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.

The exercise in full of the Repurchase Mandate, on the basis of 848,040,000 Shares in issue immediately following the completion of the RSU Allotment and the Global Offering (assuming the Over-allotment Option is not exercised), would result in up to 84,804,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be granted other than in exceptional circumstances.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

6. Our PRC Operating Entities

As of the Latest Practicable Date, we controlled 55 PRC Operating Entities through the Structured Contracts including (1) Guangzhou Beststudy, (2) 47 wholly-owned subsidiaries of Guangzhou Beststudy and (3) seven non-wholly owned subsidiaries of Guangzhou Beststudy.

The table below sets forth the nature, equity interest/sponsorship interest held by Guangzhou Beststudy, and the principal business of each PRC Operating Entity.

<u>Name of Subsidiary</u>	<u>Equity interest/ Sponsorship interest held by Guangzhou Beststudy</u>	<u>Principal Business</u>	<u>Number of Education Centers Operated by such Subsidiary</u>
(I) Limited liability companies			
1. Guangzhou Beststudy	N/A	K-12 after-school education service	105
2. Dongguan Zhuoye Education Consulting Service Co., Ltd. (東莞市卓業教育諮詢服務有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	9
3. Zhongshan Zhuoye Consulting Management Co., Ltd. (中山市卓業諮詢管理顧問有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	19
4. Shenzhen Zhuoyue Education Training Co., Ltd. (深圳市卓越教育培訓有限公司)	Indirectly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	29
5. Zhuhai Beststudy Enterprise Co., Ltd. (珠海市卓越里程企業有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	15

Name of Subsidiary	Equity interest/ Sponsorship interest held by Guangzhou Beststudy	Principal Business	Number of Education Centers Operated by such Subsidiary
6. Foshan Beststudy Culture Communication Co., Ltd. (佛山市卓越里程文化傳播有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	19
7. Beijing Qiaowen Education Technology Co., Ltd. (北京巧問教育科技有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	2
8. Shenzhen Wandie Culture Development Co., Ltd. (深圳市萬蝶文化發展有限公司)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business, but it will engage in K-12 after-school education service.	0
9. Guangzhou Gaofen Network Technology Co., Ltd. (廣州高分網絡科技有限公司)	Directly wholly-owned by Guangzhou Beststudy	Internet information services	0
10. Guangzhou Qizuo Education Consulting Co., Ltd. (廣州奇作教育諮詢有限公司)	Directly wholly-owned by Guangzhou Beststudy	Internet information services	0
11. Nanning Beststudy Education Technology Co., Ltd. (南寧卓越里程教育科技有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	1
12. Tibet Zhuoye Venture Capital Investment Management Co., Ltd. (西藏卓業創業投資管理有限公司)	Directly wholly-owned by Guangzhou Beststudy	Investment and shareholding	0

Name of Subsidiary	Equity interest/ Sponsorship interest held by Guangzhou Beststudy	Principal Business	Number of Education Centers Operated by such Subsidiary
13. Dongguan Nancheng Beststudy Training Center Co., Ltd. (東莞市南城卓越培訓中心有限公司)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business, but it plans to engage in K-12 after-school education service in due course.	0
14. Guangzhou Yuyou Education Technology Co., Ltd. (廣州譽優教育科技有限公司)	Indirectly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	19
15. Guangzhou Tianhe Beststudy Education Training Center Co., Ltd. (廣州市天河區卓越教育培訓中心有限公司)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business, but it plans to engage in K-12 after-school education service in due course.	0
16. Guangzhou Haudu Beststudy After-school Education Training Center Co., Ltd. (廣州市花都區卓越課外教育培訓中心有限公司)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business, but it plans to engage in K-12 after-school education service in due course.	0
17. Dongguan Dongcheng Jinghu Beststudy Training Center Co., Ltd. (東莞市東城景湖卓越培訓中心有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	0

Name of Subsidiary	Equity interest/ Sponsorship interest held by Guangzhou Beststudy	Principal Business	Number of Education Centers Operated by such Subsidiary
18. Dongguan Dongcheng Xinshijie Beststudy Training Center Co., Ltd. (東莞市東城新世界卓 越培訓中心有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	0
19. Dongguan Dongcheng Shibo Beststudy Training Center Co., Ltd. (東莞市東城世博卓越 培訓中心有限公司)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	0
20. Guangzhou Aiyuwen Technology Information Consulting Co., Ltd. (廣州市愛語文科技信 息諮詢有限責任公司)	Indirectly wholly-owned by Guangzhou Beststudy	Internet information services	0
21. Guangzhou Fengbei Network Technology Co., Ltd. (廣州蜂背 網絡科技有限公司)	Indirectly wholly-owned by Guangzhou Beststudy	Internet information services	0
22. Shenzhen Bosijie Culture Development Co., Ltd. (深圳市博 思傑文化發展有限公 司)	Held as to 90% by Guangzhou Beststudy and 10% by Yinling Liang (梁 穎琳), an independent third party of our Company	It does not engage in any business, but it will engage in K-12 after-school education service.	0

<u>Name of Subsidiary</u>	<u>Equity interest/ Sponsorship interest held by Guangzhou Beststudy</u>	<u>Principal Business</u>	<u>Number of Education Centers Operated by such Subsidiary</u>
23. Guangxi Nanning YuZhiYou Education Technology Co., Ltd. (廣西南寧譽智優教育 科技有限公司)	Held as to approximately 98.8% by Guangzhou Beststudy indirectly, and approximately 1.2% by Jinwen Liang (梁錦文), a director of certain PRC Operating Entities	K-12 after-school education service	3
24. Huizhou Yuyou Education Technology Co., Ltd. (惠州譽優教育科技有 限公司)	Held as to 85% by Guangzhou Beststudy indirectly and 15% by Huizhou Shangxue Education Technology Co., Ltd. (惠州市尚學教育科技 有限公司), an independent third party of our Company	K-12 after-school education service	2
25. Beijing Niushibang Education Technology Co., Ltd. (北京牛師幫教育科技 有限公司) (“Beijing Niushibang”)	Held as to approximately 64% by Guangzhou Beststudy indirectly, and 26% by Yucong Liu (劉宇聰), a director of Beijing Niushibang, 6% by Fang Shi (史芳), a director of Beijing Niushibang and 4% by Fen Wang (王芬), a supervisor of Beijing Niushibang	Internet information services	0

<u>Name of Subsidiary</u>	<u>Equity interest/ Sponsorship interest held by Guangzhou Beststudy</u>	<u>Principal Business</u>	<u>Number of Education Centers Operated by such Subsidiary</u>
26. Guangzhou GROW Education Technology Co., Ltd. (廣州市果肉教育科技有限公司) (“Guangzhou GROW”)	Held as to 60% by Guangzhou Beststudy indirectly, and 15% by Guangzhou Shanling Information Technology Co., Ltd (廣州杉靈信息科技有限公司), 15% by Ting Zhu (朱挺), a director of Guangzhou GROW, and 10% by Yuyan Li (黎玉顏), an independent third party of our Company	Internet information services and internet culture service	0
27. Guangzhou Yuyou Leshu Education Technology Co., Ltd. (廣州市譽優樂數教育科技有限公司)	Held as to 70% by Guangzhou Beststudy indirectly, and 30% by Guangzhou Boshu Education Consulting Co., Ltd. (廣州博數教育諮詢有限公司), an independent third party of our Company	It does not engage in any business.	0
28. Guangzhou Chuangxiangjia Education Investment Co., Ltd. (廣州創享家教育投資有限公司)	Held as to 80% by Guangzhou Beststudy directly, and 20% by Huang Yi (黃沂), an independent third party of our Company	Education investment	0

(II) Private non-enterprise units

29. Shanghai Yangpu Beststudy Education and Training Center (上海楊浦區卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	K-12 after-school education service	7

<u>Name of Subsidiary</u>	<u>Equity interest/ Sponsorship interest held by Guangzhou Beststudy</u>	<u>Principal Business</u>	<u>Number of Education Centers Operated by such Subsidiary</u>
30. Guangzhou Beststudy Education and Training Center (廣州卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
31. Guangzhou Haizhu Beststudy Education and Training Center (廣州市海珠區卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
32. Guangzhou Baiyun Beststudy Education and Training School (廣州市白雲區卓越教育培訓學校)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
33. Guangzhou Huadu Beststudy Education and Training Center (廣州市花都區卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
34. Guangzhou Panyu Learning Frontline Education and Training Center (廣州市番禺區學習前線教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
35. Guangzhou Zengcheng Beststudy Education and Training Center (廣州市增城區卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A

Name of Subsidiary	Equity interest/ Sponsorship interest held by Guangzhou Beststudy	Principal Business	Number of Education Centers Operated by such Subsidiary
36. Guangzhou Huangpu Beststudy Education and Training Center (廣州市黃埔區卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
37. Guangzhou Liwan Beststudy Education and Training Center (廣州市荔灣區卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
38. Guangzhou Conghua Beststudy Education and Training Center (廣州市從化區卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
39. Shenzhen Beststudy Education and Training Center (深圳市卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
40. Zhuhai Xiangzhou District Siqi Cultural Training Center (珠海市香洲區思奇文化培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
41. Zhuhai Chuangsi Language Training School (珠海創思語言培訓學校)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A

<u>Name of Subsidiary</u>	<u>Equity interest/ Sponsorship interest held by Guangzhou Beststudy</u>	<u>Principal Business</u>	<u>Number of Education Centers Operated by such Subsidiary</u>
42. Foshan Chancheng Learning Frontline Education and Training Center (佛山市禪城區學習前線教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
43. Foshan Nanhai Xinzhuoyue Education and Training Center (佛山市南海區新卓越教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
44. Foshan Nanhai Beststudy Frontline Education and Training Center (佛山市南海區卓越前線教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
45. Foshan Shunde Lecong Learning Frontline Education and Training Center (佛山市順德區樂從鎮學習前線教育培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
46. Dongguan Guancheng Beststudy Training Center (東莞市莞城卓越培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
47. Dongguan Houjie Beststudy Training Center (東莞市厚街卓越培訓中心)	Directly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A

<u>Name of Subsidiary</u>	<u>Equity interest/ Sponsorship interest held by Guangzhou Beststudy</u>	<u>Principal Business</u>	<u>Number of Education Centers Operated by such Subsidiary</u>
48. Shenzhen Wandie Education and Training Center (深圳萬蝶教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
49. Zhongshan East District Zhuoye Boda Jiahui Garden Education and Training Center (中山市東區卓業博達嘉惠苑教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
50. Zhongshan East District Zhuoye Boda Shuiyunxuan Education and Training Center (中山市東區卓業博達水雲軒教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
51. Zhongshan East District Zhuoye Boda Zhuyuan Education and Training Center (中山市東區卓業博達竹苑教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
52. Zhongshan Shiqi Zhuoye Boda Hengji Education and Training Center (中山市石岐卓業博達恒基教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A

<u>Name of Subsidiary</u>	<u>Equity interest/ Sponsorship interest held by Guangzhou Beststudy</u>	<u>Principal Business</u>	<u>Number of Education Centers Operated by such Subsidiary</u>
53. Zhongshan Shiqi Zhuoye Boda Qiguanxi Education and Training Center (中山市石岐卓業博達岐關西教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
54. Zhongshan West District Zhuoye Boda Huating Education and Training Center (中山市西區卓業博達華庭教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A
55. Zhongshan Xiaolan Zhuoye Boda Education and Training Center (中山市小欖卓業博達教育培訓中心)	Indirectly wholly-owned by Guangzhou Beststudy	It does not engage in any business.	N/A

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an exclusive management consultancy and business cooperation agreement dated June 18, 2018 entered into by and between WFOE, Guangzhou Beststudy, the Registered Shareholders, Mr. Hua Wang, Foshan Beststudy Culture Communication Co., Ltd. (佛山市卓越里程文化傳播有限公司), Shenzhen Zhuoyue Education Training Co., Ltd. (深圳市卓越教育培訓有限公司), Dongguan Zhuoye Education Consulting Services Co., Ltd. (東莞市卓業教育諮詢服務有限公司), and Zhongshan Zhuoye Consulting Management Co., Ltd. (中山市卓業諮詢管理顧問有限公司), pursuant to which WFOE has the exclusive right to provide each of our PRC Operating Entities with management consulting and business support services, and as consideration, the PRC Operating Entities shall pay WFOE a service fee;

- (b) an exclusive call option agreement dated June 18, 2018 entered into by and between WFOE, Guangzhou Beststudy and the Registered Shareholders, pursuant to which the Registered Shareholders unconditionally and irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in Guangzhou Beststudy;
- (c) an exclusive call option agreement dated June 18, 2018 entered into by and between WFOE, Guangzhou Beststudy and the 40 subsidiaries⁽¹⁾ wholly-owned by Guangzhou Beststudy, pursuant to which Guangzhou Beststudy unconditionally and irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests, as applicable, in the subsidiaries wholly-owned by Guangzhou Beststudy;
- (d) an equity pledge agreement dated June 18, 2018 entered into by and between WFOE, Guangzhou Beststudy and the Registered Shareholders, pursuant to which the Registered Shareholders agreed to pledge all of the equity interests in Guangzhou Beststudy to WFOE;
- (e) the power of attorney executed by each of the Registered Shareholders dated on June 18, 2018, appointing WFOE, or any person designated by WFOE, to exercise his/her/its respective shareholder's rights in Guangzhou Beststudy;
- (f) a trust deed dated December 3, 2018, entered into among our Company, Ms. Huojuan Zhou and Soarise Bulex Limited, in respect of the RSU scheme, pursuant to which Ms. Huojuan Zhou has been appointed as the trustee of the RSU scheme and Soarise Bulex Limited has been appointed as the nominee of the RSU scheme;
- (g) the cornerstone investment agreement dated December 10, 2018, entered into among our Company, Pingyang Zhongjiao Zhixue Investment Management Center (Limited Partnership) (平陽中教智學投資管理中心 (有限合夥)), CMB International Capital Limited and CEB International Capital Corporation Limited, pursuant to which Pingyang Zhongjiao Zhixue Investment Management Center (Limited Partnership) (平陽中教智學投資管理中心 (有限合夥)) has agreed to subscribe at the Offer Price for such number of Shares that may be purchased with HK\$40,000,000 (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee), rounded down to the nearest whole board lot of 1,000 Shares;
- (h) the Deed of Non-competition;
- (i) the Deed of Indemnity; and
- (j) the Hong Kong Underwriting Agreement.

Note:

- (1) Namely, Guangzhou Baiyun Beststudy Education and Training School (廣州市白雲區卓越教育培訓學校), Guangzhou Conghua Beststudy Education and Training Center (廣州市從化區卓越教育培訓中心), Guangzhou Haizhu Beststudy Education and Training Center (廣州市海珠區卓越教育培訓中心), Guangzhou Zengcheng Beststudy Education and Training Center (廣州市增城區卓越教育培訓中心), Guangzhou Huadu Beststudy Education and Training Center (廣州市花都區卓越教育培訓中心), Guangzhou Beststudy Education and Training Center (廣州卓越教育培訓中心), Guangzhou Gaofen Network Technology Co., Ltd. (廣州高分網絡科技有限公司), Guangzhou Qizuo Education Consulting Co., Ltd. (廣州奇作教育諮詢有限公司), Dongguan Dongcheng Learning Frontline Training Center (東莞市東城學習前線培訓中心), Dongguan Dongcheng Beststudy Second Training Center (東莞市東城卓越第二培訓中心), Dongguan Nancheng Beststudy Training Center Co., Ltd. (東莞市南城卓越培訓中心有限公司), Dongguan Guancheng Beststudy Training Center (東莞市莞城卓越培訓中心), Dongguan Houjie Beststudy Training Center (東莞市厚街卓越培訓中心), Foshan Chancheng Learning Frontline Education and Training Center (佛山市禪城區學習前線教育培訓中心), Foshan Nanhai Beststudy Frontline Education and Training Center (佛山市南海區卓越前線教育培訓中心), Foshan Shunde Lecong Learning Frontline Education and Training Center (佛山市順德區樂從鎮學習前線教育培訓中心), Shenzhen Beststudy Education and Training Center (深圳市卓越教育培訓中心), Shenzhen Wandie Education and Training Center (深圳萬蝶教育培訓中心), Zhuhai Chuangsi Language Training School (珠海創思語言培訓學校), Zhuhai Xiangzhou District Siqi Cultural Training Center (珠海市香洲區思奇文化培訓中心), Shanghai Yangpu Beststudy Education and Training Center (上海楊浦區卓越教育培訓中心), Zhongshan Zhuoye Consulting Management Co., Ltd. (中山市卓業諮詢管理顧問有限公司), Zhongshan East District Zhuoye Boda Jiahui Garden Education and Training Center (中山市東區卓業博達嘉惠苑教育培訓中心), Zhongshan East District Zhuoye Boda Shuiyunxuan Education and Training Center (中山市東區卓業博達水雲軒教育培訓中心), Zhongshan East District Zhuoye Boda Zhuyuan Education and Training Center (中山市東區卓業博達竹苑教育培訓中心), Zhongshan Shiqi Zhuoye Boda Hengji Education and Training Center (中山市石岐卓業博達恆基教育培訓中心), Zhongshan Shiqi Zhuoye Boda Qiguanxi Education and Training Center (中山市石岐卓業博達岐關西教育培訓中心), Zhongshan West District Zhuoye Boda Huating Education and Training Center (中山市西區卓業博達華庭教育培訓中心), Zhongshan Xiaolan Zhuoye Boda Education and Training Center (中山市小欖卓業博達教育培訓中心), Zhuhai Beststudy Enterprise Co., Ltd. (珠海市卓越里程企業有限公司), Guangzhou Liwan Beststudy Education and Training Center (廣州市荔灣區卓越教育培訓中心), Guangzhou Huangpu Beststudy Education and Training Center (廣州市黃埔區卓越教育培訓中心), Beijing Qiaowen Education Technology Co., Ltd. (北京巧問教育科技有限公司), Dongguan Zhuoye Education Consulting Service Co., Ltd. (東莞市卓業教育諮詢服務有限公司), Foshan Beststudy Culture Communication Co., Ltd. (佛山市卓越里程文化傳播有限公司), Shenzhen Wandie Culture Development Co., Ltd. (深圳市萬蝶文化發展有限公司), Nanning Beststudy Education Technology Co., Ltd. (南寧卓越里程教育科技有限公司), Tibet Zhuoye Venture Capital Investment Management Co., Ltd. (西藏卓業創業投資管理有限公司), Guangzhou Panyu Learning Frontline Education and Training Center (廣州市番禺區學習前線教育培訓中心), and Guangzhou Zhuoye Information Technology Co., Ltd. (廣州市卓業信息技術有限公司). As of the Latest Practicable Date, WFOE has acquired Guangzhou Zhuoye Information technology Co., Ltd. from Guangzhou Bestudy.

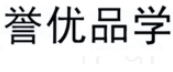
2. Intellectual property rights

(a) Trademarks

(i) Trademarks registered in the PRC

As at the Latest Practicable Date, we had registered the following trademarks in the PRC which we consider to be or may be material to our business.

Registrant	No.	Trademark	Date of registration	Expiration date
Guangzhou Beststudy	20957667		October 7, 2017	October 6, 2027
Guangzhou Beststudy	20957358		October 7, 2017	October 6, 2027
Guangzhou Beststudy	20956954		November 28, 2017	November 27, 2027
Guangzhou Beststudy	20957350		October 7, 2017	October 6, 2027
Guangzhou Beststudy	20957434		October 7, 2017	October 6, 2027
Guangzhou Beststudy	13698415	卓越教育	April 7, 2015	April 6, 2025
Beijing Niushibang Education Technology Co., Ltd. (北京牛師幫教育科技有限公司)	16910873	牛師幫	July 7, 2016	July 6, 2026

Registrant	No.	Trademark	Date of registration	Expiration date
Guangzhou Beststudy	16119437		May 14, 2016	May 13, 2026
Guangzhou Beststudy	13068603		January 7, 2015	January 6, 2025
Guangzhou Beststudy	19869696		June 28, 2017	June 27, 2027
Beijing Qiaowen Education Technology Co., Ltd. (北京巧問教育科技有限公司)	15350402		October 28, 2015	October 27, 2025
Guangzhou Yuyou Education Technology Co., Ltd. (廣州譽優教育科技有限公司)	22657149		February 14, 2018	February 13, 2028
Guangzhou Qizuo Education Consulting Co., Ltd. (廣州奇作教育諮詢有限公司)	14583435		July 14, 2015	July 13, 2025
Guangzhou Fengbei Internet Technology Co., Ltd. (廣州蜂背網絡科技有限公司)	15737048		January 7, 2016	January 6, 2026
Guangzhou Beststudy	13068614		December 28, 2014	December 27, 2024

(ii) Trademark registered in Hong Kong

As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong which we consider to be or may be material to our business:

Registrant	No.	Trademark	Date of Registration	Expiration Date
Beststudy Limited	304530087		May 17, 2018	May 17, 2028

(b) Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be material to be or may be material to our business.

Domain name	Registered Owner	Date of registration	Expiry Date
beststudy.com	Guangzhou Beststudy	February 17, 2004	February 17, 2020
beststudy.net	Guangzhou Zhuoyue Education Training Center (廣州卓越教育培訓中心)	March 26, 2000	March 26, 2020
zycourse.com	Guangzhou Zhuoyue Education Training Center (廣州卓越教育培訓中心)	December 12, 2016	December 12, 2026
zy.com	Guangzhou Beststudy	February 26, 1998	February 25, 2020
卓越教育.中國	Guangzhou City Zhuoyue Information Technology Co., Ltd. (廣州市卓業信息技術有限公司)	August 8, 2012	August 8, 2021
卓越教育.cn	Guangzhou City Zhuoyue Information Technology Co., Ltd. (廣州市卓業信息技術有限公司)	August 8, 2012	August 8, 2021

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of Directors' service contracts and appointment letters

Each of our executive Directors has entered into a service contract with our Company. The initial term of their service contracts shall commence from the date of their appointment and continue for a period of three years after or until the third annual general meeting of the Company since the date of this prospectus, whichever is earlier (subject always to re-election as and when required under the Articles), until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three months' prior notice in writing.

Each of our non-executive Directors has entered into an appointment letter with our Company. The initial term for their appointment letters shall be three years from the date of this prospectus or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

Each of our independent non-executive Directors has entered into an appointment letter with our Company. The initial term for their appointment letters shall be three years from the date of this prospectus or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing.

2. Remuneration of Directors

- (a) Remuneration and benefits in kind of approximately RMB4.6 million, RMB4.5 million, RMB5.1 million and RMB3.9 million in aggregate were paid and granted by our Group to our Directors in respect of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018.
- (b) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2018, is expected to be approximately RMB6.8 million in aggregate (excluding discretionary bonus).
- (c) None of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

3. Disclosure of interests

(a) Interests and short positions of our Directors and the chief executive of our Company in the share capital of our Company and its associated corporations following completion of the RSU Allotment and the Global Offering

Immediately following completion of the RSU Allotment and the Global Offering, the interests or short positions of our Directors and chief executives in the Shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Name of Directors	Capacity/Nature of interest	Immediately after the RSU Allotment and the Global Offering ⁽¹⁾	
		Number of Shares ⁽²⁾	Approximate percentage of shareholding interest
Mr. Junjing Tang ⁽³⁾	Interest in a controlled corporation; interest held jointly with another person	456,934,231 (L)	53.88%
Mr. Junying Tang ⁽⁴⁾	Interest in a controlled corporation; interest held jointly with another person	456,934,231 (L)	53.88%
Mr. Gui Zhou ⁽⁵⁾	Interest in a controlled corporation; interest held jointly with another person	456,934,231 (L)	53.88%
Mr. Wenhui Xu ⁽⁶⁾	Interest in controlled corporation	49,531,366	5.84%

Notes:

(1) Without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.

(2) The letter “L” denotes the person’s long position in the Shares.

- (3) Under the SFO, Mr. Junjing Tang is deemed to be interested in all Shares held by Elite BVI, a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junying Tang and Mr. Gui Zhou as they are parties acting in concert.
- (4) Under the SFO, Mr. Junying Tang is deemed to be interested in all Shares held by Texcellence BVI, a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junjing Tang and Mr. Gui Zhou as they are parties acting in concert.
- (5) Under the SFO, Mr. Gui Zhou is deemed to be interested in all Shares held by Jameson Ying BVI, a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junjing Tang and Mr. Junying Tang as they are parties acting in concert.
- (6) Under the SFO, Mr. Wenhui Xu is deemed to be interested in all Shares held by Commqua Holding Co. Ltd., a company which is wholly-owned by him.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

For information on the persons who will, immediately following the completion of the RSU Allotment and the Global Offering, have or be deemed or taken to have beneficial interests or short position in our Shares or underlying shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, see the section headed “Substantial Shareholders” in this prospectus.

Save as set out above and disclosed in the section headed “History and Corporate Structure” in this prospectus, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the RSU Allotment and the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such Capital.

4. Disclaimers

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;
- (b) none of the Directors or the experts named in the paragraph headed “— E. Other Information — 5. Consents of experts” in this section has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this prospectus; and
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole.

D. SHARE INCENTIVE SCHEMES

1. RSU Scheme

The following is a summary of the principal terms of the RSU Scheme approved and adopted by our Company on December 3, 2018. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

a. Purpose

The purpose of the RSU Scheme is to incentivize Directors, senior management and employees for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

b. RSUs

A RSU gives a participant in the RSU Scheme (the “RSU Participant”) a conditional right when the RSU vests to obtain Shares, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion. Each RSU represents one underlying Share.

c. Participants

Persons eligible to receive RSUs under the RSU Scheme are existing employees, directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of our Company or any member of our Group (the “RSU Eligible Persons”). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

d. Terms

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from the date of the first grant of the RSUs, being December 3, 2018 (unless it is terminated earlier in accordance with its terms) (the “Scheme Period”).

e. Grant and Acceptance

(a) Making an offer

An offer to grant a RSU will be made to a RSU Eligible Person selected by our Board (the “RSU Selected Person”) by a letter, in such form as our Board may determine (the “RSU Grant Letter”). The RSU Grant Letter will specify the RSU Selected Person’s name, the manner of acceptance of the RSU, the number of RSUs granted and the number of underlying Shares represented by the RSUs, the vesting criteria and conditions, the vesting schedule, the exercise price of the RSUs (where applicable) and such other details as our Board considers necessary and are not inconsistent with the RSU Scheme, and will require the RSU Selected Person to undertake to hold the RSU on the terms on which it is granted and to be bound by the provisions of the RSU Scheme.

(b) Acceptance of an offer

A RSU Selected Person may accept an offer of the grant of RSUs in such manner as set out in the RSU Grant Letter. Once accepted, the RSUs are deemed granted from the date of the RSU Grant Letter (the “RSU Grant Date”).

(c) Restrictions on Grants

Our Board may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless our Board determines otherwise;
- where granting the RSUs would result in a breach by our Company, any member of our Group or any of their directors of any applicable laws, rules or regulations; or
- where such grant of any RSUs would result in a breach of the limits of the RSU Scheme.

f. Maximum number of Shares pursuant to RSUs

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the RSU Trustee (as defined below) for the purpose of the RSU Scheme from time to time.

g. Rights attached to RSUs

A RSU Participant does not have any contingent interest in any Shares underlying the RSUs unless and until such Shares are actually transferred to the RSU Participant. Further, a RSU Participant may not exercise voting rights in respect of the Shares underlying the RSUs prior to their exercise and, unless otherwise specified by our Board in its entire discretion in the RSU Grant Letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs.

h. Rights attached to Shares

Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the Articles and will rank pari passu with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members.

i. Assignment of RSUs

The RSUs granted pursuant to the RSU Scheme are personal to each RSU Participant, and are not assignable. RSU Participants are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the RSU Trustee (as defined below) on trust for the RSU Participants, the RSUs, or any interest or benefits therein.

j. Vesting of RSUs

Our Board can determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the RSU Grant Letter.

Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, our Board will send a vesting notice (the “**Vesting Notice**”) to each of the relevant RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

k. Appointment of the RSU Trustee

Our Company has appointed Ms. Huojuan Zhou as the trustee (the “RSU Trustee”) and Soarise Bulex Limited as the nominee of the RSU Scheme to assist in the administration of the RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustees to be held by the RSU Trustees and which will be used to satisfy the Shares underlying the RSUs upon exercise and/or (ii) direct and procure the RSU Trustees to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the Shares underlying the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustees by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustees to satisfy its obligations in connection with the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to the RSU Trustees.

l. Exercise of RSUs

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to our Company. Any exercise of RSUs must be in respect of a board lot of 1,000 Shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot).

In an exercise notice, the RSU Participant shall request the RSU Trustee to, and the Board shall direct and procure the RSU Trustee to, within five (5) business days, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs.

The Participant shall serve the exercise notice within three (3) months after receiving the Vesting Notice. The Trustee will not hold the Shares underlying the RSUs vested for the RSU Participant after this three (3) months period. If the exercise notice is not served during this three (3) months period or the Shares underlying the RSUs exercised cannot be transferred to the RSU Participant pursuant to the preceding paragraph due to the Participant not being able to provide sufficient information to effect the transfer, the RSUs vested or exercised (as the case may be) shall lapse unless otherwise agreed by the Board at its absolute discretion.

m. Rights on a takeover

If a general offer to acquire the Shares (whether by takeover offer, merger, or otherwise in a like manner) is made to all of our Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

n. Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies and a notice is given by our Company to our Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement and such Shareholders' approval is obtained, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

o. Rights on a voluntary winding up

If an effective resolution is passed during the RSU Scheme Period for the voluntary winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement), all outstanding RSUs shall be treated as having vested immediately. No Shares will be transferred, and no cash alternative will be paid, to the RSU Participant, but the RSU Participant will be entitled to receive out of the assets available in liquidation on an equal basis with our Shareholders such sum as they would have received in respect of the RSUs.

p. Lapse of RSUs

(a) Full lapse of RSU

Any unvested RSU will automatically lapse immediately where:

- such RSU Participant's employment or service terminates for any reason;
or
- the RSU Participant makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any RSUs or any interests or benefits pursuant to the RSUs.

(b) *If at any time, a RSU Participant:*

- ceases to be an employee;
- fails, during the course of his employment, to devote the whole of his time and attention to the business of our Group or to use his best endeavors to develop the business and interests of our Group;
- is concerned during the course of his employment with our Group (without the prior written consent of our Company) with any (competitive or other) business other than that of our Group; and/or
- is in breach of his contract of employment with or any other obligation to our Group (including without limitation certain restrictive covenants),

then all vested and unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares.

q. Cancellation of RSUs

Our Board may at its discretion cancel any RSU that has not vested or lapsed, provided that:

- (a) our Company or our subsidiaries pay to the RSU Participant an amount equal to the fair value of the RSU at the date of the cancelation as determined by the Board, after consultation with our auditors or an independent financial advisor appointed by our Board;
- (b) our Company or our relevant subsidiary provides to the RSU Participant a replacement award (or a grant or option under any other restricted share unit scheme, share option scheme or share-related incentive scheme) of equivalent value to the RSUs to be cancelled; or
- (c) our Board makes any arrangement as the RSU Participant may agree in order to compensate him/her for the cancelation of the RSUs.

r. Reorganization of capital structure

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company, our Board may make such equitable adjustments, designed to protect the RSU Participants' interests, to the number of Shares underlying the outstanding RSUs or to the amount of the equivalent value, as it may deem appropriate at its absolute discretion.

s. Amendment of the RSU Scheme

Save as provided in the RSU Scheme, our Board may alter any of the terms of the RSU Scheme at any time. Written notice of any amendment to the RSU Scheme shall be given to all RSU Participants.

Any alterations to the terms and conditions of the RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted which shall operate to affect materially adversely any subsisting rights of any RSU Participant shall be subject to the consent of the RSU Participants amounting to three-fourths in nominal value of all underlying RSUs so held by the RSU Participants on the date of the relevant resolution passed by our Board in approving the amendment of the RSU Scheme or the terms of the RSUs granted (as the case may be), except where the alterations or changes take effect automatically under the existing terms of the RSU Scheme. Our Board's determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme or the terms of the RSUs granted (as the case may be) is material shall be conclusive.

t. Termination

Our Board may terminate the RSU Scheme at any time before the expiry of the RSU Scheme Period. The provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted pursuant to the rules of the RSU Scheme prior to the termination of the operation of the RSU Scheme. Our Company or our relevant subsidiary shall notify the RSU Trustee and all RSU Participants of such termination and of how any property held by the RSU Trustee on trust for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

u. Administration of the RSU Scheme

Our Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. Our Board may delegate the authority to administer the RSU Scheme to a committee of our Board. Our Board may also appoint one or more independent third-party contractors to assist in the administration of the RSU Scheme and delegate such powers and/or functions relating to the administration of the RSU Scheme as our Board thinks fit.

Our Board's determinations under the RSU Scheme need not be uniform and may be made by it selectively with respect to persons who are granted, or are eligible to be granted, RSUs under it. If a Director is a RSU Participant he may, notwithstanding his own interest and subject to our Articles, vote on any Board resolution concerning the RSU Scheme (other than in respect of his own participation in it), and may retain RSUs under it. Each RSU Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and our Board's administration of the RSU Scheme.

v. General

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, Shares underlying the RSUs that have been granted pursuant to the RSU Scheme.

w. Outstanding RSUs granted

As at the Latest Practicable Date, no RSUs have been granted under the RSU Scheme. The grant of any RSUs and vesting of RSUs pursuant to the RSU Scheme will be in compliance with Rule 10.08 of the Listing Rule.

The Company will issue announcements according to the applicable Listing Rules, disclosing particulars of any RSUs granted under the RSU Scheme, including the date of grant, number of Shares involved, the vesting period, the appointment and arrangement with the RSU Trustee and compliance with Chapter 14A of the Listing Rules. Details of the RSU Scheme, including particulars and movements of the RSUs granted during each financial year of our Company, and our employee related costs arising from the grant of the RSUs will be disclosed in our annual and interim reports.

2. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved by the resolutions of our Shareholders passed on December 3, 2018:

a. Purpose of the Share Option Scheme

The purpose of this Share Option Scheme is to attract, retain and motivate employees, Directors and such other Participant, and to provide a means of compensating them through the grant of options pursuant to the terms of the Share Option Scheme (“Options”) for their contribution to the growth and profits of our Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of our Group.

b. Conditions and Present Status of the Share Option Scheme

The Share Option Scheme shall take effect conditional upon (i) the Listing Committee of the Stock Exchange granting approval of the Share Option Scheme, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options; and (ii) the commencement of dealing in the Shares on the Stock Exchange.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. No option is expected to be granted under the Share Option Scheme prior to the Listing Date.

c. Eligible Participants

On and subject to the terms of the Share Option Scheme, the Board shall be entitled at any time to offer to grant to any non-executive Director or independent non-executive Director of our Company appointed or proposed to be appointed prior to the Listing Date, or any director of any of the subsidiaries, or any employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director (“Participants”) as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an Option to subscribe for such number of Shares as the Board may determine at the Subscription Price. The basis of eligibility of any of the class of Participants to the grant of any Options shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

d. Offer and Grant of Options

No offer of grant of Option shall be made after inside information has come to the knowledge of the Company until such inside information has been published in accordance with the Listing Rules. In particular, no option may be granted during the period of one (1) month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company’s results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement.

An offer of the grant of an Option (“Offer”) shall be deemed to have been accepted and the Option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Participant (“Grantee”) with the number of Shares in respect of which such offer is accepted clearly stated therein, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company. Such remittance shall in no circumstances be refundable. Once accepted, the Option is granted as from the Offer Date (as defined below).

e. Subscription Price

The subscription price (“Subscription Price”) shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in any case the Subscription Price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day (“Offer Date”), (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share.

f. Maximum number of Shares and entitlement of an eligible Participant

- (i) The overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 30% of the Shares in issue from time to time.
- (ii) The Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 84,804,000 Shares, (i.e. 10% of the aggregate of the Shares in issue on the Listing Date (“Scheme Mandate Limit”). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.
- (iii) Our Company may seek approval of our Shareholders in general meeting for refreshing the Scheme Mandate Limit. However, the Scheme Mandate Limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of the approval of our Shareholders. Options previously granted under the Share Option Scheme or any other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including Options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme of our Company) will not be counted for the purpose of calculating the limit as “refreshed.”

A circular containing the information required under the Listing Rules shall be sent to our Shareholders in connection with the meeting at which their approval will be sought.

- (iv) Our Company may seek separate approval by our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit (as refreshed) provided that the Grantee(s) of such Option(s) must be specifically identified by our Company before such approval is sought. A circular containing a generic description of the specified Grantees who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting such Options to the Grantees with an explanation as to how the terms of Options serve such purpose and other information required under the Listing Rules shall be sent to our Shareholders.
- (v) The total number of Shares issued and to be issued upon exercise of the Options granted to each eligible Participant (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the Shares in issue (the “Individual Limit”). Any further grant of Options to an eligible

Participant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to our Shareholders' approval in general meeting with such eligible Participant and his or her close associates (as defined under the Listing Rules, or his or her associate if the Participant is a connected person) abstaining from voting. A circular containing the information required under the Listing Rules shall be sent to our Shareholders. The number and terms (including the Subscription Price) of the Options to be granted to such Participant must be fixed before our Shareholders' approval is sought and the date of the meeting of the Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the Subscription Price.

g. Grant of Options to Connected Persons

- (i) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or their respective associates shall be subject to approval by the independent non-executive Directors of our Company (excluding the independent non-executive Director who is the Grantee).
- (ii) Where our Board proposes to grant any Option to a Participant who is a substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or an independent non-executive Director of our Company, or any of their respective associates would result in our Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of our Company (including Options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed Offer Date of such grant (the "Relevant Date"):
 - (a) representing in aggregate more than 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the total number of Shares in issue on the Relevant Date; and
 - (b) having an aggregate value, based on the closing price of our Shares as stated in the Stock Exchange's daily quotation sheet on the Relevant Date, in excess of HK\$5,000,000 (or such other higher amount as may from time to time be specified by the Stock Exchange),

such proposed grant of Options must be approved by our Shareholders (voting by way of poll). In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all other connected persons of our Company must abstain from voting in favor of the resolution at such general meeting.

h. Exercise of Options

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme (“Option Period”).

i. Vesting

Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules to which the Share Option Scheme may be subject, including the Listing Rules or regulations of any stock exchange on which the Shares may be listed and quoted. Furthermore, the Shares to be allotted and issued to a Grantee pursuant to the exercise of any Option under the Share Option Scheme may or may not, at the discretion of the Board, be subject to any retention period.

j. Performance Target & Minimum Period before Exercise

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is no general requirement for any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

k. Options are personal to the Grantee

An Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favor of any third party over or in relation to any Option, except for the transmission of an Option on the death or incapacitation of the Grantee to his personal representative(s) according to the terms of the Share Option Scheme.

l. Rights on death, or termination of employment, our Directorship, office or appointment

- (i) in the event of the Grantee ceasing to be an employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director (“Eligible Employee”), by reason of non-renewal of his or her employment contract upon termination, or retirement, or internal reorganization, or if the Grantee is a Director, the cessation as a Director upon rotation, the Grantee shall be entitled within a period of three (3) months from the date of cessation of employment which shall be the last actual working day with our Company or the relevant subsidiary to exercise any Option in whole or in part (to the extent which has become exercisable but not yet exercised prior to such date of cessation). In the event of the Grantee ceasing to be an Eligible Employee for any reason other than those stated above or his or her death or the termination of his or her employment on one or more of the grounds specified in the Share Option Scheme, the Grantee may exercise the Option in accordance with the provisions of the Share Option Scheme up to his or her entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine; and
- (ii) in the event that the Grantee ceases to be a Participant (as the case may be) by reason of death or incapacitation (provided that none of the events which would be a ground for termination of his or her employment arises prior to his or her death or incapacitation), the legal personal representative(s) of this Grantee shall be entitled within a period of twelve (12) months from the date of death or incapacitation (or such longer period as the Board may determine) to exercise the Option in whole or in part (to the extent which has become exercisable and not already exercised prior to such date of death or incapacitation).

m. Voluntary winding-up of our Company

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its Options (to the extent which has become exercisable and not already exercised) at any time not later than three (3) Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall

as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank pari passu with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

n. Rights on take-over

In the event of a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares (or all such holders other than the offer or and/or any person controlled by the offer or and/or any person acting in association or concert with the offeror), our Company shall use all reasonable endeavors to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by exercise in full of the Options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a Grantee shall be entitled to exercise his Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in exercise of his Option at any time before the close of such offer (or any revised offer).

o. Rights on a compromise or arrangement

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any Grantee (or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

p. Effects of alterations to capital structure

In the event of any alteration in the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganization of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a

party), such corresponding alterations (if any) shall be made in (a) the number or nominal amount of Shares subject to the Option so far as unexercised, and/or (b) the Subscription Price, and/or (c) the method of exercise of the Option, as the auditors or the financial adviser of our Company retained for such purpose shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of our Group as consideration in a transaction.

q. Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the date of the expiry of the periods for exercising the Option;
- (iii) the date on which the offer (or as the case may be, revised offer) closes;
- (iv) the date of the commencement of the winding-up of our Company;
- (v) the date when the proposed compromise or arrangement becomes effective;
- (vi) the date on which the Grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on any one or more of the grounds that he or she voluntarily resigns, or has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to our Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant

subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that employment of a Grantee has or has not been terminated shall be conclusive and binding on the Grantee;

(vii) the date on which the Grantee commits a breach or the Options are cancelled in accordance with the Share Option Scheme; or

(viii) if the Board at its absolute discretion determines that the Grantee (other than an Eligible Employee) has committed any breach of any contract entered into between the Grantee on the one part and any member of our Group on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her or its creditors generally, the Board shall determine that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse. In such event, his or her or its Options will lapse automatically and will not in any event be exercisable on or after the date on which the Board has so determined.

r. Ranking of Share allotted upon exercise of Options

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles of Association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date when the name of the Grantee is registered on the register of members of the Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date when the name of the Grantee is registered on the register of members of the Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date when the name of the Grantee is registered on the register of members of the Company.

s. Duration of the Share Option Scheme

The Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by resolution of our Shareholders.

t. Cancellation of Options granted

Subject to the consent from the relevant Grantee, our Board may at its discretion cancel Options previously granted to and yet to be exercised by a Grantee with the relevant Grantees abstaining from voting.

u. Termination of the Share Option Scheme

Our Company may terminate the operation of the Share Option Scheme at any time by resolution of the Board or resolution of our Shareholders in general meeting and in such event no further Option will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

v. Alteration of the provisions of the Share Option Scheme

Subject to the provisions of the Share Option Scheme, the Board may amend any of the provisions of the Share Option Scheme (including without limitation to amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date).

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Deed of Indemnity

Each of our Controlling Shareholders has entered into the Deed of Indemnity with our Company in favor of us to provide the indemnities in respect of taxation resulting from income, profits or gains earned, accrued or received; and any claims, penalties, fines, damages, losses, fees and expenses and liabilities relating to the non-compliance incidents of any member of our Group which may be subject and payable on or before the date when the Global Offering becomes unconditional as described in the section headed “Business — Legal Proceedings and Compliance” and in respect of property title defects as described in “Business — Properties”.

3. Litigation

So far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

4. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares of the RSU Allotment, the Shares to be issued pursuant to the Global Offering and any Shares which may be issued pursuant upon the exercise of any options which may be granted under the Share Option Scheme.

The Sole Sponsor will be paid by our Company a fee of US\$1 million to act as a sponsor to the Company in connection with the Listing.

5. Consents of experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
CMB International Capital limited	Licensed corporation under SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Tian Yuan Law Firm	Qualified PRC Lawyers
Harney Westwood & Riegels	Cayman Islands attorneys-at-law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant

As at the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

6. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

8. Preliminary expenses

The preliminary expenses incurred by us in relation to our incorporation were approximately US\$4,645 and were paid by us.

9. No material adverse change

Our Directors confirm that there has been no material adverse change in our Company's financial or trading position or prospects since June 30, 2018 (being the date to which our latest audited consolidated financial statements were made up).

10. Disclaimers

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.
- (b) Save as disclosed in this prospectus:
 - (i) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries; and
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.

- (c) Save as disclosed in the paragraph headed “— B. Further Information about our Business — 1. Summary of material contracts” in this section, none of our Directors or proposed Directors or experts (as named in this prospectus), have any interest, directly or indirectly, in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

- (d) We do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

1. 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, among others:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of material contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 5. Consents of experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Wilson Sonsini Goodrich & Rosati at Suite 1509, 15F, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountants’ Report for the three years ended December 31, 2017 and the six months ended 30 June 2018 issued by Ernst & Young, and the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the texts of which are set out in Appendices I and II to this prospectus, respectively;
- (c) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2017 and the six months ended June 30, 2018;
- (d) the legal opinions issued by Tian Yuan Law Firm, our PRC legal advisers, in respect of certain aspects of our Group and the property interests of our Group;
- (e) the letter of advice issued by Harney Westwood & Riegels, our Cayman legal advisers, in respect of certain aspects of the Cayman Companies Law referred to in Appendix III to this prospectus;
- (f) the Cayman Companies Law;
- (g) the material contracts referred to the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of material contracts” in Appendix IV to this prospectus;

- (h) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 5. Consents of experts” in Appendix IV to this prospectus;
- (i) the Share Option Scheme conditionally adopted by our Company on December 3, 2018;
- (j) the RSU scheme adopted by our Company on December 3, 2018;
- (k) service contracts and letters of appointment entered into between the Company and each of our Directors; and
- (l) the F&S Report.



China Beststudy Education Group

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