
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from to

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001-38077

Bright Scholar Education Holdings Limited

(Exact name of registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands
(Jurisdiction of incorporation)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered, pursuant to Section 12(b) of the Act

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American depositary shares, each representing one Class A ordinary share, par value US\$0.00001 per share Class A ordinary shares, par value US\$0.00001 per share* *Not for trading, but only in connection with the listing on the New York Stock Exchange of American depositary shares	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Class A ordinary shares, par value US\$0.00001 each	23,923,676
Class B ordinary shares, par value US\$0.00001 each	100,000,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer. Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13 (a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International accounting Standards Board Other

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report on Form 20-F only:

- “ADSs” refers to American depository shares, each of which represents one Class A ordinary share;
- “Advanced Placement” or “AP” refers to a program in the United States and Canada created by the U.S. College Board which offers college-level curricula and examinations to high school students;
- “A-Level” or “A Levels” refers to the General Certificate of Education (Advanced Level) Examination, a subject-based qualification conferred as part of the General Certificate of Education, as well as a school leaving qualification offered by the educational bodies in the United Kingdom and the educational authorities of British Crown dependencies to students completing secondary or pre-university education;
- “BGY Education Investment” refers to BGY Education Investment Management Co., Ltd., our affiliated entity that controls and holds our schools, through certain contractual arrangements;
- “Bright Scholar Holdings” refers to Bright Scholar Education Holdings Limited;
- “CAGR” refers to compound annual growth rate;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- “Country Garden” refers to Country Garden Holdings Company Limited, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 2007), a related party, and its subsidiaries;
- “Diploma Program” refers to the International Baccalaureate Diploma Program, a two-year educational program administered by the International Baccalaureate headquartered in Geneva, Switzerland, providing an internationally accepted qualification for entry into higher education and is generally recognized in all major English-speaking countries;
- “fiscal year” refers to the period from September 1 of the previous calendar year to August 31 of the concerned calendar year;
- “IB” or “IB Organization” refers to International Baccalaureate, an international educational foundation headquartered in Geneva, Switzerland, which offers four educational programs: the IB Diploma Program and the IB Career-related Program for students aged 16 to 19, the IB Middle Years Program for students aged 11 to 16, and the IB Primary Years Program for children aged three to 12, generally recognized in all major English-speaking countries;
- “IGCSE” refers to the International General Certificate of Secondary Education, an English language curriculum developed by the University of Cambridge International Examinations and offered to students to prepare them for the International Baccalaureate, A Level and BTEC Level 3 which is recommended for higher-tier students;
- “learning centers” refer to entities providing after-school education training services, including English proficiency training and extracurricular programs;
- “ordinary shares” or “shares” refers to our Class A and Class B ordinary shares of par value US\$0.00001 per share;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “school” refers to each of our international schools, bilingual schools and kindergartens, unless otherwise specified;
- “school year” refers to the periods from September of the previous calendar year to January of the concerned calendar year and from March to July of the concerned calendar year;
- “SEC” refers to the Securities and Exchange Commission of the United States;
- “top local high schools” refers to a group of public high schools that are designated as top local high schools during each high school application period by the local educational authorities in cities in which our bilingual schools are located. Such schools are granted early admission privilege by which they enjoy first priority to admit student applicants with excellent academic performances based on their score rankings in Zhongkao, the high school entrance examinations administered in China;
- “US\$,” “U.S. dollars,” “\$” and “dollars” refers to the legal currency of the United States of America;
- “we,” “us,” “our,” and “our company” refers to Bright Scholar Education Holdings Limited, its subsidiaries and its affiliated entities; and
- “Zhuhai Bright Scholar” refers to Zhuhai Hengqin Bright Scholar Management Consulting Co., Ltd., our wholly-owned subsidiary in China.

Names of certain companies provided in this annual report are translated or transliterated from their original Chinese legal names.

Discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report on Form 20-F includes our audited combined and consolidated financial statements for the 2016, 2017 and 2018 fiscal years.

This annual report on Form 20-F contains information from an industry report commissioned by us and prepared by Frost & Sullivan, an independent research firm, to provide information regarding our industry and our market position in China. We refer to this report as the Frost & Sullivan report.

This annual report contains translations of certain Renminbi amounts into U.S. dollars at specified rates. Unless otherwise stated, the translation of Renminbi into U.S. dollars has been made at RMB6.8300 to US\$1.00, the noon buying rate in effect on August 31, 2018 as set forth in the H.10 Statistical Release of the Federal Reserve Board. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On December 7, 2018, the noon buying rate was RMB6.8733 to US\$1.00.

We listed our ADSs on the New York Stock Exchange under the symbol “BEDU” on May 18, 2017 and completed an initial public offering of 17,250,000 ADSs on June 7, 2017. We issued an additional 10,000,000 ADSs on March 2, 2018.

MARKET AND INDUSTRY DATA

Market data and certain industry forecasts used in this annual report were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and we make no representation as to the accuracy of such information.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

We have derived our selected combined and consolidated statement of comprehensive income data for the 2016, 2017 and 2018 fiscal years, and our selected combined and consolidated balance sheet data as of August 31, 2017 and 2018, from our audited combined and consolidated financial statements included in this annual report. Our selected statement of comprehensive income data for the fiscal years of 2014 and 2015 and our selected combined and consolidated balance sheet data as of August 31, 2014, 2015 and 2016 have been derived from our audited combined and consolidated financial statements not included in this annual report. Our financial statements have been prepared in accordance with U.S. GAAP.

You should read the following information in conjunction with our audited combined and consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” in this annual report. Our historical operating results presented below are not necessarily indicative of the results to be expected for any future fiscal period.

	Year Ended August 31,					US\$
	2014	2015	2016	2017	2018	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands, except for share and per share data)					
Summary Combined and Consolidated Income (Loss) Data:						
Revenue	588,163	745,850	1,040,329	1,328,367	1,718,871	251,665
Cost of revenue	(501,881)	(655,597)	(736,205)	(860,330)	(1,090,595)	(159,677)
Gross profit	86,282	90,253	304,124	468,037	628,276	91,988
Selling, general and administrative expenses	(125,784)	(166,084)	(290,098)	(261,972)	(368,141)	(53,901)
Other operating income	3,626	5,249	4,283	8,874	12,027	1,761
Operating (loss)/income	(35,876)	(70,582)	18,309	214,939	272,162	39,848
Interest income, net	1,596	1,808	2,148	4,901	27,297	3,996

	Year Ended August 31,					
	2014	2015	2016	2017	2018	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except for share and per share data)					
Investment income	—	—	805	13,718	21,669	3,173
Other expenses	(61)	(455)	(457)	(779)	(4,803)	(703)
(Loss)/income before income taxes and share of equity in income of unconsolidated affiliates	(34,441)	(69,229)	20,805	232,779	316,325	46,314
Income tax (expense)/benefit	(3,775)	29,317	(17,889)	(40,970)	(67,382)	(9,866)
Share of equity in income of unconsolidated affiliates	—	—	—	—	(40)	(6)
Net (loss)/income	(38,116)	(39,912)	2,916	191,809	248,903	36,442
Net (loss)/ income attributable to non-controlling interests	(5,230)	166	39,290	19,759	1,934	283
Net (loss)/income attributable to ordinary shareholders	(32,886)	(40,078)	(36,374)	172,050	246,969	36,159
Net (loss)/earnings per share attributable to ordinary shareholders						
Basic	(0.36)	(0.43)	(0.38)	1.64	2.02	0.30
Diluted	(0.36)	(0.43)	(0.38)	1.64	2.02	0.30
Weighted average shares used in calculating net loss per ordinary share:						
Basic	92,590,000	92,590,000	96,983,360	104,839,041	122,088,201	122,088,201
Diluted	92,590,000	92,590,000	96,983,360	104,839,041	122,186,796	122,186,796

	As of August 31,					
	2014	2015	2016	2017	2018	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Summary Combined and Consolidated Balance Sheet Data						
Cash and cash equivalents	144,581	240,684	356,018	1,883,000	3,153,852	461,765
Restricted Cash	3,547	3,564	6,433	13,662	10,229	1,498
Total assets	913,757	1,093,196	1,239,232	2,686,632	4,666,481	683,233
Total equity	(18,422)	(38,955)	161,561	1,419,458	3,011,599	440,937
Current liabilities	876,834	1,074,601	1,011,849	1,202,074	1,625,344	237,971
Total liabilities	932,179	1,132,151	1,077,671	1,267,174	1,654,882	242,296

Exchange Rate Information

Our business is conducted in China and substantially all of our revenues and expenses are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the readers. The exchange rates of Renminbi into U.S. dollars are based on the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. As of December 7, 2018, the noon buying rate was RMB6.8733 to US\$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you.

Period	Exchange Rate			
	Period end	Average ⁽¹⁾ (RMB per US\$1.00)	Low	High
Fiscal 2014	6.1430	6.1506	6.2591	6.0402
Fiscal 2015	6.3760	6.2085	6.4122	6.1107
Fiscal 2016	6.6776	6.5108	6.7013	6.3180
Fiscal 2017	6.5888	6.8073	6.9580	6.5888
Fiscal 2018	6.8300	6.5233	6.9330	6.2649

Period	Exchange Rate			
	Period end	Average ⁽¹⁾ (RMB per US\$1.00)	Low	High
June	6.6171	6.4651	6.6235	6.3850
July	6.8038	6.7164	6.8102	6.6123
August	6.8300	6.8453	6.9330	6.8018
Fiscal 2019 (through December 7, 2018)				
September	6.8680	6.8551	6.8880	6.8270
October	6.9737	6.9195	6.9737	6.8680
November	6.9558	6.9367	6.8894	6.9558
December (through December 7, 2018)	6.8733	6.8673	6.8816	6.8343

Source: Federal Reserve Statistical Release

(1) Annual averages were calculated by using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages are calculated by using the average of the daily rates during the relevant month.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our ADSs involves risks. You should carefully consider the risks described below, as well as the other information included or incorporated by reference in this annual report, before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The market or trading price of our ADSs could decline due to any of these risks, and you may lose all or part of your investment. In addition, the risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. You should also review the section of this annual report captioned "Item 5. Operating and Financial Review and Prospects—G. Safe Harbor on Forward-Looking Statements." Please note that additional risks not presently known to us, that we currently deem immaterial or that we have not anticipated may also impair our business and operations.

Risks Related to Our Business

We may not be able to execute our growth strategies or continue to grow as rapidly as we have in the past several years.

We have grown rapidly in the past few years, expanding our school network from 29 schools as of September 1, 2013 to 66 schools as of the date of this annual report. We intend to enroll students, recruit teachers and educational staff, increase the utilization rates of our existing and new schools and invest in complementary businesses. However, we may not be able to continue to grow as rapidly as we did in the past due to uncertainties involved in the process, for example:

- we may not be able to attract and retain a sufficient number of students for our existing and new schools;
- we may not be able to hire and retain principals, teachers, educational staff and other employees for our existing and new schools;
- we may require more time than expected to obtain the accreditation for the education programs, particularly the international education programs, at our schools;
- we may be unable to continue to refine our curricula and optimize our students' academic performance;
- our business partner, Country Garden, a related party, may be unable to develop new residential communities at locations with a robust demand for private education or sell residential units to a sufficient number of buyers seeking convenient access to private education;

- the development of new schools may be delayed or affected as a result of many factors, such as delays in obtaining government approvals or licenses, shortages of key construction supplies and skilled labor, construction accidents, or natural catastrophes, some of which are beyond our control;
- we may be unable to successfully build our brand name and launch schools independent of Country Garden;
- we may be unable to successfully execute new growth strategies; and
- we may be unable to successfully integrate complementary or acquired businesses with our current service offerings and achieve anticipated synergies.

These risks may increase significantly when we expand into new cities or countries. Managing the growth of a geographically diverse business also involves significant risks and challenges. We may find it difficult to manage financial resources, implement uniform education standard and operational policies and maintain our operational, management and technology systems across our network. If we are unable to manage our expanding operations or successfully achieve future growth, our business, prospects, results of operations and financial condition may be materially and adversely affected.

We may not remain profitable or increase profitability in the future.

We may not be successful in maintaining or increasing overall profitability. In particular, certain of our schools, especially those at the ramp-up stage and with comparatively low utilization rates, are currently operating at a loss and we may not be able to improve the profitability of these schools. As we plan to expand our school network, new schools we launch may negatively impact our profitability.

Our ability to maintain profitability and positive cash flow will depend in large part on our ability to control our costs and expenses which we expect to increase as we further develop and expand our school network, as well as our ability to attract and retain educational talents to promote our business success. We may incur significant losses in the future for a number of reasons, including the other risks described in this annual report. We may also further encounter unforeseen expenses, difficulties, complications, delays and other unknown events. If we fail to increase revenue at the rate we anticipate or if our expenses increase at a faster rate than the increase in our revenue, we may not be able to remain profitable or increase profitability.

We may be subject to significant limitations on our ability to engage in the private education business or make payments to our subsidiaries and may otherwise be materially and adversely affected by changes in PRC laws and regulations.

The Standing Committee of the National People’s Congress amended the Law on the Promotion of Private Education on November 7, 2016, which became effective on September 1, 2017. Pursuant to this amendment, sponsors of private schools are required to choose to establish schools as either non-profit or for-profit schools. Sponsors are not permitted to establish for-profit schools that provide compulsory education services, which cover grades one to nine and accounted for a significant portion of our students as well as revenue during the reporting period. Sponsors of for-profit private schools are entitled to retain the profits from their schools and the operating surplus may be allocated to the sponsors pursuant to the PRC company law and other relevant laws and regulations. Sponsors of non-profit private schools are not entitled to any distribution of profits from their schools and all revenue must be used for the operation of the schools. For further details, see “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Private Education in the PRC—The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education.”

As of the date of this annual report, the implementation rules for the amended Law on the Promotion of Private Education (the “amended law”) have not been published. It remains uncertain how the amended law will be interpreted and implemented and will impact our business operations. For example, under the amended law, schools that offer compulsory education services must register as non-profit schools while high schools can elect to register as either for-profit or non-profit schools. However, it is unclear what options are available for schools that offer both compulsory and high school education in some provinces where our schools operate. In addition, the local government authorities may impose additional limits on tuitions and fees our schools charge when implementing the amended law. Furthermore, as a holding company, our ability to generate profit, pay dividends and other cash distributions to our shareholders under the existing and amended law are affected by many factors. These factors include the characterizations as for-profit or non-profit schools, the profitability of our schools and other affiliated entities, and our ability to receive dividends and other distributions from our PRC subsidiary, Zhuhai Bright Scholar, which in turn depends on the service fees paid to Zhuhai Bright Scholar from our schools and other affiliated entities. If our schools elect to be non-profit private education entities, our contractual arrangements with such schools may be subject to more stringent scrutiny.

As of the date of this annual report, we had 66 schools, among which three are for-profit schools and the remaining ones have not elected to register as for-profit or non-profit schools. The election to register as for-profit or non-profit schools depends on the legislative status of the implementing regulations by competent government authorities in the various provinces where we operate. In the provinces where the implementation regulations have specified deadlines and provided grace periods for sponsors to elect to register private schools as for-profit or non-profit schools, we are still within such grace periods and do not have to make such elections until a couple of years later from the date of this annual report. For provinces that have not promulgated implementing regulations that include deadlines or procedures for making the election, it is unclear when or how we must make the election.

Zhuhai Bright Scholar has entered into an exclusive management services and business cooperation agreement with each of our affiliated entities, including our schools controlled and held by BGY Education Investment, pursuant to which we provide service to our schools in exchange for the payment of service fees. As advised by JunHe LLP, our PRC legal counsel, our right to receive the service fees from our schools and other affiliated entities does not contravene any PRC laws and regulations and that payment of service fees under our contractual arrangements should not be regarded as the distribution of returns, dividends or profits to the sponsors of our schools under the PRC laws and regulations. However, if the relevant PRC government authorities take a different view, or if the amended law were to be implemented and interpreted in a manner that deems our current business practices to be in violation, our business, financial condition and results of operations may be materially and adversely affected. For example, the relevant PRC government authorities may seek to confiscate any or all of the service fees that have been paid by our schools to Zhuhai Bright Scholar, including retrospectively, to the extent that such service fees are tantamount to returns, dividends or profits taken by the sponsors of these schools. The relevant PRC government authorities may also seek to prevent students from attending our schools or, in a more extreme situation, revoke the operating permits of these schools. We may also have to reorganize our operations to meet the requirements regarding the compulsory education services and comply with the amended law. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

On August 10, 2018, the Ministry of Justice of China published a draft amendment to the Implementation Rules of the Law on the Promotion of Private Education (the “Draft Amendment”). The Draft Amendment made certain significant changes to some provisions of the Implementation Rules of the Law on the Promotion of Private Education. For example, the Draft Amendment proposes to restrict foreign-invested enterprises and social organizations controlled by foreign entities in China from sponsoring, participating in the establishment of, or controlling private schools that provide compulsory education. The Draft Amendment also proposes to prevent group-based education organizations from controlling non-profit private schools by way of mergers and acquisition, franchising, or controlling via contractual arrangements or any other similar means. Considering that the Draft Amendment is still subject to further legislative procedures and is not officially promulgated as of the date of this annual report, its scope and provisions may be subject to further revisions. As of the date of this annual report, we have not been notified of or been subject to any material fines or other penalties under any PRC laws or regulations with respect of our existing structure or our contractual arrangements. We cannot assure you that, if the Draft Amendment is enacted in its proposed form, our corporate structure will not violate its provisions. We may also be restricted from further expanding our schools or school network after the official promulgation of the Draft Amendment. If any of the foregoing events occurs, our business, financial condition and prospects would be materially and adversely affected.

On November 7, 2018, the Central Committee of the Communist Party of China and the State Council promulgated the Opinions on Regulating the Development and Deepening of the Reform of the Pre-School Education (the “Opinions”), which limits the ability by kindergartens to obtain financing through equity financing. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Private Education in the PRC—Opinions on Regulating the Development and Deepening of the Reform of Pre-school Education.” It is unclear whether the Opinions will be applied retrospectively. As of the date of this annual report, all of our kindergartens had begun operation under our management prior to the date of the Opinions, and are subject to contractual arrangements that had become effective prior to the date of the Opinions. In addition, we have not been notified of or been subject to any material fines or other penalties under any PRC laws or regulations due to any alleged violation of the Opinions. However, we cannot assure you that the Opinions will not be applied retrospectively, and that we will not be subject to adverse impact under the Opinions or any laws or regulations promulgated pursuant to the Opinions in the future. Moreover, the Opinions restrict public companies from acquiring for-profit kindergartens with funds raised in the capital markets. Even though the Opinions do not clearly provide whether companies listed in capital markets outside the PRC fall under such restriction, we may be subject to this restriction, which would limit our ability to carry out further expansion plans with regards to our kindergarten business.

A number of our learning centers do not possess the required educational permits and business licenses and are currently unable to obtain them, which may subject us to fines and other penalties, including the suspension of operations in noncompliant learning centers and confiscation of profits derived from noncompliant operations.

According to the amended Law on the Promotion of Private Education, which became effective on September 1, 2017, private schools for after-school tutoring can be established as for-profit private schools at the election of the school sponsors. The amended law also deleted the provision which stipulates that measures for administration of profit-making privately-run training institutions registered with the administrative department for industry and commerce shall be separately formulated by the State Council. According to The Rules for the Implementation of Supervision and Management of For-profit Private Schools, jointly issued by the Ministry of Education, the Ministry of Human Resources and Social Security and the State Administration for Industry and Commerce, which came into force on December 30, 2016, for-profit private tutoring institutions shall be in compliance with the regulations applicable to private schools. On February 13, 2018, the General Offices of the Ministry of Education and three other ministries in China jointly issued the Notice to Launch Special Campaign towards After-school Tutoring Institutions on Practically Reducing Burdens for Primary and Middle School Students, which requires after-school tutoring institutions with satisfactory conditions to obtain school operation licenses and other permits. Further, on August 22, 2018, the State Council issued the Opinion on Supervising After-School Tutoring Institutions, which provides detailed guidance for these after-school tutoring institutions. Therefore, we expect that the amended Law on the Promotion of Private Education, accompanied with its relevant implementation rules and regulations as well as other administrative actions will bring significant changes to our compliance environment and a certain number of our entities, through which we operate our existing learning centers, may be required to obtain new licenses and permits or update their existing ones.

As of the date of this annual report, eight out of 17 of our learning centers do not possess the operating permits or business licenses required by the regulatory changes discussed above. Although the implementation rules for the amended Law on the Promotion of Private Education or the relevant local regulations have not been published to the public, and the local authorities in most of the cities where the majority of our learning centers are located have not begun to accept applications or issue permits, we have been making efforts to obtain necessary licenses and permits on a timely basis in accordance with applicable rules and regulations. If we fail to obtain such required permits and licenses, we may be subject to fines or confiscation of profits derived from noncompliant operations and we may be unable to continue the operations at our noncompliant learning centers, which could materially and adversely affect our business and results of operations.

A majority of our schools are located in Guangdong province, China, and any significant downturn of the regional economy or adverse changes in the local regulatory regime may materially and adversely affect our business, financial condition and results of operations.

As of the date of this annual report, 42 of our 66 schools are located in Guangdong province, China. Our schools in Guangdong province in aggregate generated 76.0% and 67.6% of our revenues in the 2017 and 2018 fiscal years, respectively. Our flagship school, Guangdong Country Garden School, alone generated approximately 26.2% and 20.8% of our revenues in the 2017 and 2018 fiscal years, respectively. We have historically benefited from the rapid economic development of this region. The concentration of our business in Guangdong province, however, exposes us to geographical concentration risks related to this region or the schools located in this region. Any material adverse social, economic or political development or any natural disaster or epidemic affecting this region could negatively affect the disposable income of the families of our current and prospective students and their demand for private education. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

If we fail to enroll and retain a sufficient number of students, our business could be materially and adversely affected.

Our ability to continue to enroll and retain students for our schools is critical to the continued success and growth of our business. The success of our efforts to enroll and retain students will depend on several factors, including our ability to:

- enhance existing education programs and services to respond to market changes and student demands;
- develop new programs and services that appeal to our students and their parents;
- maintain and enhance our reputation as a leading school operator offering quality education;
- expand our school network and geographic reach;
- effectively market our schools and programs to a broader base of prospective students;
- manage our growth while maintaining the consistency of our teaching quality;
- develop and license additional high quality education content; and
- respond to increasing competition in the market.

In addition, local and provincial government authorities may impose restrictions on the number of students we can enroll. Our business, financial condition and results of operation could be materially and adversely affected if we cannot maintain or increase our student base as we expand our school network.

Accidents, injuries or other harm may occur at our schools, learning centers or the events we organize, which could affect our reputation and our ability to attract and retain students.

There are inherent risks of accidents or injuries in our business. We could be held liable if any student, employee or other person is injured in any accident at any of our schools, learning centers or the events we organize. Though we believe we take appropriate measures to limit these risks, in the event of personal injuries, food poisoning, fires or other accidents suffered by students or other people, we could nonetheless face claims alleging that we were negligent, that we provided inadequate supervision or that we were otherwise liable for the injuries. In addition, if any of our students commit acts of violence, we could face claims alleging our failure to provide adequate security measures or precautions to prevent such actions. Similar events and allegations may also arise with respect to events we organize, including off-campus gatherings and overseas camp programs. Parents may perceive our facilities or programs to be unsafe, which may discourage them from sending their children to our schools, learning centers or programs. We have historically encountered isolated student-related accidents on our school premises and compensated the injured students. Although we maintain liability insurance, the insurance coverage may not be adequate to fully protect us from claims of all kinds and we cannot guarantee that we will be able to obtain sufficient liability insurance in the future on commercially reasonable terms or at all. A liability claim against us or any of our employees could adversely affect our reputation and ability to attract and retain students. 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.

We may be unable to charge tuition at sufficient levels to be profitable or raise tuition as planned.

Our results of operations are affected in large part by the pricing of our education services. We charge tuition based on each student's grade level and the programs that the student is enrolled in. Subject to the applicable regulatory requirements, we generally determine tuition based on the demand for our education services, the cost of our services, and the tuition and the fees charged by our competitors. 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.

The tuition we charge for some of our education programs is subject to regulatory restrictions. The regulatory authorities in China, at both the provincial and local levels, have broad powers to regulate the private education industry in China, including the tuition, room and board fees and other fees charged by schools. We have occasionally encountered difficulty in persuading the local regulatory authorities to approve our tuition increase proposals in the past. In light of the significant increase in tuition and other education related fees in China in recent years, regulatory authorities may impose stricter price control on education charges generally in the future. For example, in accordance with the relevant local regulations, if we increase the tuition at our schools in Guangdong province in a certain school year, such increase will generally not affect the existing students until they complete their current section of education at the same schools. If the tuition we charge were required to be reduced or were not allowed to increase in line with increases in our costs, or if there are any changes in the regulations which may otherwise negatively affect or restrict our ability to adjust our tuition, our business, financial condition and results of operations may be materially and adversely affected. For example, the local government authorities in implementing the amended Law for the Promotion of Private Education may impose additional limits on the tuition and fees our schools charge or prevent us from raising the tuition and fees to our desired levels or at all. For our complementary education services, we have more discretion in determining the tuition, but we cannot guarantee that the current regulatory regime will not change in a manner that may restrict our ability to increase tuition for our complementary education services.

Furthermore, the tuition we are able to charge is subject to a number of other factors, such as the perception of our brand, the academic results achieved by our students, our ability to hire qualified teachers, and general local economic conditions. Any significant deterioration in these factors could have a material adverse effect on our ability to charge tuition at levels sufficient for us to remain profitable.

If we fail to ramp up our existing schools or successfully launch new schools, our business growth and prospects could be materially and adversely affected.

As of the date of this annual report, we have a network of 66 schools in China, approximately 31 of which, including four international schools, seven bilingual schools and 20 kindergartens, are in the ramp-up period which typically follows within the first five fiscal years upon the launch of a new school. Certain of our schools currently in the ramp-up period are operating at a loss. We plan to dedicate significant resources to expanding our international school business, within which we have two schools that have been in operation for more than five years as of the date of this annual report, three that were profitable for the 2016 fiscal year, four that were profitable for the 2017 fiscal year and five that were profitable for the 2018 fiscal year. We cannot assure you that we will be able to continue to attract a sufficient number of students to enroll in these schools, recruit additional qualified teachers and educational staff to meet the demands of the increased student enrollment or otherwise expand our operations at schools in a manner that ensures a consistently high quality of education service. For example, our ten newly launched schools and five newly acquired kindergartens in the 2018 fiscal year contributed an increase of 2,552 out of a total increase of 6,932 in student enrollment in the 2018 fiscal year.

As a growth strategy, we seek to continue to expand our school network, particularly international schools, in the future. We plan to launch schools in collaboration with school development partners, including Country Garden, and on our own. We or our partners may encounter difficulty in procuring the land and obtaining the permits for construction. As the offering of international education programs requires us to meet the relevant accreditation standards and attract and retain teachers qualified to deliver internationally-accredited courses, we cannot assure you that we will be able to apply our experience from the operation of our existing international schools to new schools or that we will be able to obtain the requisite accreditations or recruit a sufficient number of qualified teachers. If we fail to attract students to our existing schools or build new schools with the requisite accreditations and teachers, our business growth and prospects could be materially and adversely affected.

We may not be able to renew school operation agreements or maintain favorable fee rates at our existing schools or enter into school operation agreements for new schools on reasonable terms.

Since our inception, we have launched substantially all of our schools by collaborating with Country Garden. Our schools have enabled Country Garden to meet the local zoning requirements of associated residential properties and have helped market its residential units to prospective home buyers seeking convenient access to private education.

As of August 31, 2018, substantially all of our schools, other than those that do not operate on Country Garden properties, had entered into a three-year school operation agreement with Country Garden. We are in the process of arranging the execution of such school operation agreement with Country Garden for our schools established after August 31, 2018. Under these agreements, Country Garden provides the premises and facilities for our schools, while we are responsible for school operation and management. We may also offer preferential placement and favorable tuition rates to Country Garden homeowners. In the 2018 fiscal year, the aggregate amount of tuition discounts was equal to 4.7% of our total revenue. If a higher proportion of our students are from families of Country Garden homeowners in the future, the aggregate amount of tuition discounts may increase as a percentage of our revenue. We only recognize the tuition we receive as revenue. However, we cannot assure you that we will be able to renegotiate the contract terms that are acceptable to us with Country Garden when the existing agreements expire. As a result, we may be required by Country Garden to pay fees such as rent to use Country Garden's school premises and facilities or relocate the affected operations to new locations outside of Country Garden's school premises and facilities or residential communities, which would require us to pay higher fees for or even purchase the school facilities, and may significantly increase our marketing expenses to attract students from families residing outside Country Garden's residential communities. Our profitability may decrease if we are unable to pass on the increased costs and expenses to our students by raising tuition without compromising our ability to retain students. Any protraction for the relocation may also materially interrupt our business operations and result in a loss of student enrollment.

As Country Garden is responsible for ensuring the proper land use type, obtaining the requisite government certifications on construction, environmental assessment, fire control and title certificates and providing utilities including water, heating and power, if Country Garden fails to procure the land use type designated for education-related purposes, obtain such certifications or maintain uninterrupted utilities supplies, our operations could be disrupted. If our use of any such properties is challenged by third parties or government authorities, we may be forced to relocate the affected operations and incur significant expenses. We cannot assure you that we will be able to find suitable replacement sites in a timely manner, on terms acceptable to us, or at all.

We plan to launch new schools in collaboration with school development partners, including Country Garden, and on our own. We cannot assure you that we may obtain leases for school premises or enter into school operation agreements on commercially reasonable terms, or at all. Country Garden has an internal policy that designates us as a preferred school operator partner, under which we are entitled to the right of first refusal on school development projects in connection with its new residential properties. We cannot assure you that Country Garden will faithfully implement this policy or will not amend it, and we do not have the standing to request Country Garden to do otherwise. For new schools we launch in the future, we may not offer tuition discounts to Country Garden homeowners but may be required to pay fees, such as rent, for Country Garden's school premises and facilities. This may increase our revenues but also cost of revenue at the same time, which may affect our profit margins.

We have certain property defects relating to our lease of the land occupied by Guangdong Country Garden School, which may adversely affect our operations.

Guangdong Country Garden School is located on a parcel of land of approximately 172,240 square meters, leased pursuant to a 70-year lease agreement, effective in 1994, signed between Guangdong Country Garden School and the local village cooperative. This long-term lease agreement has been registered on the rural collective asset management platform in accordance with the local administrative rules. However, PRC law requires that land parcels be classified according to their specific use type. Although the parcel on which Guangdong Country Garden School is located and which was classified for agricultural use has been converted by the relevant government authorities into a piece of land for construction purpose, we are still unable to obtain the relevant land planning approval, construction planning approval, construction approval, inspection for completion of construction, fire control assessment and title certificates because such formalities cannot be rectified retrospectively. As a result, we may be subject to fines and may be required to vacate if the facilities are found to fall below the statutory standard for construction. Further, the relevant local authorities could prevent us from continuing to use the land for failing to fulfill the aforesaid formalities and we could be required to give up our school facilities. As of the date of this annual report, we are not aware of any government investigations related to our school facilities. However, if our school facilities are found to fall below the relevant statutory standards, we could be required to relocate Guangdong Country Garden School. Guangdong Country Garden School is our flagship school and alone generated 26.2% and 20.8% of our revenues in the 2017 and 2018 fiscal years, respectively. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms or at all, and if we are unable to relocate our operations in a timely manner, our operations will be severely interrupted, which may materially and adversely affect our business, result of operations and financial condition.

If regulatory authorities challenge our curriculum or textbook practices, our business, results of operations and financial condition may be materially and adversely affected.

Under current PRC laws, all schools are required to offer sufficient government-mandated coursework to students eligible for compulsory education and may supplement their compulsory education with elective coursework. Private schools may offer education programs outside government-mandated curriculum so long as the local education authorities have approved such programs. We offer internationally-accredited courses to our students, primarily in our international schools. We may be deemed to offer insufficient government-mandated coursework to students enrolled in our international programs from grades one through nine. Additionally, we did not obtain the required government approval for providing non-government-mandated coursework in certain schools. Current PRC laws are not clear as to which government examination and approval process is required for such education programs. We make annual filings for our schools to the local education authorities when required, but it is uncertain whether we have satisfied the relevant government approval requirement in relation to government-mandated coursework and non-government mandated programs.

In addition, under current PRC laws, textbooks, including those for non-government-mandated coursework, must be examined and approved by the local education authorities. Ten of our schools, including our flagship school, use foreign textbooks without obtaining the required government approval. There is no clear guideline under the current PRC laws for obtaining such government approval.

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, or the State Council Opinions. The State Council Opinions emphasize enhancing the leadership of the Chinese Communist Party, or the CCP, over private schools and, in particular, furthering the theoretical system of Socialism with Chinese Characteristics by introducing such system into textbooks and teaching programs.

It is not entirely clear under current PRC laws what penalties we may be subject to for non-compliant curriculum and textbook practice. The local education authorities have the right to prevent us from offering the non-government-mandated coursework or using the textbooks that have not been approved. As of the date of this annual report, we are not aware of any government investigation of our curriculum or textbook practices. We cannot guarantee, however, that more stringent rules regulating curriculum and textbook will not be promulgated following the effectiveness of the amended Law for Promoting Private Education on September 1, 2017. Neither can we assure you that enhancing the leadership of the CCP over private schools according to the State Council Opinions will not lead to more stringent administrative orders on or any penalty against our current practice. We may be ordered by the government to rectify our current practices, which may include ceasing to provide courses that are not government-mandated, if a subsequent government investigation concludes that our practices are not fully compliant with the laws. If we are required by the rectification measures to offer our education programs in a manner that adversely affects our students' academic performance and university admission results, we may be unable to attract and retain our students, which may materially and adversely affect our business, results of operations and financial condition.

Our business and future growth are affected by the residential communities developed by Country Garden.

We have launched, and expect to continue to launch, schools in collaboration with many of the residential properties developed and to be developed by Country Garden, and our business and future growth are, to a considerable extent, affected by Country Garden's ability to successfully develop and sell residential units in its existing and new property projects. We have experienced slow ramp-up in certain of our schools launched in collaboration with Country Garden. If any of the residential properties developed by Country Garden on which we operate or plan to operate our schools are underpopulated or otherwise unable to develop into substantial communities, the demand for private education in such areas may be lower than anticipated and we may be unable to enroll a sufficient number of students for our schools, which may adversely affect our business and results of operations. We cannot guarantee that we will be able to develop our schools independent of Country Garden's residential property projects. Seeking partnership with other property developers or procuring properties for construction of school facilities may be time-consuming and capital-intensive and may in turn affect our business growth. In addition, we cannot guarantee that we will be able to cost-effectively attract prospective students to our schools launched in cooperation with other property developers or on our own.

The real estate market in China is sensitive to changes in government policies affecting the real estate and financial markets and related sectors. In recent years, the PRC government has implemented various administrative measures to curb what it has perceived as unsustainable growth in the real estate market, particularly when the real estate market in China experienced rapid and significant increases in home sales as well as prices. As Country Garden develops residential communities in prime areas in second- or third-tier cities or suburban areas in first-tier cities, any local economic downturn or changes in the real estate market policies may adversely affect Country Garden's business development or alter its business strategies, which may in turn adversely affect our business relationship with Country Garden and our business and future growth.

If we fail to help our students achieve their academic goals, student and parent satisfaction with our education services may decline.

The success of our business depends on our ability to deliver quality school experiences and help our students achieve their academic goals. Our schools may not be able to meet the expectations of our students and their parents in terms of students' academic performance. A student may not be able to attain the level of academic improvement that he or she seeks and his or her performance may otherwise not progress or decline due to reasons beyond our control. We may not be able to provide education that is satisfactory to all of our students and their parents, and student and parent satisfaction with our services may decline. In addition, we cannot guarantee that our students will be admitted to higher levels of education institutions of their choice. Any of the foregoing could result in a student's withdrawal from our schools, and dissatisfied students or their parents may attempt to persuade other students or prospective students not to attend our schools. If our ability to retain students decreases significantly or if we otherwise fail to continue to enroll and retain new students, our business, financial condition and results of operations may be materially and adversely affected.

If fewer Chinese students aspire to study abroad, especially in the United States, Australia and the United Kingdom, demand for our international schools may decline.

One of the principal drivers of the growth of our international schools has been the increasing number of Chinese students who aspire to study abroad, especially in the United States, Australia and the United Kingdom. As such, any adverse changes in immigration policy or political sentiments toward foreigners and immigrants, terrorist attacks, geopolitical uncertainties such as the United Kingdom exiting the European Union and the associated effects, and any international conflicts involving these countries, in particular, the economic, political or military tension between China and the United States, could increase the difficulty for Chinese students to study overseas, or decrease the appeal of studying in such countries to Chinese students. Any significant change in admission standards adopted by overseas education institutions could also affect the demand for overseas education by Chinese students.

In addition, any fluctuation in the currency exchange rate could have a negative impact on the translation of Renminbi into other currencies, including the U.S. dollars, Australian dollars and British pounds, which may increase the costs of living and tuitions for Chinese students studying abroad. The attractiveness of pursuing an education at international schools in China may decrease accordingly, which could adversely affect our business and profitability.

Furthermore, Chinese students may also become less likely to study abroad due to other reasons, such as improving domestic education or employment opportunities associated with continued economic development in China or a changing attitude to the merits of education abroad. These factors could cause declines in the demand for our international schools, which may adversely affect our business and profitability.

We may be unable to recruit, train and retain a sufficient number of qualified and experienced teachers and principals.

Our teachers are critical to maintaining the quality of our education and services and our brand and reputation. Our principals are also instrumental to the successful operation of our schools. Our ability to continue to attract teachers and principals with the necessary experience and qualifications is therefore a critical contributing factor to the success of our operations. There are a limited number of teachers and principals in China with the necessary experience, expertise and qualifications that meet our requirements. Further, the Measures for Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers, promulgated by the PRC Ministry of Education, or MOE, on January 11, 2014, prohibits teachers of primary and secondary schools from providing paid tutoring in schools or in out-of-school learning centers. Some provinces and cities where our schools are located have adopted more stringent stipulations which prohibit public school teachers from teaching on a part-time basis at private schools or learning centers. Public school teachers may join private schools only after ending their employment with public schools. Therefore, to recruit qualified and experienced teachers and principals, including those with public school experience, we must provide candidates with competitive compensation packages and offer attractive career development opportunities, especially when former public school teachers and principals may have to undergo major career changes. In addition, we strive to provide an immersive bilingual learning environment, particularly at our international schools, which requires a sizable pool of foreign teachers. As the market for qualified foreign teachers is extremely competitive and the attrition rate for foreign teacher is generally higher than that for Chinese teachers, we cannot guarantee that we can increase the number of our foreign teachers to meet the growing demand as our student enrollment increases. In addition, as government process for obtaining the work and residence permits for foreign teachers may be time-consuming, we may fail to apply for such permits for our foreign teachers before they join us. If we are unable to attract and retain qualified teachers and principals, we may experience a decrease in the quality of our education programs and services in one or more of our schools or incur an increase in hiring and labor costs, which may materially and adversely affect our business and results of our operations.

If we lose the accreditations, permits or licenses required to provide our education or complementary education services or operate our schools or if we fail to obtain the accreditations, permits or licenses for our new schools or complementary education services, our business could be materially and adversely affected.

In order to provide our education programs or operate our schools, we apply for and maintain various accreditations from curriculum providers and permits from examination boards, such as the IB Organization. To obtain or maintain our accreditations and permits, we must meet standards related to, among other things, performance, governance, institutional integrity, education quality, staff, administrative capability, resources and financial stability, on an ongoing basis. If any of our schools fail to meet these standards, it could fail to obtain or lose its existing accreditations or permits, or be unable to expand its offerings of internationally-accredited curricula that are popular among students and their parents, which could materially and adversely affect our business, results of operations and financial condition.

In addition, we must apply periodically to the local education bureaus and civil affairs bureaus to obtain or renew the permits or licenses to operate our schools and ancillary services, including room and board services and school bus services. While we believe that we will be able to obtain or renew such permits or licenses, we cannot assure you that such permits and licenses will be obtained or renewed in a timely manner, or at all and that new conditions will not be imposed. For example, we are in the process of obtaining and have not yet obtained certain licenses or permits for two newly-established schools as of the date of this annual report. Any failure to obtain or renew the required permits or licenses to operate our schools could give rise to administrative penalties including rectification or suspension of operations in noncompliant schools or confiscation of profits derived from noncompliant operations, which could materially and adversely affect our business, results of operations and financial condition.

Competition in the private education market could reduce enrollment at our schools, increase our cost of recruiting and retaining students and teachers and put downward pressure on our tuition and profitability.

We may face competition from other existing or new schools that target the children of affluent local families in the locations in which we operate. Some of our existing and potential competitors may be able to devote greater resources than we can to the development and construction of private schools and respond more quickly to changes in demands of students and their parents, admissions standards, market needs or new technologies. Moreover, our competitors may increase capacity in any of the local markets to an extent that leads to an over-supply of placement positions at private schools and downward pressure on tuition. Our existing or potential competitors may also strategically price their tuition lower than ours to attract students and parents. The amended Law on Promotion of Private Education, which became effective on September 1, 2017, may attract more private school operators to offer non-compulsory education and further increase competition in this segment.

Our complementary businesses, including English proficiency training and extracurricular programs, may also face competition from other providers of comparable services that may have stronger financial resources, technology, service performance or brand recognition.

If we are unable to differentiate our services from those of our competitors and successfully market our services to students and their parents, we could face competitive pressures that reduce our student enrollment. If our student enrollment falls, we may be required to reduce our tuition or increase spending in order to attract and retain students, which could materially and adversely affect our business, prospects, results of operations and financial condition.

Our business and financial performance may suffer if we fail to successfully develop and launch new education services.

The future success of our business depends partly on our ability to develop new education services. The planned timing or launch of new education services is subject to risks and uncertainties. Actual timing may differ materially from any originally proposed timeframes. Unexpected operational, technical or other issues could delay or prevent the launch of one or more of our new education services or programs. In addition, significant investment of human capital, financial resources and management time and attention may be required to successfully launch features of our new education programs. For example, in January 2016, we acquired élan, an English proficiency training business. In December 2017, we acquired five kindergartens with a total capacity of 1,800 students in Hubei province. In May 2018, we acquired an additional 49% equity interests in Can-achieve to supplement our test preparation and college counseling business and improve our students' university admission results and as of the date of this annual report, we hold a total of 70% equity interests in Can-achieve. In June 2018, we acquired a 75% interest in FGE Holdings Limited and its subsidiaries ("FGE"), which is primarily engaged in providing study-abroad consulting services, and a 51.7% interest in Zangxing Network Technology Co., Ltd. ("Zangxing"), which is primarily engaged in the operation of an online platform to provide education promotion services to schools and training institutions. In July 2018, we entered into a share purchase agreement to purchase a 70% equity interest in a Zhejiang-based training art institute. In September 2018, we acquired a 75% equity interests in Chengdu Yinzhe Education and Technology Co., Ltd. ("Yinzhe"), which is primarily engaged in offering online career and education mentoring services to overseas Chinese students. In October 2018, we acquired Bournemouth Collegiate School ("BCS") in the United Kingdom, which offers day and boarding education from age two to 18 on two campuses. In October 2018, we entered into an agreement to acquire an 85% equity interest in a company managing a chain of eight kindergartens in Shandong province with a total capacity of 2,310 students. We plan to launch domestic camp programs in Guangdong province in January 2019 in addition to overseas camp programs. However, we cannot assure that our students will choose us over third-party service providers or that we will be able to successfully integrate such services with our schools and other complementary businesses without expending significant financial resources on marketing and operational optimization. If we fail to manage the expansion of our portfolio of education services cost-effectively, our business could be negatively affected.

We cannot assure you that any of our new services will achieve market acceptance or generate incremental revenue or that our operation of such new services or programs will comply with our business scope or applicable licensing requirements. If our efforts to develop, market and sell our new education services and programs to the market are not successful, our business, financial position and results of operations could be materially and adversely affected.

We may not be able to integrate businesses we acquired or plan to acquire in the future, which may adversely affect our business growth.

In January 2016, we acquired élan, an English proficiency training business. In December 2017, we acquired five kindergartens with a total capacity of 1,800 students in Hubei province. In May 2018, we acquired an additional 49% equity interests in Can-achieve to supplement our test preparation and college counseling business and improve our students' university admission results and as of the date of this annual report, we hold a total of 70% equity interests in Can-achieve. In June 2018, we acquired a 75% interest in FGE, which is primarily engaged in providing study-abroad consulting services, and a 51.7% interest in Zangxing, which is primarily engaged in the operation of an online platform to provide education promotion services to schools and training institutions. In July 2018, we entered into a share purchase agreement to purchase a 70% equity interest in a Zhejiang-based training art institute. In September 2018, we acquired a 75% equity interests in Yinzhe, which is primarily engaged in offering online career and education mentoring services to overseas Chinese students. In October 2018, we acquired BCS in the United Kingdom, which offers day and boarding education from age two to 18 on two campuses. In October 2018, we entered into an agreement to acquire an 85% equity interest in a company managing a chain of eight kindergartens in Shandong province with a total capacity of 2,310 students. We plan to launch domestic camp programs in Guangdong province in January 2019 in addition to overseas camp programs.

We plan to selectively acquire schools to expand our network coverage and/or businesses that are complementary to our core expertise in K-12 education. We cannot assure you that we will be able to integrate the acquired businesses with our existing operations, and we may incur significant financial resources to streamline the operation of the acquired businesses under our internal control requirements and divert substantial management attention to the transition of the acquired businesses before achieving full integration. In addition, the businesses and schools we acquire may be loss making or have existing liabilities or other risks that we may not be able to effectively manage or may not be aware of at the time we acquire them, which may impact our ability to realize the expected benefits from the acquisition or our financial performance. If we fail to integrate the acquired businesses in a timely manner or at all, we may not be able to achieve the anticipated benefits or synergy from the acquired businesses, which may adversely affect our business growth.

Any deterioration in our relationships with providers of overseas education services may adversely affect our business.

We have business collaborations with various overseas schools and institutions to provide education resources for our international schools. We derive direct benefits from these relationships such as the ability to offer more diverse programs and classes, including summer and winter camps, and the ability to charge a premium for the programs we offer with other overseas education service providers. We also derive indirect benefits from these relationships, including enhancement of our brand and reputation and exposure to international education methods and experiences.

If our relationships with any of these overseas education service providers deteriorate or are otherwise damaged or terminated, or if the benefits we derive from these relationships diminishes, whether as a result of our own actions, actions of our partners, actions of any third party, including our competitors, or of regulatory authorities or other entities beyond our control, our business, prospects, financial condition and results of operations could be adversely affected.

Any damage to the reputation of any of our schools may adversely affect our overall business, prospects, results of operations and financial condition.

Our reputation could be adversely affected under many circumstances, including the following:

- accidents, epidemics or other events adversely affect our students;
- we fail to properly manage accidents or other events that injure our students;
- our staff behave or are perceived to behave inappropriately or illegally;
- our staff fail to appropriately supervise students under their care;
- we fail to conduct proper background checks on our staff;
- we lose a license, permit, accreditation or other authorization to operate an education program, a school or a complementary education service;
- we do not maintain consistent education quality or fail to enable our students to achieve strong academic results;
- our school facilities do not meet the standards expected by parents and students for private education; and

- school operators of lower quality that abuse our brand name or those with brand names similar to ours conduct fraudulent activities and create confusion among students and their parents.

The likelihood that any of the foregoing may occur increases as we expand our school network. These events could influence the perception of our schools not only by our students and their parents, but also by other constituencies in the education sector and the general public. Moreover, an event that directly damages the reputation of one of our schools could adversely affect the reputation and operations of our other schools. If our reputation deteriorates, our overall business, prospects, results of operations and financial condition could be adversely affected.

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

Our business is subject to seasonal fluctuations as our costs and expenses vary significantly during the fiscal year and do not necessarily correspond with the timing of recognition of our revenues. Our students enrolled in our schools that offer K-12 education services and their parents typically pay the tuition and other fees prior to the commencement of a semester, and we recognize revenues from the delivery of education services on a straight-line basis over the semester. For schools offering K-12 education services, we typically incur higher upfront operating expenses in the first fiscal quarter at the start of each school year, and also typically recognize more revenue in the second half of fiscal years due to higher revenues from complementary education services during the summer and, to a lesser extent, students who transfer into our schools for the second semester. As a result of the combination of the foregoing, we have historically incurred net loss or significantly lower net income in the second and fourth fiscal quarters, primarily due to our schools being closed due to the winter and summer holidays, when no revenue from our school operations is recognized. We expect to continue to experience seasonal fluctuations in our results of operations. These fluctuations could result in volatility in and adversely affect the price of our ADSs.

Our business could be disrupted if we lose the services of members of our senior management team, key principals and teaching staff.

Our success depends in part on the continued application of skills, efforts and motivation of our officers and senior management team. We may in the future experience changes in our senior management for reasons beyond our control. In addition, key personnel could leave us to join our competitors. Losing the services of key members of senior management or experienced personnel may be disruptive to and cause uncertainty for our business. We depend upon the services of our senior management team, including our chief executive officer, Mr. Junli He, who collectively have significant experience with our company and within the education industry. If one or more members of our senior management team are unable or unwilling to continue in their present positions for health, family or other reasons, we may not be able to replace them easily or at all. If we cannot attract and retain qualified senior management members, key principals and teaching staff in a timely manner, our business, results of operations and financial condition could be materially and adversely affected.

Failure to adequately protect our intellectual property could materially and adversely affect our business.

We have historically relied upon the brand name of “Country Garden” to market our schools. As we expand our schools beyond the network of Country Garden’s residential communities, we have created and begun to promote our own brands, including “Bright Scholar.” Since our inception, we have also created other intellectual property, including education materials developed by our teaching staff. Unauthorized use of any of our intellectual property may adversely affect our business and reputation. 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. The practice of intellectual property rights enforcement by the PRC 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, we cannot assure you that we will be able to enforce our intellectual property rights effectively or otherwise prevent others from the unauthorized use of our intellectual property. Failure to adequately protect our intellectual property could materially and adversely affect our business, financial condition and results of operations.

We operate schools and complementary education services under several brands, which may have a dilutive effect on brand recognition among our students and their parents.

We operate substantially all of our schools under the brand “Country Garden” and our English proficiency training under “élan.” We intend to promote a unified brand “Bright Scholar” as our corporate image, which represents the entire spectrum of education services we offer. Maintaining multiple brands may have a dilutive effect on brand recognition among our students and their parents and increase our overall marketing expenses as we need to allocate resources among different brands. We may seek to transition our individual brands to “Bright Scholar” in the future if the market responds favorably to our new corporate image. We cannot assure you, however, that our prospective students will embrace our new brand given its limited market exposure and recognition. We may incur significant financial resources for, and divert considerable management attention to, the integration of our existing brands with our new corporate image, which may adversely affect our business, results of operation and financial condition.

We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damages.

We cannot assure you that education materials and content used in our schools and programs do not or will not infringe on intellectual property rights of third parties. As of the date of this annual report, we are not aware of any claims for intellectual property infringement. However, we cannot guarantee that third parties will not claim that we have infringed on their proprietary rights in the future. We may also use education materials designed in conjunction with our overseas associates and we cannot guarantee that disputes will not arise over the intellectual property rights associated with these materials.

Although we plan to defend ourselves vigorously in any such litigation or legal proceedings, we cannot assure you that we will prevail in these matters. Participation in such litigation and legal proceedings may also cause us to incur substantial expenses and divert the time and attention of our management. We may be required to pay damages or incur settlement expenses. In addition, in case we are required to pay any royalties or enter into any licensing agreements with the owners of intellectual property rights, we may find that the terms are not commercially acceptable and we may lose the ability to use the related materials or content, which in turn could adversely affect our education programs. Any similar claim against us, even without any merit, could also damage our reputation and brand image. Any such event could have a material adverse effect on our business, financial condition and results of operations.

Unauthorized disclosure of personal data that we collect and retain due to a system failure or otherwise could damage our business.

We maintain records that include personal data, such as academic and medical records, address and family information. If the security measures we use to protect personal data are ineffective due to a system failure or other reasons, we could be liable for claims of invasion of privacy, impersonation, unauthorized purchases or other claims. In addition, we could be held liable for the misuse of personal data, fraudulent or otherwise, by our employees, independent consultants or third-party contractors.

We could incur significant expenses in connection with rectifying any security breaches, settling any resulting claims and providing additional protection to prevent additional breaches. In addition, any failure to protect personal information may adversely impact our ability to attract and retain students, harm our reputation and materially adversely affect our business, prospects and results of operations.

Failures or interruptions in our centralized data management system may adversely affect our operations.

We have established a centralized data management system, the Oracle ERP system, which collects and analyzes group-wide financial, procurement and student admission information and data. We are in the process of gradually refining the features and functionalities of such ERP system to enhance its efficiency. We are also expanding the application of such ERP system into entities we newly acquired in order to streamline our data and information management system. However, we cannot assure you that such ERP system will not encounter technical failures and interruptions, leading to our management’s failure to access timely and accurate key operating data, which may adversely affect our operation. We may encounter compatibility issues when incorporating newly acquired schools into our ERP system, which may compromise the overall accuracy and value of the operating information generated from such ERP system and adversely affect the implementation of our growth strategies as we expand our business and integrate new businesses.

We have limited insurance coverage with respect to our business and operations.

We are exposed to various risks associated with our business and operations, and we have limited insurance coverage. See “Item 4. Information on the Company—B. Business Overview—Insurance” for more information. We are exposed to risks including, among other things, accidents or injuries in our schools, loss of key management and personnel, business interruption, natural disasters, terrorist attacks and social instability or any other events beyond our control. The insurance industry in China is still at an early stage of development, and as a result insurance companies in China offer limited business related insurance products. We do not have any business disruption insurance, product liability insurance or key-man life insurance. Any business disruption, legal proceeding or natural disaster or other events beyond our control could result in substantial costs and diversion of our resources, which may materially and adversely affect our business, financial condition and results of operations.

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

Our business could be materially and adversely affected by natural disasters, such as earthquakes, floods, landslides, tornados and tsunamis, outbreaks of health epidemics such as avian influenza and severe acute respiratory syndrome, or SARS, and Influenza A virus, such as H5N1 subtype and H5N2 subtype flu viruses, as well as terrorist attacks, other acts of violence or war or social instability in the regions in which we operate or those generally affecting China. If any of these occur, our schools and facilities may be required to temporarily or permanently close and our business operations may be suspended or terminated. Our students, teachers and staff may also be negatively affected by such event. In addition, any of these could adversely affect the PRC economy and demographics of the affected region, which could cause significant declines in the number of our students in that region and could have a material adverse effect on our business, financial condition and results of operations.

If we grant additional employees share options or other equity incentives in the future, our net income could be adversely affected.

In December 2017, we granted share options to purchase a total of 845,000 Class A ordinary shares to certain school principals and management team members under our 2017 Share Incentive Plan, or the 2017 Plan, at an exercise price of US\$8.74 per share with vesting periods varying from three to five years. In September 2018, we granted options to purchase 167,138 Class A ordinary shares to certain senior management members of Can-achieve pursuant to the 2017 Plan. We may grant additional share options under the 2017 Plan in the future. We are required to account for share-based compensation in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation, which generally requires a company to recognize, as an expense, the fair value of share options and other equity incentives to employees based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. If we grant options or other equity incentives in the future, we could incur significant compensation charges and our results of operations could be adversely affected.

If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately or timely report our results of operations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.

Prior to our initial public offering, we were a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. In the course of auditing our combined financial statements for the 2016 fiscal year, we and our independent registered public accounting firm identified two material weaknesses and one significant deficiency in our internal control over financial reporting as well as other control deficiencies as of August 31, 2016. The same material weaknesses and significant deficiency were identified in connection with the audit of our combined and consolidated financial statements for the 2017 fiscal year. In the 2018 fiscal year, we and our independent registered public accounting firm identified no material weakness and one significant deficiency, together with other control deficiencies not identified as significant. The significant deficiency identified related to insufficient documentation of goodwill impairment test process and results. We have implemented and are continuing to implement a number of measures to address our historical material weaknesses, significant deficiency and other control deficiencies not identified as significant, as well as the current significant deficiency and other control deficiencies not identified as significant in our internal control over financial reporting. See “Item 15. Controls and Procedures—Internal Control over Financial Reporting.” We cannot assure you, however, that these measures will fully address the significant deficiency, together with other control deficiencies identified, in our internal control over financial reporting or that we will conclude that they have been fully remedied. Our failure to correct these control deficiencies or our failure to discover and address any other control deficiencies could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs, may be materially and adversely affected. Moreover, ineffective internal control over financial reporting significantly hinders our ability to prevent fraud.

Furthermore, it is possible that, had our independent registered public accounting firm conducted an audit of our internal control over financial reporting, such firm might have identified material weaknesses and additional deficiencies. As a public company in the United States, we are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the 2018 fiscal year. Our management has concluded that our internal control over financial reporting was effective as of August 31, 2018. See “Item 15. Controls and Procedures.” If we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may conclude that our internal control over financial reporting is not effective. This could adversely impact the market price of our ADSs due to a loss of investor confidence in the reliability of our reporting processes. We will need to incur additional costs and use management and other resources in order to comply with Section 404. In addition, once we cease to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we may identify other weaknesses and deficiencies in our internal control over financial reporting, and we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

Risks Related to Our Corporate Structure

Our private education service business is subject to extensive regulation in China. If the PRC government finds that the contractual arrangement that establishes our corporate structure for operating our business does not comply with applicable PRC laws and regulations, we could be subject to severe penalties.

Our private education service business is subject to extensive regulations in China. The PRC government regulates various aspects of our business and operations, such as curriculum content, education materials, standards of school operations, student recruitment activities, tuition and other fees. The laws and regulations applicable to the private education sector are subject to frequent change, and new laws and regulations may be adopted, some of which may have a negative effect on our business, either retroactively or prospectively.

Foreign ownership in education services is subject to significant regulations in China. The PRC government regulates the provision of education services through strict licensing requirements. In particular, PRC laws and regulations currently prohibit foreign ownership of companies and institutions providing compulsory education services at primary and middle school levels, and restrict foreign investment in education services businesses at the high school and kindergarten level. We are a company incorporated in the Cayman Islands. Our PRC subsidiary, Zhuhai Bright Scholar, is a foreign-owned enterprise and is currently ineligible to apply for and hold licenses to operate, or otherwise own equity interests in, our schools. Due to these restrictions, we conduct our private education business in China primarily through contractual arrangements among (1) Zhuhai Bright Scholar, (2) our affiliated entities, including BGY Education Investment and the schools controlled and held by it, and (3) the ultimate shareholders of BGY Education Investment, including Ms. Meirong Yang. We hold the required licenses and permits necessary to conduct our private education business in China through the schools controlled and held by BGY Education Investment. We have been and expect to continue to be dependent on our affiliated entities to operate our private education business. See “Item 4. Information on the Company—C. Organizational Structure” for more information.

If our ownership structure and contractual arrangements are found to violate any PRC laws or regulations, or if we are found to be required but failed to obtain any of the permits or approvals for our private education business, the relevant PRC regulatory authorities, including the MOE, which regulates the education industry in China, the PRC Ministry of Commerce, or MOFCOM, which regulates foreign investments in China, and the Civil Affairs Bureau, which regulates the registration of schools in China, would have broad discretion in imposing fines or punishments upon us for such violations, including:

- revoking the business and operating licenses of our group and/or our affiliated entities;
- discontinuing or restricting any related-party transactions between our group and our affiliated entities;
- imposing fines and penalties, or imposing additional requirements for our operations which we, or our affiliated entities may not be able to comply with;
- requiring us to restructure the ownership and control structure of our current schools;
- restricting or prohibiting our use of the proceeds of our equity offerings to finance our business and operations in China, particularly the expansion of our business through strategic acquisitions; or
- restricting the use of financing sources by us or our affiliated entities or otherwise restricting our or their ability to conduct business.

As of August 31, 2018, similar ownership structure and contractual arrangements have been used by many China-based companies listed overseas, including a number of education companies listed in the United States. To our knowledge, none of the fines or punishments listed above has been imposed on any of these public companies, including companies in the education industry. However, we cannot assure you that such fines or punishments will not be imposed on us or any other companies in the future. If any of the above fines or punishments is imposed on us, our business, financial condition and results of operations could be materially and adversely affected. If any of these penalties results in our inability to direct the activities of BGY Education Investment and its schools and subsidiaries that most significantly impact their economic performance, and/or our failure to receive the economic benefits from BGY Education Investment and its schools and subsidiaries, we may not be able to consolidate BGY Education Investment and its schools and subsidiaries in our financial statements in accordance with U.S. GAAP. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiaries in China or BGY Education Investment or its schools or subsidiaries.

The Draft Foreign Investment Law stipulates sweeping changes to the PRC foreign investment legal regime and has a significant impact on businesses in China controlled by foreign invested enterprises primarily through contractual arrangements, such as our business.

On January 19, 2015, MOFCOM published a draft of the PRC Law on Foreign Investment (Draft for Comment), or the Foreign Investment Law. At the same time, MOFCOM published an accompanying explanatory note of the draft Foreign Investment Law, 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 China controlled by foreign invested enterprises, or 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, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law, as well as detailed implementing rules. The draft Foreign Investment Law proposes significant changes to the PRC foreign investment legal regime and may have a material impact on Chinese companies listed or to be listed overseas. The proposed Foreign Investment Law is to regulate FIEs the same way as PRC domestic entities, except for those FIEs that operate in industries deemed to be either foreign “restricted” or “prohibited.” The draft Foreign Investment Law also provides that only FIEs operating in foreign restricted or prohibited industries will require entry clearance and other approvals that are not required of PRC domestic entities. As a result of the entry clearance and approvals, certain FIEs operating in foreign restricted or prohibited industries may not be able to continue their operations through contractual arrangements.

The specifics of the application of the draft Foreign Investment Law to variable entity structures have yet to be proposed, but it is anticipated that the draft Foreign Investment Law will regulate variable interest entities. MOFCOM suggests both registration and approval as potential options for the regulation of variable interest entity structures, depending on whether they are “Chinese” or “foreign-controlled.” One of the core concepts of the draft Foreign Investment Law is “de facto control,” which emphasizes substance over form in determining whether an entity is “Chinese” or “foreign-controlled.” This determination requires considering the nature of the investors that exercise control over the entity. “Chinese investors” are natural persons who are Chinese nationals, Chinese government agencies and any domestic enterprise controlled by Chinese nationals or government agencies. “Foreign investors” are foreign citizens, foreign governments, international organizations and entities controlled by foreign citizens and entities. We are majority controlled by Ms. Meirong Yang, a PRC national; therefore, it increases the likelihood that our company may be deemed “Chinese” controlled. In its current form, the draft Foreign Investment Law will make it difficult for foreign financial investors, including private equity and venture capital firms, to obtain a controlling interest of a Chinese enterprise in a foreign restricted industry.

We rely on contractual arrangements with BGY Education Investment and its shareholders for our operations in China, which may not be as effective in providing control as direct ownership.

We have relied and expect to continue to rely on the contractual arrangements with BGY Education Investment and its shareholders, including Ms. Meirong Yang, our largest shareholder, to operate our private education business. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.” The revenue contribution of our affiliated entities accounted for 94.4% of our total revenues in the 2018 fiscal year. However, these contractual arrangements may not be as effective as direct equity ownership in providing us with control over BGY Education Investment and our schools. Any failure by our affiliated entities, including BGY Education Investment and our schools controlled and held by BGY Education Investment, and the shareholders of BGY Education Investment, to perform their obligations under the contractual arrangements would have a material adverse effect on the financial position and performance of our company. For example, the contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with arbitral procedures as contractually stipulated. The commercial arbitration system in China is not as developed as some other jurisdictions, such as the United States. As a result, uncertainties in the commercial arbitration system or legal system in China could limit our ability to enforce these contractual arrangements. In addition, if the legal structure and the contractual arrangements were found to violate any existing or future PRC laws and regulations, we may be subject to fines or other legal or administrative sanctions.

If the imposition of government actions causes us to lose our right to direct the activities of our affiliated entities or our right to receive substantially all the economic benefits and residual returns from our affiliated entities and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our affiliated entities.

Any failure by our affiliated entities and their shareholders to perform their obligations under the Contractual Arrangement may have a material adverse effect on our business.

Our affiliated entities and their shareholders may fail to take certain actions required for our business, or to procure that newly established or acquired schools enter into the contractual arrangements in a timely manner, or to follow our instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective agreements with us, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, which may not be effective.

Our largest shareholder, Ms. Meirong Yang, may have potential conflict of interest with us and not act in the best interests of our company.

Ms. Meirong Yang is the controlling shareholder and a director of BGY Education Investment. She is also the largest shareholder of our company. We cannot assure you that Ms. Meirong Yang will act in the best interests of our company. In addition, Ms. Meirong Yang owes duties of loyalty and diligence to BGY Education Investment as its director pursuant to PRC law. However, she does not owe a fiduciary duty to our company as she is not an officer or director of our company. We provide no incentives to encourage Ms. Meirong Yang to act in our best interest in her capacity as the shareholder of our affiliated entities. We rely on Ms. Meirong Yang to comply with the terms and conditions of the contractual arrangements. Although Ms. Meirong Yang is obligated to honor her contractual obligations with respect to our affiliated entities, she may nonetheless breach or cause our affiliated entities to breach or refuse to renew the existing contractual arrangements which allow us to effectively exercise control over our affiliated entities and to receive economic benefits from them. If Ms. Meirong Yang does not honor her contractual obligations with respect to our affiliated entities, we may exercise our exclusive option to purchase, or cause our designee to purchase, all or part of the equity interest in BGY Education Investment to the extent permitted by PRC law. If we cannot resolve any disputes between us and the shareholders of BGY Education Investment, we would have to rely on arbitration or legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements between our affiliated entities and us may be subject to scrutiny by the PRC tax authorities and a finding that we or our affiliated entities owe additional taxes could materially reduce our net income and the value of your investment.

Under PRC laws and regulations, transactions between related parties should be conducted on an arm's-length basis and may be subject to audit or challenge by the PRC tax authorities. We could face material adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our subsidiary in China, our affiliated entities and the shareholders of BGY Education Investment are not conducted on an arm's-length basis and adjust the income of our affiliated entities through the transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in, for PRC tax purposes, increased tax liabilities of our affiliated entities. In addition, the PRC tax authorities may require us to disgorge our prior tax benefits, and require us to pay additional taxes for prior tax years and impose late payment fees and other penalties on our affiliated entities for underpayment of prior taxes. To date, similar contractual arrangements have been used by many public companies, including companies listed in the United States, and, to our knowledge, the PRC tax authorities have not imposed any material penalties on those companies. However, we cannot assure you that such penalties will not be imposed on any other companies or us in the future. Our net income may be reduced if the tax liabilities of our affiliated entities materially increase or if they are found to be subject to additional tax obligations, late payment fees or other penalties.

If any of our affiliated entities becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy assets held by such entity, which could materially and adversely affect our business, financial condition and results of operations.

We currently conduct our operations in China through contractual arrangements with our affiliated entities and the shareholders of BGY Education Investment. As part of these arrangements, substantially all of our education-related assets that are critical to the operation of our business are held by our affiliated entities. If any of these entities goes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our affiliated entities undergoes a voluntary or involuntary liquidation proceeding, its equity owner or unrelated third-party creditors may claim rights relating to some or all of these assets, which would hinder our ability to operate our business and could materially and adversely affect our business, our ability to generate revenue and the market price of our ADSs.

If the custodians or authorized users of our controlling non-tangible assets, including chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected.

Under PRC law, legal documents for corporate transactions, including agreements and contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant PRC industry and commerce authorities.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or affiliated entities. If any employee obtains, misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of our initial public offering and other financing activities to make loans or additional capital contributions to our PRC subsidiaries and affiliated entities, which could harm our liquidity and our ability to fund and expand our business.

In utilizing the proceeds of our initial public offerings and other financing activities as an offshore holding company of our PRC subsidiaries and affiliated entities, we may (1) make loans to our PRC subsidiaries and affiliated entities, (2) make additional capital contributions to our PRC subsidiaries, (3) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, and (4) acquire offshore entities with business operations in China in an offshore transaction. As of the date of this annual report, within the PRC, we have used US\$50.0 million as the registered capital of Guangdong Bright Scholar Education Technology Co., Ltd. See “Item 14—Use of Proceeds.”

However, most of these uses are subject to PRC regulations and approvals. For example:

- loans by us to our wholly-owned subsidiaries in China, which are foreign-invested enterprises, cannot exceed statutory limits, which is the difference between the total investment amount and the registered capital of our wholly-owned subsidiaries, and must be registered with the State Administration of Foreign Exchange of the PRC, or SAFE, or its local counterparts;
- loans by us to our affiliated entities, which are domestic PRC entities, 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 contributions to our wholly-owned subsidiaries in China must be filed with MOFCOM or its local counterparts and must also be registered with the local bank authorized by SAFE.

As a result of the requirements and limitations outlined above, the amount of funds that we can directly contribute to our operations in China through Zhuhai Bright Scholar, a foreign-invested enterprise indirectly held by us, is limited.

In addition, on March 30, 2015, SAFE promulgated Circular 19, a notice regulating the conversion by a foreign-invested company of its capital contribution in foreign currency into Renminbi. The notice requires that the capital of a foreign-invested company settled in Renminbi converted from foreign currencies shall be used only for purposes within the business scope as approved by the applicable government authorities and may not be used for equity investments in China unless such activity is set forth in the business scope or is otherwise permissible under PRC laws or regulations. In addition, SAFE strengthened its oversight of the flow and use of such capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE’s approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not otherwise been used. Violations of Circular 19 will result in severe penalties including hefty fines. As a result, Circular 19 may significantly limit our ability to transfer the net proceeds from our initial public offerings and other financing activities to our operations in China through our PRC subsidiaries, which may adversely affect our ability to expand our business.

On February 13, 2015, SAFE promulgated Circular 13, a notice to further simplify and improve the policies of foreign exchange administration applicable to direct investment, which was effective on June 1, 2015. Pursuant to Circular 13, the registration of existing equity is required in lieu of annual foreign exchange inspection of direct investment. Circular 13 also grants the authority to banks to examine and process foreign exchange registration with respect to both domestic and overseas direct investments.

We expect that PRC laws and regulations may continue to limit our use of proceeds from our initial public offerings and other financing activities 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 proceeds of our initial public offerings and other financing activities and to capitalize our PRC operations may be hindered, which could adversely affect our liquidity and our ability to fund and expand our business.

Risks Related to Doing Business in China

PRC economic, political and social conditions, as well as changes in any government policies, laws and regulations, could adversely affect the overall economy in China or the education services market, which could harm our business.

Substantially all of our operations are conducted in China, and substantially all of our revenues are derived from China. Accordingly, our business, prospects, financial condition and results of operations are subject, to a significant extent, to economic, political and legal developments in China.

The PRC economy differs from the economies of most developed countries in many respects. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to play a significant role in regulating the industry. The PRC government continues to exercise significant control over China's economic growth through allocating resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Uncertainties or changes in any of these policies, laws and regulations, especially those affecting the private education industry in China, could adversely affect the economy in China or the market for education services, which could harm our business. For example, under the former Law on the Promotion of Private Education, as amended on June 29, 2013, and its implementation rules, a private school should elect to be either a school that does not require "reasonable returns" or a school that requires "reasonable returns." A private school must consider factors such as the school's tuition, ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school's net income that would be distributed to the investors as reasonable returns. However, the current PRC laws and regulations provide no clear guideline for determining "reasonable returns." In addition, the current PRC laws and regulations do not set forth any different requirements for the management and operations of private schools that elect to require reasonable returns as compared to those that do not.

On September 1, 2017, the amended Law on the Promotion of Private Education came into effect, under which the concept "reasonable returns" is no longer applicable and a private school should elect to be either a for-profit school or a non-profit school. Sponsors of for-profit schools may obtain operating profits, while sponsors of non-profit schools may not. As the implementation rules for the amended Law on the Promotion of Private Education are not yet available as of the date of the annual report, it remains uncertain how the relevant government authorities will implement the new laws and how long the grace period will be.

While the PRC economy has experienced significant growth in the past two to three decades, growth has been uneven, both geographically and among various sectors of the economy. Demand for our education services depends, in large part, on economic conditions in China and especially the regions where we operate, including Guangdong province. Any significant slowdown in China's economic growth may adversely affect the disposable income of the families of prospective students and cause prospective students to delay or cancel their plans to enroll in our schools, which in turn could reduce our revenues. In addition, any sudden changes to China's political system or the occurrence of social unrest could also have a material adverse effect on our business, prospects, financial condition and results of operations.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions in a civil law system may be cited as reference but have limited precedential value. Since 1979, newly introduced PRC laws and regulations have significantly enhanced the protections of interests related to foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to evolve rapidly, the interpretations of such laws and regulations may not always be consistent, and enforcement of these laws and regulations involves significant uncertainties, any of which could limit the available legal protections.

In addition, the PRC administrative and judicial authorities have significant discretion in interpreting, implementing or enforcing statutory rules and contractual terms, and it may be more difficult to predict the outcome of administrative and judicial proceedings and the level of legal protection we may enjoy in the PRC than under some more developed legal systems. These uncertainties may affect our decisions on the policies and actions to be taken to comply with PRC laws and regulations, and may affect our ability to enforce our contractual or tort rights. In addition, the regulatory uncertainties may be exploited through unmerited legal actions or threats in an attempt to extract payments or benefits from us. Such uncertainties may therefore increase our operating expenses and costs, and materially and adversely affect our business and results of operations.

Any increase in applicable enterprise income tax rates or the discontinuation of any preferential tax treatments currently available to us may result in significantly higher tax burden or the disgorgement of any benefits we enjoyed in the past, which could in turn materially and adversely affect our business, financial condition and results of operations.

Under the former Law on the Promotion of Private Education, as amended on June 29, 2013, and its implementing rules, private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The implementing rules provide that private schools not requiring reasonable returns are eligible to enjoy the same preferential tax treatment as public schools and that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. To date, however, no separate policies, regulations or rules have been introduced by the authorities in this regard.

Our schools located at Changsha have historically elected not to require reasonable returns, and have enjoyed tax preference policies for enterprise income tax and business tax. Preferential tax treatments granted to us by local government authorities are subject to review and may be adjusted or revoked at any time in the future. The discontinuation of any preferential tax treatments currently available to us will cause our effective tax rate to increase, which will increase our income tax expenses and in turn decrease our net income. In addition, we may not be granted preferential tax treatment by the local governments of additional regions into which we may expand. The amended Law on the Promotion of Private Education, which became effective on September 1, 2017, no longer uses the term “reasonable return.” Instead, under the amended law, sponsors of private schools may elect to register their schools as either non-profit or for-profit, with the exception that private schools in compulsory education must be registered as non-profit private schools. Pursuant to such amended law, non-profit private schools will be entitled to the same tax benefits as public schools, but taxation policies for for-profit private schools are still unclear. However, it is unclear how the amended law and its potential implementation rules would impact the tax treatment applicable to our schools and whether our schools would continue to enjoy the preferential tax treatment in the future. Any negative development could have a material adverse effect on our business, financial condition and results of operations.

Under the PRC enterprise income tax law, we may be classified as a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our non-PRC shareholders.

The PRC enterprise income tax law and its implementing rules provide that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” under PRC tax laws. The implementing rules define the term “de facto management bodies” as a management body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. On April 22, 2009, the State Administration of Taxation issued Circular 82, which provides that a foreign enterprise controlled by a PRC company or a group of PRC companies will be classified as a “resident enterprise” with its “de facto management body” located within China if all of the following requirements are satisfied: (1) the senior management and core management departments in charge of its daily operations function are mainly in China; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in China; (3) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in China; and (4) at least half of the enterprise’s directors with voting right or senior management reside in China. The State Administration of Taxation issued a bulletin on August 3, 2011 to provide more guidance on the implementation of Circular 82. The bulletin clarifies certain matters relating to resident status determination, post-determination administration and competent tax authorities. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in the bulletin may reflect the general position of the State Administration of Taxation on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises and the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

In addition, the State Administration of Taxation issued a bulletin on January 29, 2014 to provide more guidance on the implementation of Circular 82. This bulletin further provides that, among other things, an entity that is classified as a “resident enterprise” in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors are registered. From the year in which the entity is determined as a “resident enterprise,” any dividend, profit and other equity investment gain shall be taxed in accordance with the enterprise income tax law and its implementing rules.

As the tax resident status of an enterprise is subject to the determination by the PRC tax authorities, if we are deemed as a PRC “resident enterprise,” we will be subject to PRC enterprise income tax on our worldwide income at a uniform tax rate of 25.0%, although dividends distributed to us from our existing PRC subsidiaries and any other PRC subsidiaries which we may establish from time to time could be exempt from the PRC dividend withholding tax due to our PRC “resident recipient” status. This could have a material adverse effect on our overall effective tax rate, our income tax expenses and our net income. Furthermore, dividends, if any, paid to our shareholders and ADS holders may be decreased as a result of the decrease in distributable profits. In addition, if we were to be considered a PRC “resident enterprise,” dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares may be considered income derived from sources within China and be subject to PRC withholding tax, which could have a material adverse effect on the value of your investment in us and the price of our ADSs.

There are significant uncertainties under the PRC enterprise income tax law relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.

Under the PRC enterprise income tax and its implementation rules, the profits of a foreign-invested enterprise generated through operations, which are distributed to its immediate holding company outside China, will be subject to a withholding tax rate of 10.0%. Pursuant to a special arrangement between Hong Kong and China, such rate may be reduced to 5.0% if a Hong Kong resident enterprise owns more than 25.0% of the equity interest in the PRC company. Our current PRC subsidiaries are wholly owned by our Hong Kong subsidiary. Moreover, under the Notice of the State Administration of Taxation on Issues regarding the Administration of the Dividend Provision in Tax Treaties promulgated on February 20, 2009, the taxpayer needs to satisfy certain conditions to enjoy the benefits under a tax treaty. These conditions include: (1) the taxpayer must be the beneficial owner of the relevant dividends, and (2) the corporate shareholder to receive dividends from the PRC subsidiaries must have continuously met the direct ownership thresholds during the 12 consecutive months preceding the receipt of the dividends. Further, the State Administration of Taxation promulgated the Notice on Issues Relating to “Beneficial Owner” in Tax Treaties, or Circular 9, which defines the “beneficial owner” as a party who holds ownership of and control over the income of the entity, or the rights or assets from which such income are derived, and sets forth certain detailed factors in determining the “beneficial owner” status.

Entitlement to a lower tax rate on dividends according to tax treaties or arrangements between the PRC central government and governments of other countries or regions is subject to inspection or approval of the relevant tax authorities. As a result, we cannot assure you that we will be entitled to any preferential withholding tax rate under tax treaties for dividends received from our PRC subsidiaries.

We face uncertainties with respect to indirect transfers of the equity interests in PRC resident enterprises by their non-PRC holding companies.

The State Administration of Taxation issued Bulletin on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises, or Bulletin 7, on February 3, 2015. Under Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25.0%. Where the underlying transfer relates to the immovable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10.0% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. There is uncertainty as to the implementation details of Bulletin 7. If Bulletin 7 was determined by the tax authorities to be applicable to some of our transactions involving PRC taxable assets, our offshore subsidiaries conducting the relevant transactions might be required to spend valuable resources to comply with Bulletin 7 or to establish that the relevant transactions should not be taxed under Bulletin 7.

On October 17, 2017, the State Administration of Taxation issued the Bulletin on Issues Concerning the Source-based Withholding of Enterprise Income Tax on Non-resident Enterprises, or Bulletin 37, which became effective on December 1, 2017. According to Bulletin 37, non-resident enterprises who voluntarily declare their enterprise income tax shall at the same time confirm when they would make payments for the declared amount of tax. If the withholding agent fails to or is unable to withhold the income tax in accordance with the law, the non-resident enterprise will be deemed to have cleared its tax payment on time if it voluntarily declares and pays the tax before or within the time limit the tax authority orders it to do so. If the taxable income before withholding on a source-basis falls within the form of dividends or any equity investment gains, the date of triggering obligations to settle such tax payments is the date of actual payment of the dividends or other equity investment gains. In addition, on December 1, 2017, Bulletin 37 repealed the Notice of the State Administration of Taxation on Strengthening the Administration over Enterprise Income Tax on Income of Non-resident Enterprises from Equity Transfer and Notice of the State Administration of Taxation on Issuing the Interim Measures for the Administration of Source-based Withholding of the Enterprise Income Tax of Non-resident Enterprises issued by the State Administration of Taxation on December 10, 2009 and January 1, 2009, respectively.

As a result, we and our non-PRC shareholders may have the risk of being taxed for the disposition of our ordinary shares or ADS and may be required to spend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we or our non-PRC shareholders should not be taxed as an indirect transfer, which may have a material adverse effect on our financial condition and results of operations or the investment by non-PRC investors in us.

Restrictions on currency exchange may limit our ability to receive and use our revenue effectively.

Substantially all of our revenue is denominated in Renminbi. As a result, restrictions on currency exchange may limit our ability to use revenue generated in Renminbi to fund any business activities we may have outside China in the future or to make dividend payments to our shareholders and ADS holders in U.S. dollars. Under current PRC laws and regulations, Renminbi is freely convertible for current account items, such as trade and service-related foreign exchange transactions and dividend distributions. However, Renminbi is not freely convertible for direct investment or loans or investments in securities outside China, unless such use is approved by SAFE. For example, foreign exchange transactions under our subsidiary’s capital account, including principal payments in respect of foreign currency-denominated obligations, remain subject to significant foreign exchange controls and the approval requirement of SAFE. These limitations could affect our ability to obtain foreign exchange for capital expenditures.

Our PRC subsidiaries are permitted to declare dividends to our offshore subsidiary holding their equity interest, convert the dividends into a foreign currency and remit to its shareholder outside China. In addition, in the event that our PRC subsidiaries liquidate, proceeds from the liquidation may be converted into foreign currency and distributed outside China to our overseas subsidiary holding its equity interest. Furthermore, in the event that BGY Education Investment liquidates, our PRC subsidiary, Zhuhai Bright Scholar, may, pursuant to the power of attorneys respectively executed by Ms. Meirong Yang and Mr. Wenjie Yang, require BGY Education Investment to pay and remit the proceeds from such liquidation to Zhuhai Bright Scholar. Zhuhai Bright Scholar then may distribute such proceeds to us after converting them into foreign currency and remit them outside China in the form of dividends or other distributions. Once remitted outside China, dividends, distributions or other proceeds from liquidation paid to us will not be subject to restrictions under PRC regulations on its further transfer or use.

Other than the above distributions by and through our PRC subsidiaries which are permitted to be made without the necessity to obtain further approvals, any conversion of the Renminbi-denominated revenue generated by our affiliated entities for direct investment, loan or investment in securities outside China will be subject to the limitations discussed above. To the extent we need to convert and use any Renminbi-denominated revenue generated by our affiliated entities not paid to our PRC subsidiaries and revenue generated by our PRC subsidiaries not declared and paid as dividends, the limitations discussed above will restrict the convertibility of, and our ability to directly receive and use such revenue. As a result, our business and financial condition may be adversely affected. In addition, we cannot assure you that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of Renminbi in the future, especially with respect to foreign exchange transactions.

Our subsidiaries and affiliated entities in China are subject to restrictions on making dividends and other payments to us.

We are a holding company and rely principally on dividends paid by our subsidiaries in China for our cash needs, including paying dividends and other cash distributions to our shareholders to the extent we choose to do so, servicing any debt we may incur and paying our operating expenses. The income for our PRC subsidiaries, especially Zhuhai Bright Scholar, in turn depends on the service fees paid by our affiliated entities. Current PRC regulations permit our subsidiaries in China to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Under the applicable requirements of PRC law, our PRC subsidiaries may only distribute dividends after they have made allowances to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, at the end of each fiscal year, each of our schools that are private schools in China is required to allocate a certain amount to its development fund for the construction or maintenance of the school properties or purchase or upgrade of school facilities. In particular, our schools that require reasonable returns must allocate no less than 25.0% of their annual net income, and our schools that do not require reasonable returns must allocate no less than 25.0% of their annual increase in the net assets of the school for such purposes. Furthermore, if our subsidiaries or our affiliated entities in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any such restrictions may materially affect such entities' ability to make dividends or make payments, in service fees or otherwise, to us, which may materially and adversely affect our business, financial condition and results of operations.

Fluctuations in the value of the Renminbi may have a material adverse effect on your investment.

The change in value of the Renminbi against the U.S. dollar and other currencies is affected by, various factors, such as changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under such policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Later on, the People's Bank of China has decided to further implement the reform of the RMB exchange regime and to enhance the flexibility of RMB exchange rates. Such changes in policy have resulted in a significant appreciation of the Renminbi against the U.S. dollar since 2005. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant adjustment of the Renminbi against the U.S. dollar.

Any significant appreciation or revaluation of the Renminbi may have a material adverse effect on the value of, and any dividends payable on, our ADSs in foreign currency terms. More specifically, if we decide to convert our Renminbi into U.S. dollars, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. To the extent that we need to convert U.S. dollars we receive from our initial public offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. In addition, appreciation or depreciation in the exchange rate of the Renminbi to the U.S. dollar could materially and adversely affect the price of our ADSs in U.S. dollars without giving effect to any underlying change in our business or results of operations.

Certain PRC regulations, including the M&A Rules and national security regulations, may require a complicated review and approval process which could make it more difficult for us to pursue growth through acquisitions in China.

The M&A Rules established additional procedures and requirements that could make merger and acquisition activities in China by foreign investors more time-consuming and complex. For example, MOFCOM must be notified in the event a foreign investor takes control of a PRC domestic enterprise. In addition, certain acquisitions of domestic companies by offshore companies that are related to or affiliated with the same entities or individuals of the domestic companies, are subject to approval by MOFCOM. In addition, the Implementing Rules Concerning Security Review on Mergers and Acquisitions by Foreign Investors of Domestic Enterprises, issued by MOFCOM in August 2011, require that mergers and acquisitions by foreign investors in “any industry with national security concerns” be subject to national security review by MOFCOM. In addition, any activities attempting to circumvent such review process, including structuring the transaction through a proxy or contractual control arrangement, are strictly prohibited.

There is significant uncertainty regarding the interpretation and implementation of these regulations relating to merger and acquisition activities in China. In addition, complying with these requirements could be time-consuming, and the required notification, review or approval process may materially delay or affect our ability to complete merger and acquisition transactions in China. As a result, our ability to seek growth through acquisitions may be materially and adversely affected.

In addition, if MOFCOM determines that we should have obtained its approval for our entry into contractual arrangements with our affiliated entities and the shareholders of BGY Education Investment, we may be required to file for remedial approvals. We cannot assure you that we would be able to obtain such approval from MOFCOM. We may also be subject to administrative fines or penalties by MOFCOM that may require us to limit our business operations in China, delay or restrict the conversion and remittance of our funds in foreign currencies into China or take other actions that could have material adverse effect on our business, financial condition and results of operations.

A failure by the beneficial owners of our shares who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC law.

SAFE has promulgated regulations, including the Notice on Relevant Issues Relating to Foreign Exchange Control on Domestic Residents’ Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or Circular 37, effective on July 4, 2014, and its appendices, that require PRC residents, including PRC institutions and individuals, to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a “special purpose vehicle.” The term “control” under Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

These regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions or share transfers that we make in the future if our shares are issued to PRC residents. However, in practice, different local SAFE branches may have different views and procedures on the application and implementation of SAFE regulations, and since Circular 37 was recently issued, there remains uncertainty with respect to its implementation. As of the date of this annual report, all PRC residents known to us that currently hold direct or indirect interests in our company, including Ms. Meirong Yang, have completed the necessary registrations with SAFE as required by Circular 37. However, we cannot assure you that these individuals or any other direct or indirect shareholders or beneficial owners of our company who are PRC residents will be able to successfully complete the registration or update the registration of their direct and indirect equity interest as required in the future. If they fail to make or update the registration, our PRC subsidiaries could be subject to fines and legal penalties, and SAFE could restrict our cross-border investment activities and our foreign exchange activities, including restricting our PRC subsidiaries' ability to distribute dividends to, or obtain loans denominated in foreign currencies from, our company, or prevent us from contributing additional capital into our PRC subsidiaries. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

We face regulatory uncertainties in China that could restrict our ability to grant share incentive awards to our employees or consultants who are PRC citizens.

Pursuant to the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in a Stock Incentive Plan of an Overseas Publicly-Listed Company issued by SAFE on February 15, 2012, or Circular 7, a qualified PRC agent (which could be the PRC subsidiary of the overseas-listed company) is required to file, on behalf of "domestic individuals" (both PRC residents and non-PRC residents who reside in China for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) who are granted shares or share options by the overseas-listed company according to its share incentive plan, an application with SAFE to conduct SAFE registration with respect to such share incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the share purchase or share option exercise. Such PRC individuals' foreign exchange income received from the sale of shares and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in China, which is opened and managed by the PRC domestic agent before distribution to such individuals. In addition, such domestic individuals must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options and their purchase and sale of shares. The PRC domestic agent also needs to update registration with SAFE within three months after the overseas-listed company materially changes its share incentive plan or make any new share incentive plans.

We have granted shares options under the 2017 Plan in the past and may continue to grant additional share options in the future. When we do, from time to time, we need to apply for or update our registration with SAFE or its local branches on behalf of our employees or consultants who receive options or other equity-based incentive grants under our share incentive plan or material changes in our share incentive plan. However, we may not always be able to make applications or update our registration on behalf of our employees or consultants who hold any type of share incentive awards in compliance with Circular 7, nor can we ensure you that such applications or update of registration will be successful. If we or the participants of our share incentive plan who are PRC citizens fail to comply with Circular 7, we and/or such participants of our share incentive plan may be subject to fines and legal sanctions, there may be additional restrictions on the ability of such participants to exercise their share options or remit proceeds gained from sale of their shares into China, and we may be prevented from further granting share incentive awards under our share incentive plan to our employees or consultants who are PRC citizens.

Labor contract laws in China may adversely affect our results of operations.

The current PRC labor contract law imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations be based on the mandatory retirement age. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

Increases in labor costs and employee benefits in China may adversely affect our business and our profitability.

The PRC economy has been experiencing significant growth, leading to inflation and increased labor costs. China's overall economy and the average wage in China are expected to continue to grow. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. It is subject to the determination of the relevant government agencies whether an employer has made adequate payments of the requisite statutory employee benefits, and employers that fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. Future increases in China's inflation and material increases in labor costs and employee benefits may materially and adversely affect our profitability and results of operations unless we are able pass on these costs to our students by increasing tuition.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Our independent registered public accounting firm issues audit report included in this annual report filed with the Securities and Exchange Commission, or SEC. As auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If additional remedial measures are imposed on the big four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

Beginning in 2011, the Chinese affiliates of the "big four" accounting firms (including our independent registered public accounting firm) were affected by a conflict between the U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in China, the SEC and the PCAOB sought to obtain access to the audit work papers and related documents of the Chinese affiliates of the "big four" accounting firms. The accounting firms were, however, advised and directed that, under Chinese law, they could not respond directly to the requests of the SEC and the PCAOB and that such requests, and similar requests by foreign regulators for access to such papers in China, had to be channeled through the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the "big four" accounting firms (including our independent registered public accounting firm). A first instance trial of these proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms, including a temporary suspension of their right to practice before the SEC. Implementation of the latter penalty was postponed pending review by the SEC Commissioners. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If the firms fail to follow these procedures and meet certain other specified criteria, the SEC retains the authority to impose a variety of additional remedial measures, including, as appropriate, an automatic six-month bar on a firm's ability to perform certain audit work, commencement of new proceedings against a firm or, in extreme cases, the resumption of the current administrative proceeding against all four firms.

In the event that the SEC restarts administrative proceedings, depending upon the final outcome, listed companies in the U.S. with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in their financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against the firms may cause investor uncertainty regarding China-based, U.S.-listed companies, including our company, and the market price of their shares may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our shares from the New York Stock Exchange or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our shares in the United States.

Risks Related to Our Ordinary Shares and ADSs

We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company until the fifth anniversary from the date of our initial listing. As we have elected not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

The trading price of our ADSs is likely to be volatile, which could result in substantial losses to investors.

The trading price of our ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, akin to the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. A number of Chinese companies have listed or are in the process of listing their securities on U.S. stock markets. The securities of some of these companies have experienced significant volatility, including price declines in connection with their initial public offerings. The trading performances of these Chinese companies’ securities after their offerings may affect the perception and attitudes of investors toward Chinese companies listed in the United States in general and consequently may impact the trading performance of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile due to a number of factors, including the following:

- regulatory developments affecting us or our industry, and customers of our education services;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;

- changes in the market condition, market potential and competition in education services;
- announcements by us or our competitors of new education services, expansions, investments, acquisitions, strategic partnerships or joint ventures;
- fluctuations in global and Chinese economies;
- changes in financial estimates by securities analysts;
- adverse publicity about us;
- additions or departures of our key personnel and senior management;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs. All of our outstanding ADSs are freely transferable without restriction or additional registration under the Securities Act and are available for sale upon the expiration of the lock-up period ending 180 days after the closing of our initial public offering, subject to certain restrictions. Any or all of these shares may be released prior to the expiration of the lock-up period at the discretion of the underwriter. Sales of these shares into the market could cause the market price of our ADSs to decline.

Our dual-class share structure with different voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Ms. Meirong Yang, Ms. Huiyan Yang, and Mr. Junli He beneficially own approximately 71.73%, 19.79% and 7.32% of the aggregate voting power of our company as of the date of this annual report. See "Item 6. Directors, Senior Management And Employees—E. Share Ownership." As a result of the dual-class share structure and the concentration of ownership, Ms. Meirong Yang, Ms. Huiyan Yang, and Mr. Junli He have considerable influence over matters such as decisions regarding mergers, consolidations, sale of all or substantially all of our assets, election of directors and other significant corporate actions. They may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline.

Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to applicable laws. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. We cannot guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

We may be classified as a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to United States investors in the ADSs or ordinary shares.

We will be classified as a “passive foreign investment company,” or PFIC, if, in the case of any particular taxable year, either (1) 75.0% or more of our gross income for such year consists of certain types of passive income, or (2) 50.0% or more of the average quarterly value of our assets during such year produce or are held for the production of passive income. Although the law in this regard is unclear, we treat our affiliated entities as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operation in our financial statements. Assuming that we are the owner of our affiliated entities for United States federal income tax purposes, and based upon our current income and assets, we do not believe that we were classified as a PFIC for the taxable year ended August 31, 2018, and we do not expect to be classified as a PFIC for the current taxable year or for the foreseeable future.

The determination of whether we are or will become a PFIC will depend upon the composition of our income (which may differ from our historical results and current projections) and assets and the value of our assets from time to time, including, in particular, the value of our goodwill and other unbooked intangibles (which may depend upon the market value of our ADSs or ordinary shares from time-to-time and may be volatile). In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our anticipated market capitalization, which may fluctuate. Among other matters, if our market capitalization were to decline, we may be classified as a PFIC for future taxable years. It is also possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being, or becoming classified as, a PFIC for the current or foreseeable future taxable years.

While we do not expect to become a PFIC in the current or future taxable years, the determination of whether we will be or become a PFIC may also depend, in part, on how, and how quickly, we use our liquid assets. Under circumstances where we retain significant amounts liquid assets, or if our affiliated entities were not treated as owned by us for United States federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, we cannot assure you that we will not be a PFIC for the current taxable year or any future taxable year.

If we are classified as a PFIC in any taxable year, a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules, and such holders may be subject to burdensome reporting requirements. Further, if we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares. For more information, see “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations.”

Our memorandum and articles of association contains anti-takeover provisions that could have a material adverse effect on the rights of holders of our Class A ordinary shares and ADSs.

Our memorandum and articles of association contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority subject to any resolution of the shareholders to the contrary, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Class A ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our Class A ordinary shares and ADSs may be materially and adversely affected.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Company Law (2018 Revision as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the 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 from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

The Cayman Islands courts are also unlikely (1) to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws, or (2) to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or large shareholders than they would as public shareholders of a company incorporated in the United States.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands company and all of our assets are located outside of the United States. Substantially all of our current operations are conducted in China. In addition, a majority of our current directors and officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We will be required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of the New York Stock Exchange. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a U.S. domestic issuer.

As a “controlled company” under the rules of the NYSE, we are exempt from certain corporate governance requirements that could adversely affect our public shareholders.

Under the rules of the NYSE, a company of which more than 50% of the voting power for the election of directors is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance requirements, including the requirement that a majority of our directors be independent, as defined in the NYSE rules, and the requirement that our compensation and nominating and corporate governance committees consist entirely of independent directors. In April 2017, Ms. Huiyan Yang and Ms. Meirong Yang entered into an acting-in-concert agreement by which Ms. Huiyan Yang agrees with Ms. Meirong Yang when voting and deciding on material matters in relation to the management of our company. As a result, Ms. Huiyan Yang and Ms. Meirong Yang collectively are the beneficial owners of a majority of the voting power of our issued and outstanding share capital as of the date of this annual report. Therefore, we qualify as a “controlled company” under the rules of the NYSE. We have elected to rely on certain exemptions under the NYSE rules available to controlled companies, including the exemption from having a majority of our directors be independent, and may continue to elect to do so as long as we remain a controlled company. As a result, you may not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements.

As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from New York Stock Exchange corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with from New York Stock Exchange corporate governance listing standards.

As a Cayman Islands company listed on the New York Stock Exchange, we are subject to New York Stock Exchange corporate governance listing standards. However, the New York Stock Exchange rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from New York Stock Exchange corporate governance listing standards. Shareholders of Cayman

Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. To the extent we choose to follow home country practice with respect to corporate governance matters, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to vote your Class A ordinary shares.

As a holder of our ADSs, you will only be able to exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depository. Upon receipt of your voting instructions, the depository will vote the underlying Class A ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying shares unless you withdraw the shares. Under our memorandum and articles of association, the minimum notice period required for convening a general meeting is 10 days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the shares underlying your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

The depository for our ADSs will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not vote, the depository will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depository with notice of meeting and related voting materials;
- we have instructed the depository that we do not wish a discretionary proxy to be given;
- we have informed the depository that there is substantial opposition as to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that if you do not vote at shareholders' meetings, you cannot prevent our Class A ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

You may not receive dividends or other distributions on our Class A ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depository may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

You may experience dilution of your holdings due to inability to participate in rights offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depository will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depository may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depository may close its books from time to time for a number of reasons, including in connection with corporate events such as a right offering, during which time the depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

ITEM 4. INFORMATION ON THE COMPANY

A. History and development of the company

We are an exempted company with limited liability incorporated in the Cayman Islands. We conduct our business primarily through our subsidiaries and affiliated entities in China. As of date of this annual report, we had a network of 66 schools in China that cover K-12 education and a number of learning centers for after-school programs through certain contractual arrangements with BGY Education Investment, which in turn controls and holds these schools and learning centers. We trace our history back to the founding of Guangdong Country Garden School, our first private school, in 1994. Over the past two decades, we have established and acquired a number of schools and learning centers in China.

Beginning in 2016, we underwent a series of restructurings. In particular:

- *Incorporation of the listing entity.* In December 2016, Ms. Meirong Yang incorporated Bright Scholar Holdings in the Cayman Islands.
- *Acquisition of Impetus.* In January 2016, we acquired Impetus Investment Ltd., or Impetus, a Cayman Islands company from Mr. Junli He and other selling shareholders.
- *Incorporation of PRC subsidiary.* In January 2017, Time Education China Holdings Limited incorporated Zhuhai Bright Scholar, as our wholly-owned subsidiary in China.
- *Contractual arrangements.* In January 2017, we, through our PRC subsidiary, Zhuhai Bright Scholar, entered into a series of contractual arrangements with (1) our affiliated entities, including BGY Education Investment and the schools it owns and operates, and (2) Ms. Meirong Yang and Mr. Wenjie Yang, the shareholders of BGY Education Investment, to obtain effective control of our affiliated entities.

Foreign ownership in education services is subject to significant regulations in China. The PRC government regulates the provision of education services through strict licensing requirements. In particular, PRC laws and regulations currently prohibit foreign ownership of companies and institutions providing compulsory education services at primary and middle school levels, and restrict foreign investment in education services at the kindergarten and high school level. We are a company incorporated in the Cayman Islands. Our PRC subsidiary, Zhuhai Bright Scholar, is a wholly foreign-owned enterprise and currently ineligible to apply for and hold licenses to operate, or otherwise own equity interests in our schools.

Due to these restrictions, we, through our PRC subsidiary, Zhuhai Bright Scholar, have entered into a series of contractual arrangements with (1) our affiliated entities, including BGY Education Investment and the schools it owns and operates, and (2) the shareholders of BGY Education Investment, i.e., Ms. Meirong Yang and Mr. Wenjie Yang, which enable us to:

- exercise effective control over our affiliated entities;
- receive substantially all of the economic benefits of our affiliated entities in consideration for the services provided by us; and
- have an exclusive option to purchase all of the equity interests in our affiliated entities when and to the extent permitted under PRC law.

Ms. Meirong Yang is one of our founders and a relative of Ms. Huiyan Yang, our chairperson. Mr. Wenjie Yang is Ms. Meirong Yang's business partner. We do not have any equity interest in our affiliated entities. However, as a result of these contractual arrangements, we control our affiliated entities through our PRC subsidiary, Zhuhai Bright Scholar. We have combined and consolidated the results of our affiliated entities in our combined and consolidated financial statements included elsewhere in this annual report in accordance with U.S. GAAP. The contractual arrangements were executed and became effective on January 25, 2017. All of our newly launched and acquired schools have executed Rights and Obligations Assumption Letters as of the date of this annual report to enjoy the rights and perform the obligations under the contractual arrangements. For a detailed description of the risks associated with our corporate structure, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure" and "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China."

We have been advised by our PRC legal counsel, that the contractual arrangements among Zhuhai Bright Scholar, our affiliated entities, and Ms. Meirong Yang and Mr. Wenjie Yang as the shareholders of BGY Education Investment are valid, binding and enforceable under PRC laws and regulations, and are not in violation of PRC laws or regulations currently in effect. If our affiliated entities, Ms. Meirong Yang and Mr. Wenjie Yang fail to perform their obligations under the contractual arrangements, we could be limited in our ability to enforce the contractual arrangements that give us the effective control over our affiliated entities. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with BGY Education Investment and its shareholders for our operations in China, which may not be as effective in providing control as director ownership."

We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the contractual arrangements and agreements that establish the structure for operating our education services business in China do not comply with relevant PRC government restrictions on foreign investment in the education services industry, we could be subject to severe penalties, including being prohibited from continuing operations. For a detailed description of the risks associated with our corporate structure, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure" and "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China."

If we are unable to maintain effective control over our affiliated entities, we will not be able to continue to consolidate the financial results of our affiliated entities into our financial results. The revenue contribution of our affiliated entities accounted for 99.4% of our total revenues in the 2017 fiscal year and 94.4% of our total revenues in the 2018 fiscal year. Further, as a holding company, our ability to generate profits, pay dividend and other cash distributions to our shareholders depends principally on our ability to receive dividends and other distributions from our PRC subsidiary, Zhuhai Bright Scholar, which in turn depends on the service fees paid to Zhuhai Bright Scholar from our schools and other affiliated entities. We, through our PRC subsidiary, Zhuhai Bright Scholar, have entered into an exclusive management services and business cooperation agreement with each of our affiliated entities, pursuant to which we provide service to our schools in exchange for the payment of service fees. The services fees we are entitled to collect under the agreement are calculated as the balance of general income less any costs, taxes and other reserved fees stipulated by laws and regulations. In practice, we evaluate on a case-by-case basis the performance and future plans of individual schools before determining the amount we collect from each school. We do not have unfettered access to the revenues from our PRC subsidiaries or affiliated entities due to the significant PRC legal restrictions on the payment of dividends by PRC companies, foreign exchange control restrictions, and the restrictions on foreign investment, among others. For example, under the applicable requirements of PRC law, our PRC subsidiaries may only distribute dividends after they have made allowances to fund certain statutory reserves and each private school in China is required to allocate a certain amount to its development fund prior to payments of dividend. In particular, our schools that require reasonable returns must allocate no less than 25.0% of their annual net income, and our schools that do not require reasonable returns must allocate no less than 25.0% of their annual increase in their net assets for such purposes. See “—D. Risk Factors—Risks Related to Doing Business in China—Our subsidiaries and affiliated entities in China are subject to restrictions on making dividends and other payments to us.”

We listed our ADSs on the New York Stock Exchange under the symbol “BEDU” on May 18, 2017 and completed an initial public offering of 17,250,000 ADSs on June 7, 2017, raising approximately US\$174.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us. On March 2, 2018, we completed a follow-on public offering of 10,000,000 ADSs, raising approximately US\$181.4 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us.

In April 2018, our board approved a share repurchase program to repurchase up to US\$100.0 million worth of our outstanding ADSs within 12 months. As of the date of this annual report, we have repurchased 3,330,182 of our outstanding ADSs for an aggregate purchase price of US\$40.7 million pursuant to the share repurchase program.

Our principal executive office is located at No.1, Country Garden Road, Beijiao Town, Shunde District, Foshan, Guangdong, zip code 528300, China. Our principal phone number is (86) 757-6683-2507. Our registered office in the Cayman Islands is located at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Investors should submit any inquiries to the address and telephone number of our principal executive offices. Our website is www.brightscholar.com. The information contained on our website is not a part of this annual report. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 801 2nd Avenue, Suite 403, New York, New York 10017.

For information regarding our principal capital expenditures, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures.”

B. Business Overview

We are the largest operator of international and bilingual K-12 schools in China in terms of student enrollment as of August 31, 2018, according to the Frost & Sullivan report. We are dedicated to providing quality international education to Chinese students and equipping them with the critical academic foundation and skillsets necessary to succeed in the pursuit of higher education overseas. We also complement our international offerings with Chinese government-mandated curriculum for students who wish to maintain the option of pursuing higher education in China. We established one of the first private schools in China in 1994 and have since expanded our network to operate 66 schools as of the date of this annual report, covering the breadth of K-12 academic needs of our students across eight provinces in China. During the 2018 school year, we had an average of 36,679 students enrolled at our schools, representing an increase of 93.9% from an average of 18,913 students enrolled during the 2014 school year. Bright Scholar Holdings, our ultimate Cayman Islands holding company, does not have any substantive operations other than indirectly controlling BGY Education Investment, our affiliated entity which controls and holds our schools, through certain contractual arrangements.

Our schools consist of international schools, bilingual schools and kindergartens. We offer a broad range of internationally-accredited curricula at our international schools. We tailor the delivery of coursework to optimize learning outcomes for our students and prepare them for higher education overseas. According to the Frost & Sullivan report, we are among a select group of private school operators in China accredited to administer all major globally-recognized education programs, including Diploma Program, Advanced Placement and IGCSE/A-Level. We are also one of the first school operators in China accredited to administer the full set of IB curricula, including its Primary Years Program, Middle Years Program, and Diploma Program. Our bilingual schools place a specific emphasis on developing our students' English language proficiency and non-academic skillsets, offering elective classes in sports, arts and community service programs. Leveraging our experience and insights into learning needs at different stages, our kindergartens seek to lay the necessary foundation for our students' future studies. We also offer a range of complementary education services, primarily including camp programs, after-school programs, through our network of learning centers in China, as well as international education consulting services.

Our schools effectively enhance our students' academic performance. Approximately 91.8% of the 2018 graduating class enrolled in our Diploma Program, Advance Placement or A-level curricula that applied for overseas universities were admitted into global top 50 institutions, as ranked by either the QS World University Rankings or U.S. News, including University of Chicago, University of Oxford, University of Cambridge, and University College London. As of August 31, 2018, students in our 2018 graduating class have received 746 offers in total from global top 50 institutions by the same ranking. We believe our bilingual schools are often one of the schools of choice in their respective cities. Approximately 80.3% of our graduating students from our nine bilingual schools were admitted into top local high schools in the 2018 fiscal year. Approximately 88.6% and 91.5% of the 2018 graduating class from our two largest bilingual schools, Huanan Country Garden School and Phoenix City Bilingual School, respectively, were admitted into the top local high schools.

We collaborate closely with Country Garden, a related party of ours and a leading developer of residential properties in China, which has allowed us to operate a highly scalable business model and launch greenfield schools with significantly lower upfront capital expenditures. Substantially all of our existing schools were developed in cooperation with Country Garden's residential property projects, allowing Country Garden to meet local government requirements and the market needs for education facilities and services in its residential communities. The demand for convenient access to quality education from Country Garden's homeowners, who are relatively affluent families, provides a large pool of students for our schools, and at the same time drives sales of residential units in the vicinity of our schools. We believe we will continue to benefit from this synergistic relationship as we expand our school network.

We have experienced substantial growth in recent years. Our revenue increased from RMB745.9 million in the 2015 fiscal year to RMB1,040.3 million in the 2016 fiscal year to RMB1,328.4 million in the 2017 fiscal year, and further to RMB1,718.9 million (US\$251.7 million) in the 2018 fiscal year, representing an average CAGR of 32.1%. We focus on providing quality education to our students and, since the beginning of the 2016 fiscal year, we have implemented various initiatives to improve operating efficiency and profitability. See "—Centralized Management." We had net income of RMB2.9 million, RMB191.8 million, and RMB248.9 million (US\$36.4 million) in the 2016, 2017 and 2018 fiscal years, respectively, compared to net loss of RMB39.9 million in the 2015 fiscal year. We use adjusted net income, which excludes share-based compensation, in evaluating our ongoing results of operations. Our adjusted net income, which excludes share-based compensation expenses, was RMB98.0 million, RMB191.8 million and RMB278.0 million (US\$40.7 million) for the 2016, 2017 and 2018 fiscal years, respectively. See "Item 5. Operating and Financial Review and Prospectus—A. Operating Results-Results of Operations—Non-GAAP measures" for details.

Our Schools

We offer education programs that cover K-12 education and integrate internationally-accredited curricula, government-mandated curricula and extracurricular activities that aim to develop well-rounded individuals through a network of 66 schools in eight provinces in China as of the date of this annual report. We divide our schools broadly into international schools, bilingual schools and kindergartens.

- International schools. As of the date of this annual report, we had six international schools, which focus on internationally-accredited curricula and offer extracurricular activities and programs that aim to develop well-rounded individuals.

- Bilingual schools. As of the date of this annual report, we had 15 bilingual schools, which provide government-mandated curricula. Our bilingual schools place an emphasis on developing students' English proficiency and well-rounded individuals.
- Kindergartens. As of the date of this annual report, we had 45 kindergartens, including ten kindergartens that deliver international curricula.

During the 2018 school year, we had an average of 36,679 students enrolled at our schools and employed an average of 4,297 teachers and instructors. We have grown rapidly during the past three years, supported by strong demand for quality education in China and favorable policies promulgated by the PRC government and the nationwide expansion of Country Garden's residential communities. The following table sets forth the average number of students enrolled at our schools for the period indicated.

	<u>2016 school year</u>	<u>2017 school year</u>	<u>2018 school year</u>
International schools	5,443	6,283	7,366
Bilingual schools	11,441	13,189	15,620
Kindergartens	<u>8,979</u>	<u>10,275</u>	<u>13,693</u>
Total	<u>25,862</u>	<u>29,747</u>	<u>36,679</u>

An important element of our schools is to provide an immersive bilingual learning environment, with our English teachers and English-speaking staff. To help students master the English language, we design our English courses according to the specific linguistic needs of the students at each grade level, building their English language skills from kindergarten to high school.

Our schools are also committed to developing well-rounded students. As a private school operator, we have more flexibility in offering courses based on students' learning needs and in response to popular student and parent demand. We offer a broad range of courses, and students at our international schools may choose an individualized combination of courses. Some of the courses we offer, such as calligraphy, dance, debate and music, emphasize creativity, critical thinking and a deeper appreciation of traditional Chinese and international culture. Our schools also offer students the opportunity to participate in a variety of after-school programs and club events, including sports and life skills development programs, such as first aid and disaster drills, to supplement classroom learning. This provides our students with opportunities to fully explore and pursue their individual interests and potential.

Our coverage of K-12 education allows us to instill our educational philosophy from the starting point of a student's academic career. For our schools that cover the full spectrum of K-12 education, we believe we are able to minimize the need for our students to adapt for teaching methodologies and learning environments they may encounter when moving to the next level of education.

Most of our international and bilingual schools have boarding facilities, which allows students to focus on their studies and experience living independently before attending universities and allows us to recruit students from beyond Country Garden's residential communities. While substantially all of our schools are located within or in the vicinity of the residential communities developed by Country Garden, students from families that have not purchased property from Country Garden are increasingly attracted by our reputation for quality education. Approximately 51.2% of our students enrolled in our schools as of August 31, 2018 came from families who do not own Country Garden properties. All of our schools also feature a comprehensive suite of sports and education facilities and on-campus catering facilities.

Our international schools

As of the date of this annual report, we had six international schools in five provinces across China, including Guangdong, Jiangsu, Hunan, Guizhou and Gansu. Our international schools offer a broad range of internationally-accredited education programs to accommodate the individual needs of our large student base seeking to pursue higher education overseas. Driven by the increasing appreciation for the quality of higher education overseas and our commitment to providing quality education, our international programs have proven to be an attractive option to an increasing number of Chinese students and their parents, allowing us to charge a premium in tuition compared to other international schools targeting Chinese students.

Our schools are among the first private schools in China to receive international accreditations for our programs. According to the Frost & Sullivan report, we are also among a select group of private school operators in China accredited to administer all major globally-recognized education programs. The following table sets forth certain information about the major international programs we offer.

Accreditation Institution	Program	Applicable Grades
IB Organization	Primary Years Program	1-5
	Middle Years Program	6-10
	Diploma Program	11-12
Cambridge International Examinations	IGCSE	9-10
	A-Level	11-12
U.S. College Board	Advanced Placement	9-12
NCC Education	International Foundation Year	11-12

Programs administered by the IB Organization are generally recognized in all major English-speaking countries. IGCSE, A-Level and International Foundation Year are recognized primarily in the United Kingdom. Advanced Placement is recognized primarily in the United States and Canada. In addition, we offer joint diploma programs, including Sino-Canadian dual diploma, Sino-U.S. dual diploma and Sino-Australian dual diploma programs. Our students may switch from one program to another if they meet the applicable requirements.

We integrate classes under our international programs with government-mandated coursework to students from the first through ninth grades. In the event that our students under international programs elect to attend universities in China at any stage of their studies, they may switch to government-mandated curricula offered in some of our international schools.

The students enrolled at our international schools have increased rapidly in the last three school years, from an average of 4,292 for the 2015 school year to 7,366 in the 2018 school year. Students in the 2018 graduating class at our international schools were accepted to top colleges and universities in countries and regions such as the United Kingdom, the United States, Canada, Australia and Hong Kong. Approximately 91.8% of the 2018 graduating class enrolled in our Diploma Program, Advance Placement and A-level curricula who applied for overseas universities were admitted into global top 50 institutions, ranked by either the QS World University Rankings or U.S. News, including University of Chicago, University of Oxford, University of Cambridge, and University College London.

The following table sets forth certain information about each of our international schools.

Name	Location	Establishment	Grades	Average number of students enrolled during the 2017 school year	Average number of students enrolled during the 2018 school year	Capacity as of September 1, 2018
Guangdong Country Garden School	Shunde, Guangdong province	1994	1-12	3,604	3,562	3,940
Jurong Country Garden School	Jurong, Jiangsu province	2013	1-12	1,148	1,347	2,950
Ningxiang Country Garden School	Changsha, Hunan province	2014	1-12	364	490	2,100
Country Garden Silver Beach School	Huizhou, Guangdong province	2015	1-12	544	740	3,000
Huaxi Country Garden International School	Guiyang, Guizhou province	2015	1-9	305	385	798
Lanzhou Country Garden International School	Lanzhou, Gansu province	2016	1-12	318	842	2,472
Total				6,283	7,366	15,260

Guangdong Country Garden School (广东碧桂园学校)



Founded in 1994, Guangdong Country Garden School is our first international school that offers all three IB-accredited programs. It is also one of the few schools in China authorized to teach IGCSE and A-Level, Advance Placement, and International Foundation Year courses. Guangdong Country Garden School has become our flagship school due to its comprehensive set of internationally-accredited curricula, effective education services and long operating history. It is well known throughout China as the recipient of a number of recognitions such as being a First-Class School in Guangdong Province and being part of the Advanced Group in National Private Education. It hosts a teacher training academy which serves as the hub for teacher training within our school network. We send veteran teachers at our Guangdong Country Garden School to our new schools to share teaching experiences with, and provide demonstration classes to the resident teachers at those schools and also allow such resident teachers to visit Guangdong Country Garden School for on-site training sessions. Guangdong Country Garden School is instrumental in establishing our brand recognition throughout China and setting the benchmark for our other international schools.

Our students in this school are regular winners of national competitions. During the 2018 school year, two students won the first prize in the National Brain Bee Brain Science Competition, three students won a gold medal in the United States Academic Pentathlon, and three students won the first prize in the National English Proficiency Competition for Middle School Students. Among our 2018 graduating class enrolled in our Diploma Program, A-level or AP curricula at this school who applied for overseas universities, approximately 94.2% of them were admitted into top 50 universities and approximately 36.2% were admitted into top 10 universities, as ranked by either the QS World University Rankings or the U.S. News.

Jurong Country Garden School (句容碧桂园学校)



Founded in 2013, Jurong Country Garden School, our first international school outside Guangdong province, obtained authorization from the IB Organization to offer all three IB-accredited programs within three years of its establishment. The school is also authorized to offer IGCSE and A-Level courses and International Foundation Year courses. Among our 2018 graduating classes enrolled in our Diploma Program, A-Level or AP curricula at this school, who applied for overseas universities, approximately 75.0% of them were admitted into top 50 universities and approximately 15.0% were admitted into top 10 universities, as ranked by either the QS World University Rankings or the U.S. News.

Other international schools

Since 2014, we have established four international schools, Ningxiang Country Garden School, Country Garden Silver Beach School, Huaxi Country Garden International School, and Lanzhou Country Garden International School. We have replicated, and intend to continue to replicate, the success of Guangdong Country Garden School by leveraging the collective expertise and experiences accumulated by the teachers and management at Guangdong Country Garden School over the years. We believe the ample demand for international education, our education service quality, know-how and brand position us well to continue to ramp up the operation of each of these schools.

Our bilingual schools

As of the date of this annual report, we had 15 bilingual schools in five provinces in China. Our bilingual schools teach government-mandated curricula with an emphasis on English proficiency development. We supplement our academic offerings with activities for the well-balanced development of our students, such as arts-related and life skills building classes or club events, which are not generally available in public schools. The students enrolled at our bilingual schools have increased rapidly in the last three school years, from an average of 9,512 for the 2015 school year to an average of 15,620 in the 2018 school year.

Graduates from our bilingual schools generally take Zhongkao, the high school entrance examinations administered in China, and may pursue high school education in public or private schools. A number of our bilingual schools, including Phoenix City Bilingual School and Country Garden Huacheng School, also offer international courses to a small number of students in response to the local demands for further education at overseas universities. We generally allow our students to transfer from one program to another if they meet the relevant requirements.

The following table sets forth certain information about each of our bilingual schools.

Name	Location	Establishment	Grades	Average number of students enrolled during the 2017 school year	Average number of students enrolled during the 2018 school year	Capacity as of September 1, 2018
Huanan Country Garden School	Guangzhou (Panyu), Guangdong province	2002	1-9	2,741	2,890	2,848
Phoenix City Bilingual School	Guangzhou (Zengcheng), Guangdong province	2003	1-9	3,462	3,887	4,438
Country Garden Huacheng School	Shunde, Guangdong province	2003	1-9	1,122	1,149	1,116
Country Garden Venice Bilingual School	Changsha, Hunan province	2007	1-9	1,621	1,714	1,728
Wuyi Country Garden Bilingual School	Jiangmen, Guangdong province	2009	1-9	727	807	1,008
Heshan Country Garden School	Heshan, Guangdong province	2010	1-9	1,213	1,309	1,296
Wuhan Country Garden School	Wuhan, Hubei province	2011	1-6	287	465	840
Zengcheng Country Garden School	Guangzhou (Zengcheng), Guangdong province	2013	1-9	817	1,049	1,512
Country Garden Panpuwan School	Shunde, Guangdong province	2015	1-9	738	994	1,080
Laian Country Garden Foreign Language School	Chuzhou, Anhui province	2015	1-9	160	301	768
Taishan Country Garden School	Jiangmen, Guangdong province	2015	1-9	301	506	1,944
Chuzhou Country Garden Foreign Language School	Chuzhou, Anhui province	2017	1-9	N/A	113	960
Shaoguan Country Garden Foreign Language School	Shaoguan, Guangdong province	2017	1-9	N/A	137	1,296
Kaiping Country Garden School	Jiangmen, Guangdong province	2017	1-6	N/A	134	1,080
Huaian Country Garden Tianshan Bilingual School ⁽¹⁾	Huaian, Jiangsu province	2017	1-9	N/A	58	N/A
Shenghua Country Garden Bilingual School	Baoding, Hebei province	2017	1-9	N/A	107	1,296
Total				13,189	15,620	23,210

(1) We ceased operations of this school on August 1, 2018 due to termination of cooperation with a third-party partner.

We believe our bilingual schools are often one of the schools of choice in their respective cities. Approximately 80.3% of grade 9 graduates from our nine bilingual schools have been accepted into top public high schools in their respective regions. Approximately 88.6% and 91.5% of the 2018 graduating class from our two largest bilingual schools, Huanan Country Garden School and Phoenix City Bilingual School, were admitted into the top local high schools, respectively.

Our kindergartens

As of the date of this annual report, we had 45 kindergartens in eight provinces across China. A majority of our kindergartens are built adjacent to our primary, middle and high schools to share certain education resources and facilities and provide potential student sources to our schools. Our kindergartens are generally smaller in size compared with our international and bilingual schools. In the 2018 school year, our kindergartens had an average of 13,693 students.

Our kindergartens provide an active and healthy learning environment to help students develop their potential and personality, appreciate diverse cultures and lay the foundation to drive future success. In our kindergartens, we integrate elements of traditional Chinese culture with international cultural awareness through language classes and cultural activities. We have 11 kindergartens that offer Primary Years Programs, four of which have received IB accreditations. Under the Primary Years Programs, we provide a foreign homeroom teacher to stay with our students throughout each school day and implement a holistic approach to English education including the adoption of English teaching materials. We believe that administering Primary Years Programs at our kindergartens helps our students move up seamlessly to other IB-accredited programs offered in the primary through high schools within our school network.

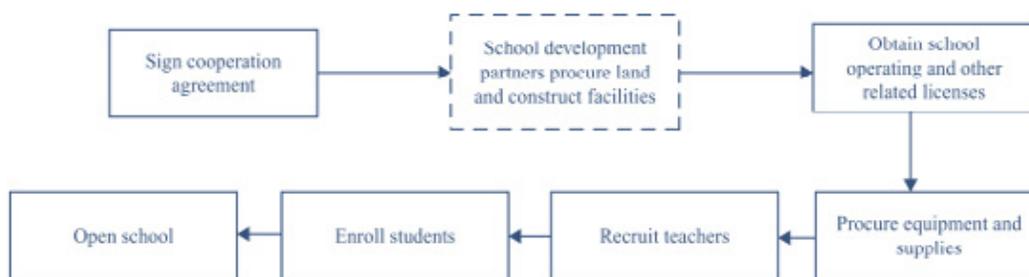
Schools under development

We intend to expand our school network with a particular emphasis on developing international schools in new geographical markets in China and abroad. When determining a new school location, we generally consider factors such as potential demand for quality private education, demographic background of prospective students and their families, household income level, level of local government support, availability of suitable sites and existing market competition.

We generally favor new schools located within the residential communities developed by Country Garden to achieve cost savings and synergies in land procurement, facilities construction, marketing and student acquisition. Based on its residential property development plans, Country Garden has plans to develop several hundred sites in the next few years, presenting us with a large number of potential opportunities for expanding our school network.

We are also party to a partnership agreement with a third-party partner to expand our school network as of August 31, 2018. Under the agreement, we are primarily responsible for the day-to-day operation of the schools, and our partner is primarily responsible for land procurement and facilities construction.

The following flowchart sets forth the major steps involved in launching a school with a partner.



As substantially all of our existing schools were established within or in the vicinity of Country Garden’s residential communities, the sales of Country Garden’s residential units have had an impact on the number of students enrolled at our schools. The number of residents typically increases within the first two to three years after the completion of Country Garden’s residential property development, and correspondingly, a school usually takes up to several years to ramp up its utilization rate and build its reputation.

We launched one kindergarten in the 2019 fiscal year as of the date of this annual report, and expect to launch another four kindergartens before the end of the 2019 fiscal year.

Centralized management

We have established a centralized management system through which we manage and oversee certain aspects of our schools across our network, including school administration, supply procurement and sharing and development of teaching resources, to support and facilitate management of our schools as well as to ensure consistency in the quality of our education.

Sharing and development of teaching resources

In order to maintain and improve our teaching quality, some of our schools share their teaching resources with each other and jointly hold teacher development workshops. For example, our flagship school, Guangdong Country Garden School, established a teacher training academy, which serves as the hub for teacher training within our school network. We send veteran teachers from Guangdong Country Garden School to our new schools to share teaching experiences with, and provide demonstration classes to, the resident teachers at these schools and also allow such resident teachers to visit Guangdong Country Garden School for training sessions. We also operate a centralized teaching staff recruitment program through which we hire and deploy teachers and educational staff within our school network based on each school's needs and teacher preferences. We intend to continue to leverage the availability of our teaching resources at different schools within our network to ensure consistency in teaching quality.

Education material and equipment procurement

We make procurement decisions regarding teaching materials and equipment and other education supplies for our schools in the same geographical areas to improve our operating efficiency, maximize economies of scale and enhance our overall bargaining power with suppliers. Such procurement choices include those for catering, textbooks, school uniforms, classroom furniture, computers, kitchen equipment, tableware and office appliances.

School administration

To improve our operating efficiency, we have centralized our finance, marketing, human resources, legal and information technology functions. We have adopted a series of policies and procedures relating to general corporate governance matters, which are aimed at strengthening the management and government of our company and our schools. For example, in the 2018 fiscal year, we implemented an ERP system where we centralize the collection and analysis of budgeting, procurement and financial information and data, which enhanced the efficiency of our data management processes, adding value to the overall operation of our business.

School marketing

While each of our schools conducts its own on-site promotional events to attract local students, we also organize group-wide marketing events to promote our brand and corporate image as one of China's leading private school operators, including our strategic arrangements with local newspapers such as Nanfang Metropolis Daily. For details, see "—Marketing" below.

Our Complementary Education Services

We provide complementary education services to students from our schools and others. These complementary education services further enhance students' overall learning experience and generate synergies with our school operations.

Camp programs

We have organized summer and winter camp programs in certain countries, including the United Kingdom, the United States and Australia. We also offer summer school programs which are more rigorous and allow our participants to study for specific courses or prepare for standardized tests. These summer and winter camp programs are primarily offered to students enrolled at our schools, but are also open to other students. During the summer of 2018, more than 678 students participated in our camp programs.

We have developed business collaborations with 18 overseas universities and high schools as the local hosts of our camps or summer school programs. We work together with our partners to design programs and activities to improve the participants' English communication skills, expand their knowledge and develop a familiarity with college environments and international cultures.

Our overseas camp programs typically take place on university campuses and include various activities, such as classes and excursions. For high school students, we offer tours to different universities during our programs. These visits allow participants to become familiar with the overseas campuses, talk with admissions officers and spend time with our alumni currently studying at each university. Some of our camp programs include a homestay, which allows the participants to get an inside look at Western family dynamics and form supportive friendships in an immersive English-speaking environment. We send our teachers to escort the students during their tours. By participating in the summer and winter camps, we believe our students not only broaden their horizons and improve their English proficiency, but also clarify their academic goals and enhance their motivation to pursue overseas studies after graduating from our schools.

In addition to overseas camps, we plan to launch domestic summer and winter camp programs, which will target students enrolled in our schools as well as students outside our network. Our domestic camps will feature more than 20 outdoor activities for students to bring them closer to the nature. This camp also features STEAM activities, i.e., activities related to science, technology, engineering, art and math. We have leased properties in Huizhou, Guangdong province to host our domestic camps, and these properties are currently under construction. We plan to officially launch our domestic camp programs in January 2019.

After-school programs

English proficiency training

We offer English proficiency development courses to children aged from five to 15 through a network of 17 learning centers located in Beijing, Shanghai and Guangdong, China. Our goal is to help children improve their general English proficiency. To this end, we have adopted a holistic language learning approach, which immerses children in an English-speaking environment and requires them to think, learn and communicate with the mindset of native speakers. Our learning centers are staffed only by native English speakers as instructors and are equipped with libraries containing age-appropriate English-language books and audio materials suited to English learners of different proficiency levels. In the 2018 school year, we had an average of 104 instructors in our learning centers. We operate our learning centers under the brand of "élan." In the 2018 fiscal year, we had an average student enrollment of 3,982 for English proficiency training.

Extracurricular programs

We offer a wide range of extracurricular programs primarily to children through two learning centers located in Shunde, Guangdong province and Jurong, Jiangsu province. Our programs encompass popular subjects, such as art, soccer, mathematics and programmable robotics. Our programs supplement in-classroom learning and promote the well-balanced development of children. Our programs also help children tap into their interests and potential that benefit their study or career goals. We work with our partners on these programs.

Education Consulting Services

We offer education consulting services to better serve our students in and outside of our network of schools. As of the date of this annual report, we have strategically invested in the acquisitions of equity interests in several providers of education consulting services, including Can-achieve, FGE, Zangxing and Yinzhe. See "—Our Expansions and Investments." Through these strategic acquisitions, we are able to provide a comprehensive range of services covering K-12 education as well as consulting services from application to overseas universities and teaching institutions and education mentoring services for career placements, which we believe will drive our future growth.

Our Expansions and Investments

In January 2016, we acquired élan, an English proficiency training business. In December 2017, we acquired five kindergartens with a total capacity of 1,800 students in Hubei province. In May 2018, we acquired an additional 49% equity interests in Can-achieve to supplement our test preparation and college counseling business and improve our students' university admission results and as of the date of this annual report, we hold a total of 70% equity interests in Can-achieve. In June 2018, we acquired a 75% interest in FGE, which is primarily engaged in providing study-abroad consulting services, and a 51.7% interest in Zangxing, which is primarily engaged in the operation of an online platform to provide education promotion services to schools and training institutions through its "ShangxueBang" mobile app. In July 2018, we entered into a share purchase agreement to purchase a 70% equity interest in a Zhejiang-based training art institute. In September 2018, we acquired 75% equity interests in Yinzhe, which is primarily engaged in offering online career and education mentoring services to overseas Chinese students under the brand of "DreambigCareer." In October 2018, we acquired BCS in the United Kingdom, which offers day and boarding education from age two to 18 on two campuses. In October 2018, we entered into an agreement to acquire an 85% equity interest in a company managing a chain of eight kindergartens in Shandong province with a total capacity of 2,310 students and a utilization rate of 66.7% as of June 30, 2018. We plan to launch domestic camp programs in Guangdong province in January 2019 in addition to overseas camp programs. We plan to continue to make strategic investments into and acquisitions of overseas schools and complementary businesses to better serve our students and drive our future growth.

In addition to expansion through acquisitions, in September 2018, we also entered into a partnership agreement with third-parties to establish an investment fund under which we agreed to invest a total of RMB999.8 million in promoting the establishment and operations of K-12 education centers, bilingual schools and international schools. As of the date of this annual report, we have invested approximately RMB100.0 million pursuant to the partnership agreement.

Our Students

Student admission

Our students are primarily Chinese nationals from relatively affluent families and aspire to pursue the next level of education overseas or gain a competitive advantage from bilingual education. Since substantially all of our schools were launched within or in the vicinity of the residential communities developed by Country Garden, our recruitment efforts were initially targeted at students from families who were Country Garden's homeowners. As we have gradually forged a reputation for providing quality education through a proven track record of success over the years, we frequently attract prospective students from outside of Country Garden properties, largely through word-of-mouth referrals and marketing efforts. Approximately 51.2% of our students enrolled in our schools as of August 31, 2018 came from families who do not own Country Garden properties. We believe that our schools are attractive to prospective students and their parents due to our reputation and the quality and breadth of our education programs.

We implement selective screening procedures for student admissions. We generally require middle school and high school applicants to take entry tests to assess their English proficiency and academic performance. We conduct admissions interviews with kindergarten and primary school applicants. As a result of the large number of students wishing to enroll in our schools, we are selective in accepting our students.

Student performance

Approximately 91.8% of the 2018 graduating class enrolled in our Diploma Program, Advance Placement or A-Level curricula, who applied for overseas universities were admitted into the global top 50 institutions, ranked by either the QS World University Rankings or U.S. News, including University of Chicago, University of Oxford, University of Cambridge, and University College London. Students in our 2018 graduating class have received 746 offers in total from global top 50 institutions by the same ranking. Our 2018 graduating students were admitted by 58 top institutions which are located in over six countries or regions, including the United States, the United Kingdom, Australia, Canada, Switzerland, and Hong Kong, of which over 46.6% are U.S.-based institutions. Students enrolled at our bilingual schools have also achieved extraordinary academic results. Approximately 80.3% of our graduating students from our nine bilingual schools were admitted into top local high schools in the 2018 fiscal year. Approximately 88.6% and 91.5% of the 2018 graduating class from our Huanan Country Garden School and Phoenix City Bilingual School were admitted into the top local high schools.

As all of our programs place particular emphasis on developing students' English skills, our students are regular winners of regional and provincial rounds at national English skill competitions, such as the China Youth English Competence Contest and the China Central Television Star of Outlook Talent Competition. In addition to academic accomplishments, we also seek to promote the well-balanced development of our students through a wide range of extracurricular activities to tap into their interests and potential.

Student and parent support services

We generally have small class sizes across our school network in order to provide each student with close and frequent teacher interactions and individual attention and support. Our teachers assist students through academic difficulties with personalized remedial measures, including additional practice materials and instructive sessions. We also provide counseling to help our students with university applications.

As a testament to the positive student experience we provide at our schools, we have historically maintained relatively high student retention rates. After our students complete their studies at our schools, we encourage them to advance their education within our school network if they meet the requisite academic requirements. For example, in our schools offering both primary and middle school education, 66.8% of the 2018 primary school graduating class continued their next level of studies at the same school. Our average net annual student retention rate for all students, which measures the percentage of students enrolled at the beginning of a school year who move on to the next grade level was over 90.0% for each of the 2016, 2017 and 2018 school years.

We also maintain regular communication with the parents of our students and provide them with complimentary seminars and training on education programs, university applications and parenting.

Our Teachers

Teacher qualifications

We have assembled a team of teachers with extensive experience in education. Our schools are staffed with different levels of teachers and educational staff. Certain senior teachers have managerial responsibilities in addition to their responsibilities as instructors. Educational staff include teaching assistants, librarians and medical staff.

We seek to employ teachers that have a passion for teaching, mastery of their subject areas, strong communication skills and proficiency in employing innovative and effective teaching methods. Our teachers who are Chinese nationals have an average of approximately nine years of experience in teaching. Across our school network, we also had an average of 236 foreign teachers, representing 5.6% of the teacher pool of our schools in the 2018 school year. Foreign teachers of our international schools represented 8.8% of our teacher pool in international schools during the same period. We believe that foreign teachers are essential to providing an immersive bilingual environment and better preparing our students for the pursuit of the next level of education overseas.

We had 526 teachers, or 12.6% of our total teacher pool and 46.9% of our teacher pool in international schools, licensed with IB training certificates as of August 31, 2018. To stay current with the constant changes in the IB syllabus, we require all of our teachers to take regular IB training classes. We typically outsource instructors for our extracurricular programs.

Teacher recruitment

Our teachers are critical to maintaining the quality of our programs and services and in promoting our brand and reputation. We place particular importance on recruiting teachers who are appropriately qualified and experienced. We implement a centralized recruitment program that seeks to hire teachers and educational staff and deploy them across our school network based on each school's needs and teacher preferences. We screen candidates for strong academic credentials, dedication and knowledge in the relevant teaching subjects, and commitment to serving students' needs. We require our teachers to possess the appropriate qualifications required by PRC regulatory authorities, including the foreign expert certificate in the case of foreign teachers. We believe that teacher candidates are attracted to our schools because of our reputation, commitment to quality education, financial strength and competitive compensation package. To enhance our retention rate, we also allow our teachers to laterally transfer within our school network. We maintained teacher retention rates of approximately 88.7% for each of the 2016, 2017 and 2018 school years. "Teacher retention rate" is calculated as 100.0% minus the quotient of the number of both our Chinese and foreign teachers that leave employment during a school year by the number of teachers at the beginning of that school year (not including teachers hired during that school year).

In May 2018, we entered into a strategic partnership agreement with Beijing Normal University ("BNU") pursuant to which we jointly established Huiyan International Education College which aims to provide international education training for new and existing teachers. This college will form part of the Faculty of Education of BNU with opening currently scheduled in 2019. Through the partnership, we will jointly own the intellectual property of research in international education with BNU. By offering internship opportunities across our nationwide school networks to participants of Huiyan International Education College, we will obtain a valuable source of future teachers for our schools.

Teacher training

We are committed to investing in our teachers and principals. Newly-hired teachers undergo a training program on teaching skills as well as our school culture. We also provide ongoing professional development for our teachers and principals, in the form of online, on-campus or one-on-one training and support sessions. Our flagship school, Guangzhou Country Garden School, established a teacher training academy which organizes centralized teacher training activities. We also send veteran teachers to our new schools to share teaching experiences with, and provide demonstration classes to, the resident teachers at those schools and also allow such resident teachers to visit Guangdong Country Garden School for on-site training sessions. From time to time, we organize seminars on professional training in cooperation with prestigious institutions, such as the Institute of Education of University College London. We also invite veteran teachers to participate in school administration by offering them management training with the possibility of promotion to principal positions. The opportunity for ongoing professional training and career advancement is not always available at private schools and is a key differentiator in our ability to attract, develop and retain talented teachers.

Our Tuition

We charge our students tuition, boarding and textbook fees generally prior to the beginning of each semester. Tuition and fees being paid in arrears is subject to special approval. As a result, approximately 91.2% of our revenue for the first semester of the 2018 school year was received in or before August 2017 and approximately 8.8% was received after August 2017. For the second semester of the 2018 school year, approximately 89.8% of our revenue was received in or before February 2018 and approximately 10.2% was received after February 2018. We also accept monthly payment of fees at certain kindergartens we operate. We offer a partial refund if a student withdraws during a semester. We may also offer tuition discounts to certain of Country Garden's homeowners, our employees and employees of Country Garden. Tuition refund or discounts did not materially and adversely affect our business, results of operations or financial position. We have limited discretion in determining the types and amounts of fees we charge under the current PRC regulatory regime. For example, in accordance with the relevant local regulations, if we increase the tuition at our schools in Guangdong province in a certain school year, such increase will generally not affect the existing students until they complete their current section of education at the same schools. In determining the amount of tuition we charge, we consider factors including the demand for our education programs, the cost of our operations, the geographic markets where our schools are located, the tuition charged by our competitors, our pricing strategy to gain market share and general economic conditions in China. For example, the average tuition and fees per student at Guangdong Country Garden School was RMB100,182 in the 2018 school year, compared to RMB73,102 and RMB66,785 at Ningxiang Country Garden School and Jurong Country Garden School, respectively, in the same period. Our tuition and fees charged for internationally-accredited programs is typically higher than that for government-mandated curricula, which reflects the additional educational and operational resources associated with administering the former. For the 2018 school year, we charged average tuition and fees of RMB80,048 for international schools, RMB34,187 for bilingual schools and RMB30,736 for kindergartens. Our average tuition for our international schools decreased slightly from RMB80,478 in the 2017 fiscal year to RMB80,048 in the 2018 fiscal year primarily due to pricing strategies related to our promotional efforts for schools in the ramp-up stage.

For our complementary education services, we determine our fees by referring to the prevailing market rates. In 2017 and 2018 school years, we charged an average of RMB46,817 and RMB41,108 per student enrollment for overseas camps and an average of RMB19,709 and 21,249 per student for English proficiency training, respectively.

Our Business Partners

We collaborate with a number of universities overseas, which enables our partner institutions to appreciate our strong academic programs and our students' English language proficiency and facilitates the early admissions process by encouraging early contact between our students and these institutions. In particular, we have formed strategic relationships with each of University of St. Andrews and Newcastle College in the area of international college admission tests such as the AP tests and the SAT, and our co-operations with East Sussex College on IELTS courses.

Over the years, our international schools have individually obtained authorization from the Cambridge International Examinations to administer education programs such as IGCSE and A-Level and the related examinations. In May 2016, we became a Cambridge Associate, which allows us to review and self-approve the eligibility of all of our schools to administer such programs and the related examinations. Our status as a Cambridge Associate also allows us to deepen our cooperation with Cambridge International Examinations on teacher training, curriculum development and international exchange programs. On May 17, 2017, we cooperated with Columbia University and co-established the "Bright Scholar – Columbia Scholarship" program. On May 26, 2017, we co-established the "Bright Scholar – University of California – Berkley Scholarship." In June 2018, we signed a collaboration agreement with Fettes College, a boarding and day school in Scotland, to co-establish a school in China that features the campus design, curricular, management system and school traditions of Fettes College. The school is targeted to students aged two to 18, and is expected to begin operation in 2020 with a capacity of nearly 2,500 students. In November 2018, in collaboration with BNU, we opened Huiyan International Education College aiming to strengthen BNU's international collaborations with other educational institutions in the area of education training for teachers.

Research and Curriculum Development

We believe we have devoted significant resources to our research and curriculum development efforts which are reflected in our course materials and effective teaching methods. We encourage our teachers to develop, update and improve our curricula and course materials based upon our students' needs and the latest official government curricula or course outlines issued by the relevant international programs. As our students' academic ability levels vary, our curricula are designed with the flexibility to address a particular student's strengths and weaknesses. Our teachers in charge of designing the curricula also work with other teachers to prepare or update such course curricula, and revise the curricula based on feedback from the classroom. To ensure our education quality can be upheld across our schools, we have dedicated a team of senior teaching staff to designing curricula for the programs implemented in our schools and to keep our teaching materials updated with reference to the latest educational trends.

Marketing

We historically market our schools primarily to students from families that purchased residential units developed by Country Garden. We distribute marketing brochures and offer site tours of our school to prospective home buyers visiting the sales centers for residential properties developed by Country Garden. Our relationship with Country Garden is synergistic because our schools enable Country Garden to meet the requisite local governmental requirements or market needs for schools in its residential communities and we may offer preferential student placements and tuition discounts as an incentive to prospective home buyers. We believe that the availability of and convenient access to quality education is a significant factor that drives home buying decisions.

As we have gradually forged a reputation for quality education through a proven track record of success over the years, we began to attract students from families other than Country Garden's homeowners. We have also implemented a variety of marketing methods to enhance the brand recognition of our schools. By doing so, we intend to continue creating and implementing a standard corporate identity across all our schools. We take measures to increase word-of-mouth referrals which have been instrumental to attracting new students and building our brand. We have also strengthened our marketing strategy to drive student recruitment, and built up our marketing teams at both headquarters and regional levels to assist students recruitment, while allocating more marketing and promotional budgets for schools in the ramp-up stage.

- Referrals. Word-of-mouth referrals by former and current students and their families have been a significant source of our student enrollment. Recommendations made by our alumni who matriculated into reputable overseas education institutions or excelled in Zhongkao or Gaokao provide convincing testimonials to prospective students. We actively work with our alumni and current students to encourage them to recommend our programs to prospective students.
- Promotional events. From time to time, we organize promotional and recruiting events to provide real-time, on-site opportunities for our prospective students to learn more about our services and programs, as well as to meet our teachers and staff. We also organize event-driven marketing campaigns such as seminars for our international schools so that prospective students interested in studying abroad can meet with teachers and recruiting personnel from overseas institutions and learn more about our international programs. For example, in August 2017, we co-hosted the 2017 China Liberal Arts College Tour to introduce the U.S. top liberal arts colleges to our students and prospective students. In 2018, we invited more than 20 media to attend a press conference for our 2018 international test results, which also attracted an online audience of more than 72,000.
- Media advertising. We have entered into a strategic cooperation agreement with Nanfang Metropolis Daily, a newspaper of significant popularity in Guangdong province, where most of our schools are located. We have arranged with Nanfang Metropolis Daily to publish a series of stories on our people, our education philosophy and our company to promote brand awareness. We have also placed advertisements on searching engines and internet portals in China.

Competition

The education service market in China is rapidly evolving, highly fragmented and competitive. In Guangdong province, where a majority of our schools are located, we compete with a number of other private schools, including Nord Anglia schools and Maple Leaf schools. We believe we can compete effectively because we have a track record of delivering quality education primarily to local Chinese students, while certain other market players primarily serve students from expatriate families. We may also compete with local private international and bilingual schools in each region we have a presence. We believe we are well-positioned to replicate our success and compete effectively based on the following factors:

- scalable business model;
- operating knowledge;
- reputation and brand recognition;
- teaching quality;
- ability to recruit and retain students;
- ability to recruit and retain principals and teaching staff;
- relationship with local education authorities, international program accreditors and overseas colleges and universities; and

- relationship with other key stakeholders, such as real estate developers.

Properties and Facilities

All of our properties are located in China. We currently occupy a total combined gross floor area of more than 1.3 million square meters of facilities developed by Country Garden, substantially all of which is leased. By utilizing the properties developed by Country Garden we avoid significant capital expenditures in connection with land procurement and facilities construction. We may also provide preferential student placements and tuition discounts to homeowners of the Country Garden properties. We are in the process of entering into school operation agreements to document our arrangements with Country Garden for the newly established schools. In recognition of our synergistic relationship, Country Garden adopted an internal policy that designates us as a preferred school operator partner, under which we are entitled to the right of first refusal on school development projects in connection with its new residential properties.

We also lease a total site area of approximately 172,240 square meters of land from a third party for Guangdong Country Garden School. This lease expires in 2063, and we pay annual rental charges, which are adjusted for annual changes in the cost of living index. The lessor may terminate the lease only for our material breach of contract. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We have certain property defects relating to our lease of the land occupied by Guangdong Country Garden School, which may adversely affect our operations.”

Intellectual Property

We have obtained a license to use certain trademarks, including “Country Garden” from Country Garden free of charge for a term expiring in 2020 and plan to obtain a renewal thereafter. We have applied for or registered trademarks relating to our logos and names, including “Bright Scholar” and “Bo Shi Le” in China. As of the date of this annual report, we have registered 33 trademarks including “élan,” with the PRC Trademark Office and major domain names used for our operation with the China Internet Network Information Center, including www.brightscholar.com, www.bgyedu.cn, www.bgyedu.cn, 博实乐.cn, 博实乐.com, fettesgz.com and fetteschina.com. From time to time, we are required to obtain licenses with respect to course materials owned by third parties for our education services, in particular for our international program which requires foreign-language education materials. We own copyrights to the course content we developed in-house.

Our trademarks and other intellectual property rights distinguish our services and products from those of our competitors and contribute to our ability to compete in our target markets. To protect our intellectual properties, we rely on a combination of trademark, copyright and trade secret laws. We have confidentiality clauses in our employment agreements with our employees to protect our intellectual property rights, and also monitor any infringement or misappropriation of our intellectual property rights.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We maintain insurance to cover students and teachers’ medical expenses for injuries they might sustain at our schools. We also maintain insurance to cover our liability should any injuries occur at our schools. In addition, we maintain property insurance for our vehicles. We do not maintain business interruption insurance, product liability insurance or key-man life insurance. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We have limited insurance coverage with respect to our business and operations.” We consider our insurance coverage to be in line with that of other private K-12 education providers of a similar scale in China.

Legal Proceedings

From time to time, we are subject to legal proceedings, investigations and claims during the ordinary course of our business. We are not currently a party to any legal proceeding or investigation which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

Regulations

We operate our business in China under a legal regime consisting of the National People's Congress, which is the country's highest legislative body, the State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority, including the MOE, the Ministry of Industry and Information Technology, SAIC, the Ministry of Civil Affairs and their respective local offices. The section summarizes the principal PRC regulations related to our business.

PRC Laws and Regulations Relating to Foreign Investment in Education

Foreign Investment Access Special Management Measures (2018 Version)

Pursuant to the Foreign Investment Industries Guidance Catalog (Amended in 2015), or the Foreign Investment Catalog, which was amended and promulgated by National Development and Reform Commission, or the NDRC, and the MOFCOM on March 10, 2015 and became effective on April 10, 2015, kindergarten education, high school education and higher education are restricted industries for foreign investors, and foreign investments are only allowed to invest in kindergarten education, high school education and higher education in cooperative ways and the domestic party shall play a dominant role in the cooperation. In addition, according to the Foreign Investment Catalog, foreign investors are prohibited from investing in compulsory education, i.e., primary school to middle school.

Sino-foreign cooperation in operating schools is specifically governed by the Regulation on Operating Sino-foreign Schools of the PRC, which was promulgated by the State Council on March 1, 2003 and became effective on September 1, 2003 and amended on July 18, 2013, the Law for Promoting Private Education of the PRC, and the Implementing Rules for the Regulations on Operating Sino-foreign Schools or the Implementing Rules, which were issued by the MOE on June 2, 2004 and became effective on July 1, 2004.

On June 18, 2012, the MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education to encourage private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital in a PRC-foreign education institute shall be less than 50%.

The Foreign Investment Industries Guidance Catalog (2017 Revision), which was promulgated on June 28, 2017 and took effect on July 28, 2017 replacing the abovementioned Foreign Investment Industries Guidance Catalog (2015 Revision), contains the same types of industry categories.

The Foreign Investment Access Special Management Measures (Foreign Investment Access Negative List) set forth in the Foreign Investment Industries Guidance Catalog (2017 Revision) was replaced by the Foreign Investment Access Special Management Measures (Negative List) (2018 Version), promulgated on June 28, 2018 with effect on July 28, 2018, which imposes the same restriction and prohibition on foreign investors in the education sector besides one additional ban on religious education institutes.

As of the date of this annual report, our kindergartens and high schools fall within restricted industries for foreign investors, and our international schools and bilingual schools which cover compulsory education fall within prohibited industries for foreign investors.

Regulations on Private Education in the PRC

Education Law of the PRC

On March 18, 1995, the National People's Congress of the PRC, or the NPC, enacted the Education Law of the PRC, or the Education Law, which was 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. The Education Law stipulates that the government formulates plans for the development of education, establishes and operates schools and other education institution. Furthermore, it provides that in principle, enterprises, social organizations and individuals are encouraged to establish and operate schools and other types of education institutions in accordance with PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other education institution for profit-making purposes. On December 27, 2015, the Education Law was amended, which became effective on June 1, 2016. The amended Education Law repudiates a specific paragraph of the old law, which prohibits any organization or individual from establishing or operating a school or any other education institution for profit-making purposes. Nevertheless, schools and other education institutions sponsored wholly or partially by government financial funds and donated assets remain 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 became effective on April 1, 2004. Under these regulations, “private schools” are defined as schools established by social organizations or individuals using non-government funds. Private schools providing academic qualifications education, kindergarten education, education for self-study examination and other education shall be subject to approval by the education authorities at or above the county level, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of 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, and shall be registered with the Ministry of Civil Affairs of the PRC, or the MCA, or its local counterparts as a privately run non-enterprise institution. Each of our schools has obtained the Permit for Operating a Private School and has been registered with the relevant local counterpart of the MCA.

Under the above regulations, the operations of a private school are highly regulated. For example, the types and amounts of fees charged by a private school providing academic qualifications education shall be approved by relevant government authorities and publicly disclosed, and a private school that provides non-academic qualifications education shall file its pricing information with the relevant government authorities and publicly discloses such information.

According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as “sponsors” rather than “owners” or “shareholders.” The economic substance of “sponsorship” with respect to private schools is substantially similar to that of shareholder’s ownership with respect to companies in terms of legal, regulatory and tax matters. For example, the name of the sponsor shall be entered into the private schools’ articles of association and Permit for Operating a Private School, similar to that of shareholders where their names shall be entered into the company’s articles of associations and corporate records filed with relevant authority. From the perspective of control, the sponsor of a private school also has the right to exercise ultimate control over the school by means such as adopting the private school’s constitutional documents, electing the school’s decision-making bodies, including the school’s board of directors and principals. The sponsor can also profit from the private schools by receiving “reasonable returns,” as explained in detail below, or disposing its sponsorship interests in the schools for economic gains. However, the rights of sponsors vis-à-vis private schools also differ from the rights of shareholders vis-à-vis companies. For example, under the PRC laws, a company’s ultimate decision-making body is its shareholders meeting, while for private schools, it is the board of directors, though the members of which are substantially appointed by the sponsor. The sponsorship interest also differs from the ownership interests with regard to the right to the distribution of residual properties upon liquidation of a private school, mainly because private education is treated as a public welfare undertaking under the current regulations. While private education is treated as a public welfare undertaking under the current regulations, sponsors of a private school may choose to require “reasonable returns” from the annual net balance of the school after deduction of costs for school operations, donations received, government subsidies (if any), the reserved development fund and other expenses as required by the regulations. Private schools whose sponsor does not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools whose sponsor require reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. To date, however, no regulations have been promulgated by such authorities in this regard.

As of the date of this annual report, 28 of our schools are registered as private schools requiring reasonable returns, 35 schools are private schools not requiring reasonable returns, and three schools are registered as for-profit schools.

The Decision of the Standing Committee of the National People’s Congress on Amending the Law for Promoting Private Education of the PRC, or the Amendment, has been promulgated by Order No. 55 of the President of the PRC on November 7, 2016 and has come into force on September 1, 2017.

Under the Amendment, the term “reasonable return” is no longer used and sponsors of private school may choose to establish non-profit or for-profit private schools at their own discretion, while before the Amendment, all private schools shall not be established for for-profit purposes. Nonetheless, school sponsors are not allowed to establish for-profit private schools that are engaged in compulsory education. In other words, the schools engaged in compulsory education should retain their non-profit status after the Amendment comes into force. The Amendment further establishes a new classification system for private schools to be classified by whether they are established and operated for profit-making purposes.

According to the Amendment, the key features of the aforesaid new classification system for private schools include the following:

- sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations;
- sponsors of non-profit private schools are not entitled to the distribution of profits or proceed from the non-profit schools and all operation surplus of non-profit schools shall be used for the operation of the schools;
- for-profit private schools are entitled to set their own tuition and other miscellaneous fees without the need to seek prior approvals from or report to the relevant government authorities. The collection of fees by non-profit private schools, on the other hand, shall be regulated by the provincial, autonomous regional or municipal governments;
- private schools (for-profit and non-profit) may enjoy preferential tax treatments. Non-profit private schools will be entitled to the same tax benefits as public schools. Taxation policies for for-profit private schools after the Amendment taking effect are still unclear as more specific provisions are yet to be introduced;
- where there is construction or expansion of a non-profit private school, the school may acquire the required land use rights in the form of allocation by the government as a preferential treatment. Where there is construction or expansion of a for-profit private school, the school may acquire the required land use rights by purchasing them from the government;
- the remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of non-profit schools. The remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law; and
- people's governments at or above the county level may support private schools by subscribing to their services, provision of student loans and scholarships, and leases or transfers of unused state assets. The governments may further take such measures as government subsidies, bonus funds and incentives for donation in support of non-profit private schools.

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, or the State Council Opinions, which requires to ease the access to the operation of private schools and encourages social forces to enter the education industry. The State Council Opinions also provides that each level of the people's governments shall increase their support to the private schools in terms of financial investment, financial support, autonomy policies, preferential tax treatments, land policies, fee policies, autonomy operation, protecting the rights of teachers and students etc. Further, the State Council Opinions require each level of the people's governments to improve its local policies on government support to for-profit and non-profit private schools by ways of preferential tax treatments etc. In addition, under the State Council Opinions, private schools shall strengthen its construction of the Chinese Communist Party, or the CCP, and further the theoretical system of Socialism with Chinese Characteristics by introducing such system into textbooks and teaching programs. The construction of the CCP's organizations by the private schools as well as the CCP's leadership to private schools shall constitute an important part of such schools annual inspection.

On December 30, 2016, the MOE, MCA, SAIC, the Ministry of Human Resources and Social Welfare and the State Commission Office of Public Sectors Reform jointly issued the Implementation Rules on the Classification Registration of Private Schools to reflect the new classification system for private schools as set out in the Amendment. Generally, if a private school established before promulgation of the Amendment chooses to register as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration process. If such private school chooses to register as a for-profit school, it shall conduct financial liquidation process, have the property rights of its assets such as lands, school buildings and net balance being authenticated by relevant government authorities, pay up relevant taxes, apply for a new Permit for Operating a Private School, re-register as for-profit schools and continue its operation. Specific provisions regarding the above registrations are yet to be introduced by people's governments at the provincial level.

On December 30, 2016, the MOE, SAIC and the Ministry of Human Resources and Social Welfare jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools, pursuant to which the establishment, division, merger and other material changes of a for-profit private school shall first be approved by the education authorities or the authorities in charge of labor and social welfare, and then be registered with the competent branch of SAIC.

On September 1, 2017, SAIC and MOE jointly issued the Notice of Relevant Work on the Registration and Management of the Name of For-Profit Private Schools, which specifies the requirements on the names of for-profit private schools.

For a detailed discussion on how the Amendment and the above regulations will affect our schools, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may be subject to significant limitations on our ability to engage in the private education business or make payments to our subsidiaries and may otherwise be materially and adversely affected by changes in PRC laws and regulations.”

Besides the Amendment and the above regulations, the other details of the operation requirement of non-profit schools and for-profit schools will further be provided in implementation regulations that are yet to be introduced:

- the amendment to the Implementation Rules for the Law for Promoting Private Education of the PRC;
- the local regulations relating to legal person registration of for-profit and non-profit private schools; and
- the specific measures to be formulated and promulgated by the competent authorities responsible for the administration of private schools in the province(s) in which our schools are located, including but not limited to the specific measures for registration of pre-existing private schools, the specific requirements for authenticating various parties’ property rights and payment of taxes and fees of for-profit private schools, taxation policies for for-profit private schools, measures for the collection of non-profit private schools’ fees.

As of the date of this annual report, certain local governments, such as Jiangsu Province and Hebei Province, have promulgated their local regulations relating to legal person registration and administration for private schools and certain local governments, such as Guangdong Province, Jiangsu Province, Hubei Province, Hebei Province, Gansu Province, and Anhui Province, have promulgated general guidance to encourage the development of private schools. Among these local regulations and guidance, some local governments, such as Hubei Province, Hebei Province, and Anhui Province, require the existing private schools to register either as for-profit or non-profit schools within a specific time period.

Regulations on compulsory education

According to the Law for Compulsory Education of the PRC, which was promulgated by the NPC on April 12, 1986 and was amended by the tenth Standing Committee of the NPC on June 29, 2006 and by the twelfth Standing Committee of the NPC on April 24, 2015, a nine-year system of compulsory education, including six years of primary school and three years of middle school, was adopted.

Further, the MOE issued the Reform Guideline on the Curriculum System of Compulsory Education (Trial) on June 8, 2001, which became effective on the same day, pursuant to which schools providing compulsory education shall follow a “state-local-school” three-tier curriculum system. In other words, schools must follow the state curriculum standard for state courses, while the local education authorities have the power to determine the curriculum standard for other courses, and schools may also develop curriculum that are suitable for their specific needs provided that the state curriculum shall be completely maintained.

Regulations on the operation of high schools

The MOE has promulgated several regulations on the operation of high schools, which mainly concern the choice of textbooks, the curriculum system and the graduation exam system.

According to the Circular of the Central Office of the MOE on the Selection of the Trial Textbooks for the Curriculum of High Schools promulgated on April 26, 2005 and the Interim Measures for the Management of the Selection of the Primary and Middle School Textbooks promulgated and came into effect on September 30, 2014, the textbooks used by the primary and middle schools can only be selected from the catalog issued by the MOE; and the provincial education authority is in charge of textbook selection within its relevant administrative jurisdiction and has the power to approve the curriculum system applied in the primary and middle schools within the province.

Further, the MOE issued the Notice on Developing Trial Curriculum System in High Schools, the Guidance on Strengthening Instruction on Developing Trial Curriculum System in High Schools, the Notice on Propelling 2006 Trial Curriculum System in High Schools and the Notice on Propelling 2007 Trial Curriculum System in High Schools from 2003 through 2007, pursuant to which the MOE developed a new curriculum system in high schools nationwide, and the implementation of such curriculum system is carried on mainly by the provincial education authorities while the MOE mainly provides guidance to its local counterparts. Under the guidelines of the MOE and subject to approval by the respective provincial education authorities, the high schools may adopt their own unique curriculum system.

Since we offer internationally-accredited courses to our students, primarily in our international schools, we may be deemed to offer insufficient government-mandated coursework to students enrolled in our international programs from grades one through nine. Additionally, we did not obtain the required government approval for providing non-government-mandated coursework and the use of foreign textbooks in certain schools. For a detailed description of the risk associated with these matters, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If regulatory authorities challenge our curriculum or textbook practices, our business, results of operations and financial condition may be materially and adversely affected.”

Regulations on After-School Tutoring

The State Council issued an Opinion on Supervising After-School Tutoring Institutions (“Circular 80”) on August 22, 2018, which provides various guidance on regulating after-school tutoring institutions that target primary and secondary school students. Circular 80 requires that after-school tutoring institutions obtain school operating permits and other legally required licenses and permits, and instructs relevant governmental authorities to strengthen their supervisions and regulations on after-school tutoring institutions. Circular 80 also standardizes the approval and registration processes of after-school tutoring institutions. For a detailed description of the risks associated with these matters, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—A number of our learning centers do not possess the required educational permits and business licenses and are currently unable to obtain them, which may subject us to fines and other penalties, including the suspension of operations in noncompliant learning centers and confiscation of profits derived from noncompliant operations.”

Measures for Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers

On January 11, 2014, MOE promulgated the Measures for Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers, which prohibits teachers of primary and secondary schools from providing paid tutoring in schools or in out-of-school learning centers. Some provinces and cities where our schools are located have adopted more stringent regulations which prohibit public school teachers from teaching, on a part-time basis, at private schools or learning centers. For a detailed description of the risk associated with these matters, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may be unable to recruit, train and retain a sufficient number of qualified and experienced teachers and principals.”

Opinions on Regulating the Development and Deepening of the Reform of Pre-school Education

On November 7, 2018, the Central Committee of the Communist Party of China and the State Council promulgated the Opinions on Regulating the Development and Deepening of the Reform of the Pre-School Education (the “Opinions”), which provides, among others, that (1) private kindergartens forming part or all of the assets of a listing vehicle are prohibited from listing on stock markets; (2) non-governmental capital is prohibited from controlling state-owned or collectively-owned kindergartens and non-profit kindergartens by ways of mergers and acquisitions, entrusted management, franchising, variable interest entities arrangements, or other forms of control agreements; (3) for-profit kindergartens which participate in acquisitions, franchising or chain operation shall file with education departments of the county level or above and make available to the public agreements entered into with relevant interested enterprises; (4) listed companies are prohibited from investing in for-profit kindergartens through financing through stock markets, and should not purchase assets of for-profit kindergartens by cash, issuance of shares or other similar means; and (5) provincial legislative bodies should promulgate implementing measures by June 2019 with regard to the election of private kindergartens to be registered as non-profit or for-profit schools and specify time-frame requirements for such registration. For a detailed description of the associated risks, see “Item 3. Key Information—Risks Factors—Risks Related to Our Business—We may be subject to significant limitations on our ability to engage in the private education business or make payments to our subsidiaries and may otherwise be materially and adversely affected by changes in PRC laws and regulations.”

PRC Laws and Regulations Relating to Trademark and Domain Name

Trademark

Pursuant to the Trademark Law of the PRC, or the Trademark Law, which was revised on August 30, 2013 and with effect from 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, which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by law.

Domain name

Pursuant to the Measures for the Administration of Internet Domain Names of China, which was promulgated by the Ministry of Industry and Information Technology of the PRC on August 24, 2017 and with effect from November 1, 2017, “domain name” shall

refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer and the principle of “first come, first serve” is followed for the domain name registration service. Domain name applicants shall provide true, accurate and complete identification of the domain name holder as requested by the domain name registration service provider.

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. These were promulgated by the State Council of the PRC on January 29, 1996 and with effect from 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 SAFE or its local counterparts is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may, without the approval of SAFE, make a payment from their foreign exchange accounts at designated foreign exchange banks for paying dividends with certain evidencing documents (such as board resolutions, tax certificates), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with SAFE or its local counterparts and approval form or filing with the relevant PRC government authorities (if necessary).

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles, or Circular 37, which was promulgated on July 14, 2014 and with effect from the same day, before a domestic resident contributes its legally owned onshore or offshore assets and equity into a Special Purpose Vehicle, or SPV, the domestic resident shall be required to register with the local branch of SAFE for foreign exchange registration of overseas investments before contributing the domestic and overseas lawful assets or interests to a SPV, and to update such registration in the event of any change of basic information of the registered SPV or major change in the SPV’s capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions. The SPV is defined as an “offshore enterprise directly established or indirectly controlled by the domestic resident (including domestic institution and individual resident) with their legally owned assets and equity of the domestic enterprise, or legally owned offshore assets or equity, for the purpose of investment and financing”; “Round Trip Investments” refer to “the direct investment activities carried out by a domestic resident directly or indirectly via an SPV, that is, establishing a foreign-invested enterprise or project within the PRC through a new entity, merger or acquisition and other ways, while obtaining ownership, control, operation and management and other rights and interests”. In addition, according to the procedural guidelines as attached to the Circular 37, the principle of review has been changed to “the domestic individual resident is only required to register the SPV directly established or controlled (first level)”.

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies, or Circular 13, which was promulgated on February 13, 2015 and implemented 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 the Circular 13 also simplifies some procedures relating to foreign exchange for direct investments.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or Circular 19, which came into effect from June 1, 2015. According to Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement. The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined to be 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks.

SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or Circular 16, on June 9, 2016, which became effective simultaneously. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on self-discretionary basis. Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis which applies to all enterprises registered in the PRC. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

As Circular 16 is newly issued and SAFE has not provided detailed guidelines with respect to its interpretation or implementations, it is uncertain how these rules will be interpreted and implemented.

As of the date of this annual report, all PRC residents known to us that currently have direct or indirect interests in our company have completed the necessary registrations, as required by Circular 37. For a detailed description of the risk associated with the non-completion of such process, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—A failure by the beneficial owners of our shares who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC law.”

Regulations on loans to and direct investment in the PRC entities by offshore holding companies

According to the Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt promulgated by SAFE on September 24, 1997 and the Interim Provisions on the Management of Foreign Debts 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 the SAFE. Under the 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 is limited to the difference between the total investment and the registered capital of the foreign-invested enterprise.

According to the Provisional Regulations for the Proportion of Registered Capital to Total Amount of Investment of Joint Ventures Using Chinese and Foreign Investment issued by SAIC on February 17, 1987 and Decision on Amending the Provisions on the Merger or Acquisition of Domestic Enterprises by Foreign Investors issued by MOFCOM on August 8, 2006, if the registered capital of a foreign-invested enterprise is less than US\$2.1 million, its total investment amount may not exceed 1.4 times the registered capital; if the registered capital of a foreign-invested enterprise is more than US\$2.1 million but less than US\$5 million, its total investment amount may not exceed two times the registered capital; if the registered capital of a foreign-invested enterprise is more than US\$5 million but less than US\$12 million, its total investment amount may not exceed 2.5 times the registered capital; and if the registered capital of a foreign-invested enterprise is more than US\$12 million, its total investment amount may not exceed three times the registered capital.

According to the Measures for the Administration of Foreign Debt Registration issued by SAFE on April 28, 2013, the statutory limit on the amount of loans from an overseas shareholder to a foreign-invested enterprise is the difference between the total investment amount and the registered capital of the foreign-invested enterprise.

According to applicable PRC regulations on foreign-invested enterprises, including but not limited to the Interim Measures for the Administration of the Establishment and Alteration of Archival Filing of Foreign Funded Enterprises, effective on October 8, 2016 and revised on July 30, 2017 and June 29, 2018, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered foreign-invested enterprises, may only be made when approval or filing by MOFCOM or its local counterpart has been obtained. In such approval and filing process of 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 Access Special Management Measures. See “—PRC Laws and Regulations Relating to Foreign Investment in Education—Foreign Investment Access Special Management Measures (2018 Version).” The capital contribution of the foreign-invested enterprises falling in the scope of “restricted foreign investment industries” and “prohibited foreign investment industries” shall obtain approval from MOFCOM or its local counterpart, while the capital contribution of the foreign-invested enterprises falling outside such scopes may file with MOFCOM or its local counterpart.

On January 12, 2017, the People’s Bank of China promulgated Notice of the People’s Bank of China on Issues Concerning Macro Prudential Management of Full Scale Cross-border Financing, or PBOC Circular 9. According to PBOC Circular 9, the People’s Bank of China establishes a cross-border financing regulation system and the legal entities and financial institutions established in PRC excluding government financing vehicles and real estate enterprise, may carry out cross-border financing of foreign currency in accordance with relevant regulations. PBOC Circular 9 provides that, among other things, the outstanding amount of the foreign currency for the entities in cross-border financing, shall be limited to the upper limit of the risk-weighted balance of such entity.

The enterprise shall, after signing the cross-border financing contract, but not later than three business days before the withdrawal of the borrowing funds, file with the local branches of SAFE for the cross-border financing through SAFE's capital project information system. PBOC Circular 9 also provides that during the one-year period starting from January 11, 2017, foreign-invested enterprises may choose one method to carry out cross-border financing in foreign currency either according to PBOC Circular 9 or according to the Interim Provisions on the Management of Foreign Debts. After the end of such one-year period, the method of foreign-invested enterprises to carry out cross-border financing in foreign currency will be determined by the People's Bank of China and SAFE.

On September 14, 2015, the National Development and Reform Commission promulgated Notice on Promoting the Administrative Reform of the Filing and Registration System for Enterprises' Issuance of Foreign Debts, or NDRC Circular 2044. According to NDRC Circular 2044, an enterprise that plans to issue foreign debts shall apply to the National Development and Reform Commission in advance for filing, registration, and report issuance information to the National Development and Reform Commission within 10 business days after the completion of such issuance. The National Development and Reform Commission shall determine whether to accept the application within five business days from the date of receipt of the application, and issue the Certificate on the Filing and Registration of Foreign Debts Issued by Enterprises within seven business days from the date of accepting the application.

Zhuhai Bright Scholar, a foreign-invested enterprise indirectly held by us, currently has a total investment amount of RMB14.0 million (approximately US\$2.0 million) and an initially subscribed registered capital RMB10.0 million (approximately US\$1.5 million). We may provide shareholder loans of up to the U.S. dollar equivalent of RMB4.0 million (approximately US\$0.6 million) to Zhuhai Bright Scholar, which is the difference between its total investment amount and registered capital. According to Interim Measures for the Administration of the Establishment and Alteration of Archival Filing of Foreign Invested Enterprises issued by MOFCOM on October 8, 2016, revised on July 30, 2017 and June 29, 2018, the increase of total investment amount and registered capital of a foreign-invested enterprise must be registered with local MOFCOM offices, which is an administrative procedure that may take up to several weeks in local practice.

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 or registration with the MOFCOM or its local counterpart is obtained.

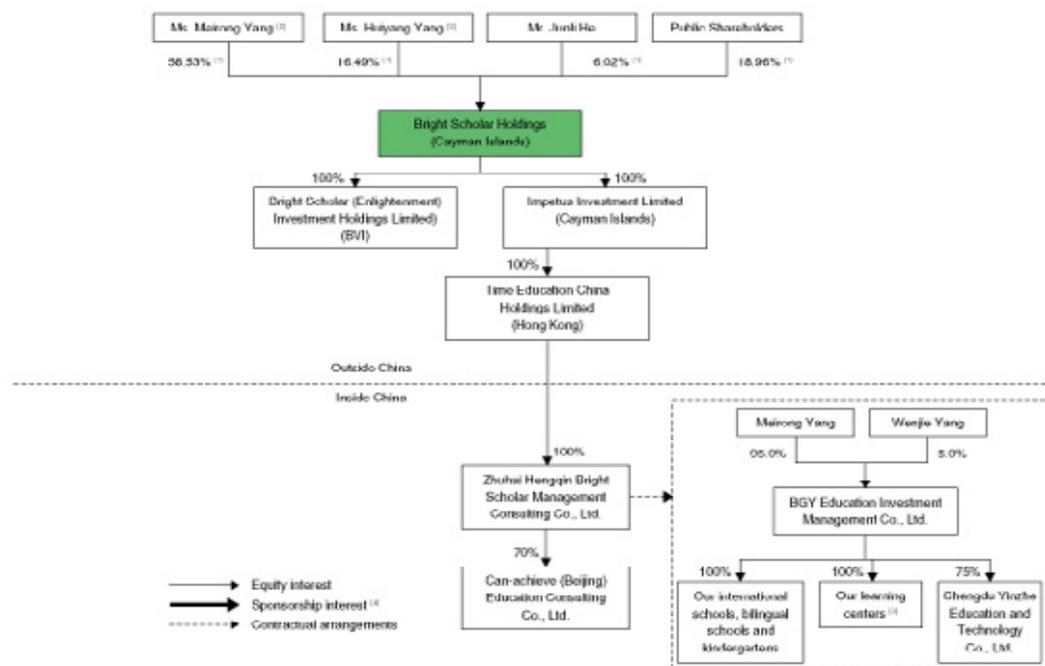
Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009)

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009), or 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 via 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. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic company which is related to or connected with it/him/her, approval from the MOFCOM is required.

For a detailed description of the risk associated with the M&A Rules, see "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Certain PRC regulations, including the M&A Rules and national security regulations, may require a complicated review and approval process which could make it more difficult for us to pursue growth through acquisitions in China."

C. Organizational Structure

The following diagram illustrates our corporate structure, including our principal subsidiaries and affiliated entities, as of the date of this annual report



- (1) Ms. Meirong Yang, Ms. Huiyan Yang, Mr. Junli He and public shareholders beneficially own 58.58%, 16.50%, 6.02%, and 18.90% of total ordinary shares on an as-converted basis, representing 71.73%, 19.79%, 7.32% and 1.16% of the aggregate voting power, respectively. See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”
- (2) Ms. Meirong Yang and Ms. Huiyan Yang have entered into an acting-in-concert arrangement, pursuant to which they consult with each other before voting and deciding on material matters in relation to the management of our company. Under such arrangement, if no consensus could be reached through consultation, the decision made by Ms. Meirong Yang prevails. See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”
- (3) Following the effectiveness of the amended Law on the Promotion of Private Education, for-profit private learning centers are required to apply for operating permits. As a result, we ceased the transfer of the employees at our learning centers, as we foresee substantial uncertainties if we apply for such operating permits through the subsidiaries of Zhuhai Bright Scholar, a foreign-invested enterprise. As of the date of this annual report, our learning centers continue to be owned and operated by subsidiaries of BGY Education Investment.
- (4) Under PRC law, entities and individuals who establish private schools are referred to as “sponsors” rather than “owners” or “shareholders.” The rights of sponsors vis-à-vis schools are similar to the rights of shareholders vis-à-vis companies with regard to legal, regulatory and tax matters, but differ with regard to the right of a sponsor to receive returns on investment and the right to the distribution of residual properties upon termination and liquidation. Each of our schools we currently operate is sponsored by BGY Education Investment or a school sponsored by it as registered pursuant to applicable PRC laws and regulations. For more information regarding school sponsorship and the difference between sponsorship and ownership under relevant laws and regulations, see “—B. Business Overview—Regulations—Regulations on Private Education in the PRC.”

The following table sets out the details of our subsidiaries, affiliated entity and schools/subsidiaries held by our affiliated entity.

<u>Subsidiaries</u>	<u>Place of Incorporation</u>
Bright Scholar (Enlightenment) Investment Holdings Limited	Cayman Islands
Impetus Investment Limited	Cayman Islands
New Bridge Management Co. Ltd	Cayman Islands
Can-Achieve International Education Limited	Hong Kong
Foundation Academy Limited	Hong Kong

<u>Subsidiaries</u>	<u>Place of Incorporation</u>
Foundation Education China Limited	Hong Kong
Foundation Education Services Limited	Hong Kong
Foundation Global Education Limited	Hong Kong
Time Education China Holdings Limited	Hong Kong
FGE Holdings Limited	The British Virgin Islands
Beijing Bright Scholar Education Consulting Limited Co., Ltd.	The PRC
Beijing Wanjia Culture Communication Co., Ltd.	The PRC
Bright Scholar Education Consulting (Huizhou) Co., Ltd.	The PRC
Can-achieve (Beijing) Education Consulting Co., Ltd.	The PRC
Foshan Shunde Elan Education Training Co., Ltd.	The PRC
Foundation Information Consulting (Shenzhen) Co., Ltd.	The PRC
Guangdong Bright Scholar Education Technology Co., Ltd.	The PRC
Guangdong Zhixing Weilai Logistics Management Co., Ltd.	The PRC
Guangzhou Can-achieve Global Consulting Co., Ltd.	The PRC
Guangzhou Elan Education Consulting Co., Ltd.	The PRC
Shenzhen Elan Education Training Co., Ltd.	The PRC
Shenzhen Qianhai Bright Scholar Management and Consulting Co., Ltd.	The PRC
Time Elan Education Technology Co., Ltd.	The PRC
Zhengzhou Dahua Education Consulting Co., Ltd.	The PRC
Zhuhai Bright Scholar	The PRC
Zhuhai Hengqin Kaidi Education Consulting Co., Ltd.	The PRC
Zhuhai Xin Xu Education Management Co., Ltd.	The PRC
Bright Scholar (BCS) Limited	United Kingdom
Bright Scholar (BCS) Management Limited	United Kingdom
Bright Scholar (BCS) Property Limited	United Kingdom
Bright Scholar (UK) Holdings Limited	United Kingdom
Can-achieve Global Education, Inc. (Los Angeles)	United States

<u>Affiliated Entity</u>	<u>Place of Incorporation</u>
BGY Education Investment	PRC

<u>Schools/subsidiaries held by Affiliated Entity</u>	<u>Place of Incorporation</u>
Baoding Baigou New City Bright Scholar Shenghua Education Consulting Co., Ltd. ⁽¹⁾	The PRC
Chengdu Laizhe Education and Technology Co., Ltd. ⁽²⁾	The PRC
Chengdu Yinzhe Education and Technology Co., Ltd. ⁽³⁾	The PRC
Chuzhou Country Garden Foreign Language School	The PRC
Chuzhou Country Garden Kindergarten	The PRC
Country Garden Experimental School	The PRC
Country Garden Huacheng Kindergarten	The PRC
Country Garden Huacheng School	The PRC
Country Garden Silver Beach Kindergarten	The PRC
Country Garden Silver Beach School	The PRC
Country Garden Venice Bilingual School (“CGBS”)	The PRC
Country Garden Venice Kindergarten	The PRC
Dalang Country Garden Kindergarten	The PRC
Danyang Country Garden Kindergarten	The PRC
Dongguan Qingxi Country Garden Kindergarten	The PRC
Dongguan Qishi Country Garden Kindergarten	The PRC
Enping Country Garden Kindergarten	The PRC
Fengxin Country Garden Kindergarten	The PRC
Foshan Shunde Beijiao Country Garden Guilanshan Kindergarten Co., Ltd.	The PRC
Foshan Shunde Shengbo Culture and Arts Training Co., Ltd.	The PRC
Gaoming Country Garden Kindergarten	The PRC
Guangdong Country Garden School (“GCGS”)	The PRC

<u>Schools/subsidiaries held by Affiliated Entity</u>	<u>Place of Incorporation</u>
Guangdong Xingjian Education Co., Ltd.	The PRC
Guangzhou Zangxing Network Technology Co., Ltd. ⁽⁴⁾ (“Zangxing”)	The PRC
Haoting Country Garden Kindergarten	The PRC
Heshan Country Garden Kindergarten	The PRC
Heshan Country Garden School	The PRC
Huadu Holiday Peninsula Kindergarten	The PRC
Huanan Country Garden Bilingual Kindergarten	The PRC
Huanan Country Garden Cuiyun Mountain Kindergarten	The PRC
Huanan Country Garden School (“HCGS”)	The PRC
Huaxi Country Garden International Kindergarten	The PRC
Huaxi Country Garden International School	The PRC
Huidong Silver Beach Education Consulting Co., Ltd.	The PRC
Huiyang Country Garden Kindergarten	The PRC
Jurong Country Garden School	The PRC
Kaiping Country Garden Jade Bay Kindergarten	The PRC
Kaiping Country Garden School	The PRC
Laian Country Garden Foreign Language School	The PRC
Laian Country Garden Kindergarten	The PRC
Lanzhou Country Garden School	The PRC
Licheng Country Garden Bilingual Kindergarten	The PRC
Maoming Country Garden Kindergarten	The PRC
Nansha Country Garden Bilingual Kindergarten	The PRC
Ningxiang Country Garden Foreign Language Training School ⁽⁵⁾	The PRC
Ningxiang Country Garden Kindergarten	The PRC
Ningxiang Country Garden School	The PRC
Phoenix City Bilingual Kindergarten	The PRC
Phoenix City Bilingual School (“PCBS”)	The PRC
Phoenix City Country Garden Kindergarten	The PRC
Phoenix City Fengyan Kindergarten	The PRC
Qingyuan Country Garden Bilingual Kindergarten	The PRC
Shanghai Elan Education and Training Co., Ltd.	The PRC
Shaoguan Country Garden Foreign Language School	The PRC
Shaoguan Zhenjiang Country Garden Foreign Language Kindergarten	The PRC
Shawan Country Garden Kindergarten	The PRC
Shenghua Country Garden Bilingual School	The PRC
Shenghua Country Garden Kindergarten	The PRC
Taishan Country Garden School	The PRC
Time Elan Education Technology (Beijing) Co., Ltd.	The PRC
Wuhan Country Garden Kindergarten	The PRC
Wuhan Country Garden School	The PRC
Wuhan Donghu Tech Development Zone Xinqiao Kindergarten	The PRC
Wuhan Donghu Tech Development Zone Xinqiao-Jinxu Longcheng Kindergarten	The PRC
Wuhan Dongxihu District Dongqiao Kindergarten	The PRC
Wuhan Hongshan District Xinqiao Aijia Kindergarten	The PRC
Wuhan Qiaosheng Education Investment Co., Ltd. ⁽⁶⁾	The PRC
Wuhan Qingshan District Bilingual Kindergarten	The PRC
Wuyi Country Garden Bilingual School	The PRC
Xiju Country Garden Kindergarten	The PRC
Zengcheng Country Garden Kindergarten	The PRC
Zengcheng Country Garden School	The PRC

(1) 30% of the equity interests of Baoding Baigou New City Bright Scholar Shenghua Education Consulting Co., Ltd. are held by third parties.

(2) Chengdu Laizhe Education and Technology Co., Ltd. is a wholly owned subsidiary of Chengdu Yinzhe Education and Technology Co., Ltd.

(3) 25% of the equity interests of Chengdu Yinzhe Education and Technology Co., Ltd. are held by third parties.

(4) 48.33% of the equity interests of Guangzhou Zangxing Network Technology Co., Ltd are held by third parties.

(5) Ningxiang Country Garden School currently operates its high school programs through Ningxiang Country Garden Foreign Language Training School.

(6) 25% of the equity interests of Wuhan Qiaosheng Education Investment Co., Ltd. are held by third parties.

Our Contractual Arrangements

Foreign ownership in education services is subject to significant regulations in China. The PRC government regulates the provision of education services through strict licensing requirements. In particular, PRC laws and regulations currently prohibit foreign ownership of companies and institutions providing compulsory education services at primary and middle school levels, and restrict foreign investment in education services at the kindergarten and high school level. We are a company incorporated in the Cayman Islands. Our PRC subsidiary, Zhuhai Bright Scholar, is a wholly foreign-owned enterprise and currently ineligible to apply for and hold licenses to operate, or otherwise own equity interests in our schools.

Due to these restrictions, we, through our PRC subsidiary, Zhuhai Bright Scholar, have entered into a series of contractual arrangements with (1) our affiliated entities, including BGY Education Investment and the schools it owns and operates, and (2) the shareholders of BGY Education Investment, i.e., Ms. Meirong Yang and Mr. Wenjie Yang, which enable us to:

- exercise effective control over our affiliated entities;
- receive substantially all of the economic benefits of our affiliated entities in consideration for the services provided by us; and
- have an exclusive option to purchase all of the equity interests in our affiliated entities when and to the extent permitted under PRC law.

The following is a summary of the material provisions of these contractual arrangements with our affiliated entities and the shareholders of BGY Education Investment. We may not amend or terminate these agreements unless authorized by a majority vote of our board of directors.

Call Option Agreement. Pursuant to the call option agreement between Zhuhai Bright Scholar, Ms. Meirong Yang and Mr. Wenjie Yang, and BGY Education Investment, entered into in January 2017, Ms. Meirong Yang and Mr. Wenjie Yang unconditionally and irrevocably granted Zhuhai Bright Scholar or its designee an exclusive option to purchase, to the extent permitted under PRC laws and regulations, all or part of the equity interest in BGY Education Investment at nil consideration or the lowest consideration permitted by PRC laws and regulations under the circumstances where Zhuhai Bright Scholar or its designee is permitted under PRC laws and regulations to own all or part of the equity interests of BGY Education Investment or where we otherwise deem it necessary or appropriate to exercise the option. Zhuhai Bright Scholar has the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full. Without Zhuhai Bright Scholar's written consent, Ms. Meirong Yang and Mr. Wenjie Yang may not sell, transfer, pledge or otherwise dispose of or create any encumbrance on any of BGY Education Investment's assets or equity interests. Without obtaining Zhuhai Bright Scholar's written consent, Ms. Meirong Yang and Mr. Wenjie Yang may not enter into any material contracts, incur any indebtedness, or alter the business scope of BGY Education Investment. The key factor for us to decide whether to exercise the option is whether the current regulatory restrictions on foreign investment in the education services business will be removed in the future, the likelihood of which we are not in a position to know or comment on.

Power of Attorney. In January 2017, Ms. Meirong Yang and Mr. Wenjie Yang each executed irrevocable powers of attorney, appointing Zhuhai Bright Scholar, or any person designated by Zhuhai Bright Scholar, as his/her attorney-in-fact to (1) call and attend shareholders meeting of BGY Education Investment and execute relevant shareholders resolutions, (2) exercise on his/her behalf all his/her rights as a shareholder of BGY Education Investment, including those rights under PRC laws and regulations and the articles of association of BGY Education Investment, such as voting, appointing, replacing or removing directors, (3) submit all documents as required by government authorities on behalf of BGY Education Investment, (4) assign Ms. Meirong Yang's and Mr. Wenjie Yang's shareholding rights to Zhuhai Bright Scholar, including the rights to receive dividends, dispose of equity interest and enjoy the rights and interests during and after liquidation, (5) review the resolutions, books and accounts of BGY Education Investment, and (6) exercise any other rights and benefits associated with shareholding that Ms. Meirong Yang or Mr. Wenjie Yang receive from BGY Education Investment.

Exclusive Management Services and Business Cooperation Agreement. Pursuant to the exclusive management services and business cooperation agreement among Zhuhai Bright Scholar, each of our affiliated entities, Ms. Meirong Yang and Mr. Wenjie Yang, as the shareholders of BGY Education Investment, entered into in January 2017, Zhuhai Bright Scholar has the exclusive right to provide comprehensive technical and business support services to our affiliated entities. Such services include conducting market research, offering strategic business advice and providing information technology services, advice on mergers and acquisitions, human resources management services, intellectual property licensing services, support for teaching activities and other services that the parties may mutually agree. Without the prior consent of Zhuhai Bright Scholar, none of our affiliated entities may accept such services from any third party. Zhuhai Bright Scholar owns the exclusive intellectual property rights created as a result of the performance of this agreement. Our affiliated entities agree to pay Zhuhai Bright Scholar service fees in an amount solely decided by Zhuhai Bright Scholar, but not to exceed the paying school's total revenue deducted by costs, taxes, mandatory reserve fund and other

expenses. At the sole discretion of Zhuhai Bright Scholar, the calculation of the service fees should be determined based on the complexity of the services provided, the time and resources committed by Zhuhai Bright Scholar, the commercial value of the services, the market reference price and the operating condition of the paying school. As part of the exclusive management services and business cooperation agreement, Ms. Meirong Yang, Mr. Wenjie Yang and our affiliated entities agree that they will not take any action, such as incurring indebtedness, disposing of material assets, materially changing the scope or nature of the business of our affiliated entities, or disposing of their equity interests in our affiliated entities, without the written consent of Zhuhai Bright Scholar. The exclusive management services and business cooperation agreement may not be terminated by Ms. Meirong Yang, Mr. Wenjie Yang or any of our affiliated entities without the written consent of Zhuhai Bright Scholar.

Unless terminated, the agreement shall remain in full force and effect during the term of operations of Zhuhai Bright Scholar and our affiliated entities.

Equity Pledge Agreement. Pursuant to the equity pledge agreement among Zhuhai Bright Scholar, Ms. Meirong Yang, Mr. Wenjie Yang, BGY Education Investment entered into in January 2017, Ms. Meirong Yang and Mr. Wenjie Yang unconditionally and irrevocably pledged all of their respective equity interests in BGY Education Investment to Zhuhai Bright Scholar to guarantee performance of the obligations of our affiliated entities under the call option agreements, power of attorneys and exclusive management services and business cooperation agreements, each as described above. Ms. Meirong Yang and Mr. Wenjie Yang each agreed that without prior written consent of Zhuhai Bright Scholar, they shall not transfer or dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. Unless terminated, the equity pledge agreement remains in full force and effect until all of the obligations of Ms. Meirong Yang, Mr. Wenjie Yang and our affiliated entities under the agreements described above have been duly performed and related payments are duly paid. The pledge of equity interests in BGY Education Investment has been duly registered with the local branch of SAIC and is effective upon such registration.

D. Property, plants and equipment

See “—B. Business Overview—Properties and Facilities.”

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our combined and consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements. See “—G. Safe Harbor on Forward-Looking Statements.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

We operate three types of educational facilities: international schools, bilingual schools and kindergartens. We offer a broad range of internationally-accredited curricula at our international schools. We tailor the delivery of coursework to optimize learning outcomes for our students and prepare them for higher education overseas. For a list of our schools and their locations, see “Item 4. Information on the Company—C. Organizational Structure.” In the 2018 school year, an average of 36,679 students were enrolled in our schools. We have experienced significant growth in our business. In the 2018 fiscal year, our revenue increased to RMB1,718.9 million (US\$251.7 million) from RMB1,040.3 million in the 2016 fiscal year, representing an increase of 65.2%. We focus on providing quality education to our students and, since the beginning of the 2016 fiscal year, we have implemented various initiatives to improve operating efficiency and profitability. For example, in the 2018 fiscal year, we implemented an ERP system where we centralize the collection and analysis of budgeting, procurement and financial information and data, which enhanced the efficiency of our data management processes, adding value to the overall operation of our business. See “Item 4. Information on the Company—B. Business Overview—Centralized Management” for details. We had net income of RMB2.9 million, RMB191.8 million and RMB248.9 million (US\$36.4 million) in the 2016, 2017 and 2018 fiscal years, respectively, compared to net loss of RMB39.9 million in the 2015 fiscal year. We use adjusted net income, which excludes share-based compensation, in evaluating our ongoing results of operations. Our adjusted net income, which excludes share-based compensation expenses, was RMB98.0 million, RMB191.8 million and RMB278.0 million (US\$40.7 million) in the 2016, 2017 and 2018 fiscal years, respectively. Our share-based compensation was RMB95.1 million, nil, and RMB29.1 million in the 2016, 2017 and 2018 fiscal years, respectively. See “—Results of Operations—Non-GAAP measures” for details.

Major Factors Affecting Our Results of Operations

We believe that our results of operations are affected by general factors affecting China's private K-12 education industry and company-specific factors, including the following:

Demand for international and bilingual private K-12 education in China

We have benefited from the increasing demand for international and bilingual private K-12 education in China. Such demand is primarily driven by the increasing number of Chinese students who seek quality education and aspire to study abroad, which is in turn driven by an increasing number of affluent families in China, the rising recognition of the quality of higher education overseas, the emphasis placed by Chinese parents on the importance of enrollment in globally-recognized universities to improve their children's career prospects, and various economic and political factors. Material changes to these factors will affect our operation results.

Our student enrollment and mix

Our revenue primarily consists of tuition and fees from students enrolled at our schools. The level of students enrolled at our schools directly affects our revenue and profitability. The following table sets forth the average number of students enrolled at our schools for the school years indicated.

	2016 school year		2017 school year		2018 school year	
	Number	% of total	Number	% of total	Number	% of total
International schools	5,443	21.1%	6,283	21.1%	7,366	20.1%
Bilingual schools	11,441	44.2%	13,189	44.4%	15,620	42.6%
Kindergartens	8,979	34.7%	10,275	34.5%	13,693	37.3%
Total	<u>25,862</u>	<u>100.0%</u>	<u>29,747</u>	<u>100.0%</u>	<u>36,679</u>	<u>100.0%</u>

Our total student enrollment increased from an average of 25,862 students for the 2016 school year, to an average of 29,747 students for the 2017 school year and further to an average of 36,679 students for the 2018 school year. Student enrollment is generally dependent on, among other things, the reputation of our schools, which is primarily driven by our education quality and our students' academic results, the ramp-up stage of our schools, as well as the population density in Country Garden's residential properties, which have served as a major source of students for our schools. An increase in the student contribution of our international schools also enhances our ability to increase revenue, because our international schools generally charge tuition and fees substantially higher than our bilingual schools and kindergartens do.

Student enrollment is also affected by the number and capacity of our schools. The following table sets forth the number and capacity of schools as of the dates indicated.

	As of September 1,					
	2016		2017		2018	
	Number of schools	Student capacity	Number of schools	Student capacity	Number of schools	Student capacity
International schools	6	15,260	6	15,260	6	15,260
Bilingual schools ⁽¹⁾	11	17,436	16	25,530	15	23,210
Kindergartens ⁽¹⁾	34	15,395	38	17,077	44	19,009
Total	<u>51</u>	<u>48,091</u>	<u>60</u>	<u>57,867</u>	<u>65</u>	<u>57,479</u>

- (1) We ceased operations of Huaian Country Garden Tianshan Bilingual School and Tianshan Kindergarten on August 1, 2018 due to termination of cooperation with a third-party partner and therefore no longer include them in the number of our schools.

We expanded our school network from 51 schools as of September 1, 2016 to 66 schools as of the date of this annual report, with our total student capacity increasing from 48,091 students as of September 1, 2016 to 57,479 students as of September 1, 2018. In August 2018, we ceased operations of Huaian Country Garden Tianshan Bilingual School and Tianshan Kindergarten because we terminated our cooperation relationship with a third-party partner. As utilization rates are generally higher for schools that have been in operation for a longer period of time, the unutilized capacity at our recently-opened schools, which are still at the ramp-up stage, allows us to readily increase student enrollment without incurring significant additional investment. The utilization rate, defined as the average of monthly student enrollment at a school for a period divided by the school capacity as of the start of such period, at our schools that had five or more years of operating history as of September 1, 2018 remained at high levels of 94.8%, 92.8% and 84.7% on average for the 2016, 2017 and 2018 school year, respectively. The average utilization rate for schools that had less than five years of operating history as of September 1, 2018 increased from 31.3% for the 2016 school year and 35.8% for the 2018 school year. In particular, the average utilization rate for our schools that opened on or after September 1, 2014 was 15.1% in their first year of operation, 31.1% in their second year of operation and 42.5% in their third year of operation, demonstrating our ability to effectively ramp up individual new schools.

Our revenue generated from complementary education services was driven by the number of students enrolled in our complementary education services.

Our tuition and fees

Our results of operations are affected by the level of the tuition and fees we charge our students. We charge tuition and fees based on the type of school that the student is enrolled at, the location of the school and, in certain cases, the student's grade level. We generally seek to gradually increase our tuition and fee level without compromising our student enrollment. The tuition and fees we charge are subject to approval by the competent government pricing authorities. The government pricing authorities, at both the provincial and local levels, have broad powers to regulate the private education industry in China including the tuition, room and board fees and other fees charged by schools. The following table sets forth the average tuition and fees of our schools for the school years indicated.

	<u>2016 school year</u>	<u>2017 school year</u>	<u>2018 school year</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
International schools	77,744	80,478	80,048
Bilingual schools	28,729	31,346	34,187
Kindergartens	28,067	30,364	30,736
Average	38,814	41,384	42,108

For the 2016, 2017 and 2018 school years, our average tuition and fees across all of our schools were RMB38,814, RMB41,384, and RMB42,108, respectively. Our tuition and fees charged for international schools are higher than that for our bilingual schools and kindergartens, which reflects the additional education and operating resources we provide and the premium that parents are willing to pay for international education. For the 2018 school year, we charged average tuition and fees of RMB80,048 per student for international schools, RMB34,187 per student for bilingual schools and RMB30,736 per student for kindergartens.

The tuition and fees we charge are also affected by the ramp-up stage of our schools. For our new schools in the initial ramp-up period, which are typically located at or in the vicinity of recently-completed properties of Country Garden, a related party, we may strategically price our tuition and fees to encourage student enrollment. For example, we charge an average tuition and fees of RMB80,048 per student for our international schools for the 2018 school year, which represents a slight decrease from the average tuition and fees of RMB80,478 per student for the previous school year due to such pricing strategies for our promotional efforts for schools in the ramp-up stage. We have greater leverage over the pricing of tuition and fees for our more established schools, such as Guangdong Country Garden School and Phoenix City Bilingual School.

We have more discretion in determining the tuition levels for our complementary education services. We generally raise the tuition for our complementary education services based on factors including the demand for our services, the costs of offering our services, and the tuition and fees charged by our competitors.

Our ability to control our costs and expenses and improve our operating efficiency

Staff costs and administrative expenses have a direct impact on our profitability. The number of our staff, particularly our teachers, generally increases as our student base expands, while other expenses, particularly those in relation to administrative functions, are relatively fixed. Our ability to drive the productivity of our staff and enhance our operating efficiency affects our profitability. The ratio of the number of our students to the number of our teachers in our schools affects our margins, with higher student-to-teacher ratios generally representing higher operating efficiency and higher margins. Our student-to-teacher ratio in the 2018 school years was 8.8, which was generally lower than that seen amongst our industry peers for the same periods and represents potential for us to increase this ratio in the future. Our operating margin was 1.8% in the 2016 fiscal year and increased to 16.2% in the 2017 fiscal year and remained relatively stable at 15.8% in the 2018 fiscal year. Our adjusted operating income margin, which excludes share-based compensation expenses, was 10.9%, 16.2% and 17.5% in the 2016, 2017 and 2018 fiscal years, respectively. See “—Results of Operations—Non-GAAP measures.” The improvement in our operating margin and adjusted operating income margin reflect higher productivity of our staff and our implementation of additional cost control measures. The average number of our staff was 5,716, 6,501 and 7,891 in the 2016, 2017, and 2018 fiscal years, respectively, and our total staff costs as a percentage of revenue were 61.2%, 57.3%, and 55.0% during the same periods, respectively.

We focus on providing quality education to our students and, since the beginning of the 2016 fiscal year, we have implemented various initiatives to improve operating efficiency and profitability through management centralization of certain operational aspects, those schools in our network with longer operating history have seen significant improvement in operating margin over time. Schools in our school network that have been in operation for five or more years as of September 1, 2018 had, as a group, significantly improved their operating margin, calculated as the total adjusted operating income of the concerned schools, which excludes share-based compensation expenses, divided by total revenue of such schools, from 15.6% in the 2016 fiscal year to 26.9% in the 2018 fiscal year. See “—Results of Operations—Non-GAAP measures.”

Our newly-established schools have been able to grow rapidly during the ramp-up period following their establishment, as their brand value grows, student enrollment increases and capacity utilization improves. This has resulted in greater operating leverage and increasing profitability at these schools as well. Schools in our network that have been in operation for less than five years as of September 1, 2018 had, as a group, significantly narrowed their operating margin, calculated as the total adjusted operating income or loss of the concerned schools, which excludes share-based compensation expenses, divided by the total revenue of such schools, from a loss margin of 24.1% in the 2016 fiscal year to a profit margin of 10.3% in the 2018 fiscal year. See “—Results of Operations—Non-GAAP measures.” In addition, four out of the six international schools we operate have less than five years of operating history. The relatively higher fixed and variable costs and expenses for our international schools and the number of international schools at the ramp-up stage have affected the gross margin of our international schools segment historically. In the 2018 fiscal year, gross margin for our international schools segment was 36.7%, compared to 35.0% and 44.0% for bilingual schools and kindergartens, respectively.

Substantially all of our schools in operation are located within or in the vicinity of Country Garden’s residential communities. We did not pay fees for the facilities occupied by a majority of our existing schools. Going forward, for new schools launched in collaboration with Country Garden, we may pay fees to Country Garden for operating schools on their land and facilities, which may affect our profitability as we further expand our school network.

Our ability to expand our school network cost-efficiently

We operate a highly scalable model by leveraging our strong strategic relationship with Country Garden. A majority of our existing schools are located within or in the vicinity of Country Garden’s residential communities. Country Garden is generally responsible for land procurement and facilities construction, and we are responsible for the school operation. Our ability to maintain the collaboration with Country Garden or with other third parties in a similar manner will determine the speed and efficiency with which we expand our school network. In the case where we pursue a strategy to procure and build our schools independent of Country Garden and other third parties, our ability to efficiently procure land, construct school facilities and ramp up the school operation will impact our ability to expand our school network.

Strategic acquisitions and investments

In January 2016, we acquired élan, an English proficiency training business. In December 2017, we acquired five kindergartens with a total capacity of 1,800 students in Hubei province. In May 2018, we acquired an additional 49% equity interests in Can-achieve to supplement our test preparation and college counseling business and improve our students’ university admission results and as of the date of this annual report, we hold a total of 70% equity interests in Can-achieve. In June 2018, we acquired a 75% interest in FGE which is primarily engaged in providing study-abroad consulting services, and a 51.7% interest in Zangxing which is primarily engaged in the operation of an online platform to provide education promotion services to schools and training institutions. In July 2018, we entered into a share purchase agreement to purchase a 70% equity interest in a Zhejiang-based training art institute. In September 2018, we acquired a 75% equity interests in Yinzhe, which is primarily engaged in offering online career and education mentoring services to overseas Chinese students. In October 2018, we acquired BCS in the United Kingdom, which offers day and boarding education from age two to 18 on two campuses. In October 2018, we entered into an agreement to acquire an 85% equity interest in a company managing a chain of eight kindergartens in Shandong province with a total capacity of 2,310 students. We plan to launch domestic camp programs in Guangdong province in January 2019 in addition to overseas camp programs.

In addition to expansion through acquisitions, in September 2018, we also entered into a partnership agreement with third-parties to establish an investment fund under which we agreed to invest a total of RMB999.8 million in promoting the establishment and operations of K-12 education centers, bilingual schools and international schools. As of the date of this annual report, we have invested approximately RMB100.0 million pursuant to the partnership agreement. We plan to continue to make strategic investments into and acquisitions of schools and complementary businesses to better serve our students and drive our future growth. Our overall financial condition and profitability could be affected by the different levels of profitability of our acquisition targets.

Seasonality

Our business is subject to seasonal fluctuations as our costs and expenses vary significantly and do not necessarily correspond with our recognition of revenues. Our students enrolled in our schools offering K-12 education services and their parents typically pay the tuition and fees prior to the commencement of a semester, and we recognize revenues from the delivery of education services on a straight-line basis over the semester. For schools offering K-12 education services, we typically incur higher upfront operating expenses in the first fiscal quarter at the start of each school year. We also typically recognize more revenue in the second half of fiscal years due to higher revenues from complementary education services during the summer and, to a lesser extent, students who transfer into our schools for the second semester. As a result of the combination of the foregoing, we have historically incurred net loss or significantly lower net income in the second and fourth fiscal quarters, primarily due to our schools being closed due to the winter and summer holidays, when no revenue from our school operations is recognized.

Critical Accounting Policies

We prepare our combined and consolidated financial statements in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. We continually evaluate these judgments and estimates based on our own experience, knowledge and assessment of current business and other conditions. Our expectations regarding the future are based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates.

Consolidation of Variable Interest Entity

PRC laws and regulations currently prohibit foreign ownership of companies and institutions providing compulsory education services at primary and middle school levels, and restrict foreign investment in education services at the kindergarten and high school level. In addition, the PRC government regulates the provision of education services through strict licensing requirements. As Bright Scholar Holdings is deemed a foreign legal person under PRC laws, subsidiaries owned by us are ineligible to engage in provisions of education services in China. Due to these restrictions, we conduct our private education business in China primarily through contractual arrangements among (1) Zhuhai Bright Scholar, our wholly owned PRC subsidiary, (2) our affiliated entities, including BGY Education Investment and the schools controlled and held by it, and (3) the shareholders of BGY Education Investment.

We believe we have the power to control BGY Education Investment. Specifically, we believe that the terms of the exclusive call option agreement are currently exercisable and legally enforceable under PRC laws and regulations. We also believe that the minimum amount of consideration permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for us to exercise our rights under the exclusive call option agreement. To exercise our rights under the exclusive call option agreement does not require the consent of BGY Education Investment. Therefore, we believe this gives us the power to direct the activities that most significantly impact the economic performance of our affiliated entities. We believe that our ability to exercise effective control, together with the exclusive management services and business cooperation agreement and the equity pledge agreement, give us the rights to receive substantially all of the economic benefits from our affiliated entities in consideration for the services provided by our subsidiaries in China. Accordingly, as the primary beneficiary of the affiliated entities and in accordance with U.S. GAAP, we consolidate their financial results and assets and liabilities in our unaudited condensed combined and consolidated financial statements.

As advised by our PRC legal counsel, our corporate structure in China complies with all existing PRC laws and regulations. However, our PRC legal counsel has also advised us that as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, and we cannot assure you that the PRC government would agree that our corporate structure or any of the above contractual arrangements comply with current or future PRC laws or regulations. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities may have broad discretion in interpreting these laws and regulations.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Intangible assets with finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows.

Goodwill is tested for impairment annually at the end of the fourth quarter, or sooner if impairment indicators arise. In the evaluation of goodwill for impairment, we may perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is not, no further analysis is required. If it is, a prescribed two-step goodwill impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit, if any.

The first step in the two-step impairment test is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of a reporting unit is estimated by applying valuation multiples and/or estimating future discounted cash flows. The selection of multiples is dependent upon assumptions regarding future levels of operating performance as well as business trends and prospects, and industry, market and economic conditions. When estimating future discounted cash flows, we consider the assumptions that hypothetical marketplace participants would use in estimating future cash flows. In addition, where applicable, an appropriate discount rate is used, based on an industry-wide average cost of capital or location-specific economic factors. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step compares the implied fair value of goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination (i.e., the fair value of the reporting unit is allocated to all the assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit). If the implied fair value of goodwill exceeds the carrying amount, goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

We did not incur any impairment loss on goodwill for the 2016, 2017 and 2018 fiscal years.

Acquired intangible assets other than goodwill consist of trademarks and brand names, core curriculum, non-compete agreement and customer relationship, which are carried at cost, less accumulated amortization and impairment. The amortization periods by major intangible asset classes are as follows:

Trademarks and brand names	10 years
Core curriculum	10 years
Non-compete agreement	7 years
Customer relationship	4 years

Revenue recognition

Revenue is recognized when persuasive evidence that an arrangement exists, delivery of the product or service has occurred, the selling price is both fixed and determinable and collection is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of returns, discounts, and sales related tax. The primary sources of our revenues are as follows:

Educational programs and services

Service income includes tuition fees and boarding fees from our international schools and bilingual schools and tuition fees from our kindergartens.

Tuition and boarding fees received are generally paid in advance prior to the beginning of each semester, and are initially recorded as deferred revenue. In very limited circumstances students may, with special approval of the management, receive education first and pay their tuition in arrears later. Tuition and boarding fees are recognized proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded deferred revenue and is reflected as a current liability as such amounts represent revenue that we expect to earn within one year. The academic year of our schools is generally from September to January of the following year and from March to July.

Educational materials

Revenue attributable to educational materials is recognized upon the delivery of the products to the students, which is when the risks and rewards have been transferred to the students.

Training course and program fees

Revenue derived from providing language training and other programs is recognized proportionally as we deliver these services over the period of the course.

Commission income

We earn commission revenue by providing referral services to overseas education universities and institutions. Commission revenue is recognized when the referred students register at the overseas education universities and institutions and the tuition fees are paid.

Study-abroad consulting service fees

We offer study abroad consulting services to provide quality advisory guidance for students who intend to study abroad. We charge each student an up-front prepaid fee based on the scope of consulting services requested by the student, and recognizes revenue over the service period. The prepaid services fee consists of a refundable and non-refundable fee. The non-refundable service fee is recognized as revenue over the service period; and the refundable fee is deferred and recognized as revenue if the contingency of the student successfully gaining admission is resolved.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets for amounts more likely than not to be realized.

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items.

We record unrecognized tax benefit liabilities for known or anticipated tax issues based on our analysis of whether, and the extent to which, additional taxes will be due. We accrue interest and penalties related to unrecognized tax benefits in other liabilities and recognizes the related expense in income tax expense.

Share-based compensation

Share-based payment transactions with employees are measured based on the grant date fair value of the equity instrument issued and recognized as compensation expense net of a forfeiture rate on a straight-line basis, over the requisite service period, with a corresponding impact reflected in additional paid-in capital.

The estimate of forfeiture rate will be adjusted over the requisite service period to the extent that actual forfeiture rate differs, or is expected to differ, from such estimates. Changes in estimated forfeiture rate will be recognized through a cumulative catch-up adjustment in the period of change.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Updates, or ASU, 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards ("IFRS"). An entity has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the

cumulative effect of initially applying this standard recognized at the date of initial application. ASU2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016, and early adoption is not permitted. In August, 2015, the FASB updated this standard to ASU 2015-14, the amendments in this Update defer the effective date of Update 2014-09, that the Update should be applied to annual reporting periods beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, we must perform the following five steps: (1) identify the contracts with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) we satisfy a performance obligation. Topic 606 also impacts certain other areas, such as the accounting for costs to obtain or fulfill a contract. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

We have adopted this standard effective September 1, 2018 using the modified-retrospective approach, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. We also estimate that there will not be a material impact to the beginning balance of retained earnings.

In January 2016, FASB issued ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”), which requires that equity investments, except for those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also impacts the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only for certain provisions. The guidance should be applied prospectively upon its effective date. We plan to adopt this ASU beginning on September 1, 2018, and based on our equity investments as of August 31, 2018, the application of ASU 2016-01 may result in our cost method investments to be measured at fair value, with subsequent changes in fair value recognized in net income. We may elect to measure certain equity investments that do not have readily determinable fair values at cost minus impairment, with appropriate adjustments resulting from observable price changes in orderly and comparable transactions.

ASU 2016-01 was further amended in February 2018 by ASU 2018-03, “Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”. This update was issued to clarify certain narrow aspects of guidance concerning the recognition of financial assets and liabilities established in ASU 2016-01. This includes an amendment to clarify that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair valuation method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would apply to that security and all identical or similar investments of the same issued.

ASU 2016-01 and ASU 2018-03 are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. Adoption of the amendment must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except for amendments related to equity instruments that do not have readily determinable fair values which should be applied prospectively. We plan to apply the new standard in the 2019 fiscal year. For investments in equity securities without readily determinable fair values, we will elect to use the measurement alternative defined as cost, less impairments, adjusted by observable price changes. We anticipate that the adoption of ASU 2016-01 may increase the volatility of our other (expense)/income, as a result of the remeasurement of our equity securities upon the occurrence of observable price changes.

In February 2016, FASB issued ASU 2016-02 related to Leases. Under the new guidance, lessees will be required to recognize all leases (with the exception of short-term leases) at the commencement date including a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Lessees (for capital and operating leases) and must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted. While we are evaluating the impact of the lease guidance on our consolidated financial statements, we anticipate that the impact will be material due to the right-of-use assets and lease liabilities related to existing operating leases that will be recorded on our consolidated balance sheets upon adoption of the standard.

In August 2016, FASB issued new pronouncements ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update provide guidance on the following specific cash flow issues such as: (1) Contingent Consideration Payments Made After a Business Combination; (2) Distributions Received from Equity Method Investees. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elect early adoption must adopt all of the amendments in the same period. We intend to adopt this standard starting in the 2019 fiscal year and do not anticipate this standard to have a material impact on our consolidated financial statements.

In January 2017, FASB issued ASU 2017-01: Business Combinations (Topic 805): Clarifying the Definition of a Business. The Update requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this Update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. Early application of the amendments in this Update is allowed. The amendments in this Update should be applied prospectively on or after the effective date. No disclosures are required at transition. We intend to adopt this standard starting from the 2019 fiscal year, and do not anticipate this standard to have a material impact on our consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." Under the new accounting guidance, an entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will perform its goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value but not to exceed the total amount of the goodwill of the reporting unit. In addition, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment, if applicable. The provisions of the new accounting guidance are required to be applied prospectively. The new accounting guidance is effective for us for goodwill impairment tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. We are in the process of assessing the impact on its combined and consolidated financial statements from the adoption of the new guidance.

In May 2017, FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting." The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. For all entities, the ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. We do not anticipate that the adoption of ASU 2017-09 will have a material impact on our consolidated financial statements.

In July 2018, FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases. The amendments in this ASU are of a similar nature to the items typically addressed in the Codification improvements project. However, the Board decided to issue a separate ASU for the improvements related to Accounting Standards Update No. 2016-02, Leases (Topic 842), to increase stakeholders' awareness of the amendments and to expedite the improvements. The amendments in this ASU affect narrow aspects of the guidance issued in ASU 2016-02. For entities that have early adopted Topic 842, the amendments in this Update should be effective upon issuance of the final Update and the transition requirements should be the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements of the amendments should be the same as the effective date and transition requirements in Topic 842.

In July 2018, FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. The amendments in this ASU related to separating components of a contract affect the amendments in ASU 2016-02, which are not yet effective but can be early adopted. For entities that have not adopted Topic 842 before the issuance of this ASU, the effective date and transition requirements for the amendments in this ASU related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. All entities, including early adopters that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.

In August 2018, FASB issued ASU 2018-13, Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU improve the effectiveness of fair value measurement disclosures and modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted.

Key Components of Results of Operations

Revenue

We derive our revenue from four operating segments, including international schools, bilingual schools, kindergartens and complementary education services. Our revenue increased during the 2016, 2017 and 2018 fiscal years primarily due to increases in the average tuition and fees and the increased number of student enrollment, which is the result of the expansion of our school network and increasing utilization of existing schools.

The following tables compare revenue generated from our schools and complementary education services and as a percentage of total revenue for the periods indicated.

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
		(in thousands)		
International schools	423,122	505,595	589,599	86,325
Tuition revenue ⁽¹⁾	375,895	436,612	513,493	75,182
Others ⁽²⁾	47,227	68,983	76,106	11,143
Bilingual schools	328,678	413,404	534,008	78,186
Tuition revenue ⁽¹⁾	235,935	300,934	396,069	57,990
Others ⁽²⁾	92,743	112,470	137,939	20,196
Kindergartens	252,013	312,008	399,249	58,455
Tuition revenue ⁽¹⁾	216,425	269,962	344,828	50,487
Others ⁽²⁾	35,588	42,046	54,421	7,968
Complementary education services	36,516	97,360	196,015	28,699
Tuition revenue ⁽³⁾	25,697	71,267	85,098	12,459
Others ⁽⁴⁾	10,819	26,093	110,917	16,240
Total	1,040,329	1,328,367	1,718,871	251,665

	Year Ended August 31,		
	2016	2017	2018
	%	%	%
International schools	40.7%	38.1%	34.3%
Tuition revenue ⁽¹⁾	36.1%	32.9%	29.9%
Others ⁽²⁾	4.5%	5.2%	4.4%
Bilingual schools	31.6%	31.1%	31.1%
Tuition revenue ⁽¹⁾	22.7%	22.6%	23.1%
Others ⁽²⁾	8.9%	8.5%	8.0%
Kindergartens	24.2%	23.5%	23.2%
Tuition revenue ⁽¹⁾	20.8%	20.3%	20.0%
Others ⁽²⁾	3.4%	3.2%	3.2%
Complementary education services	3.5%	7.3%	11.4%
Tuition revenue ⁽³⁾	2.5%	5.4%	5.0%
Others ⁽⁴⁾	1.0%	1.9%	6.4%
Total	100.0%	100%	100%

(1) Includes tuition from K-12 education programs and income from sales of education materials.

(2) Includes meal income, boarding income and others.

(3) Includes revenue from learning centers.

(4) Includes income from camps and extracurricular programs and other educational services, net of sales tax.

We raised the average tuition and fees per student at a CAGR of approximately 4.2% from the 2016 fiscal year to the 2018 fiscal year. We generally charge our students tuition and other fees prior to the beginning of each semester. We also accept monthly payment for fees at certain kindergartens. We offer a partial refund if a student withdraws during a semester and tuition discounts to certain of Country Garden's homeowners, our employees and Country Garden's employees.

The increase in revenues from our schools was primarily driven by the increased number of student enrollment and an increase in the average tuition and fees. Revenue from our complementary education services increased significantly in the 2017 and 2018 fiscal years primarily due to (1) an increase in revenue of élan English learning centers, (2) an increase in our revenue generated from camp programs, and (3) revenue contribution from our newly acquired education consulting company, namely Can-achieve.

Cost of revenue

Our cost of revenue primarily consists of staff costs, comprising primarily salaries and other benefits for teachers and educational staff, and other costs, comprising primarily expenses relating to room and board services, educational activities and utilities and maintenance of school facilities.

The following tables set forth the components of our cost of revenue by amount and as a percentage of total segment revenue for the periods indicated.

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands)			
International schools	312,527	360,044	373,391	54,669
Staff costs	233,486	268,279	286,004	41,875
Others ⁽¹⁾	79,041	91,765	87,387	12,794
Bilingual schools	228,889	262,283	346,868	50,786
Staff costs	155,143	182,648	242,572	35,516
Others ⁽¹⁾	73,746	79,635	104,296	15,270
Kindergartens	168,157	178,758	223,397	32,708
Staff costs	118,943	136,049	164,893	24,142
Others ⁽¹⁾	49,214	42,709	58,504	8,566
Complementary education services	26,632	59,245	146,939	21,514
Staff costs	14,846	31,076	60,180	8,811
Others ⁽¹⁾	11,786	28,169	86,759	12,703
Total	736,205	860,330	1,090,595	159,677

	Year Ended August 31,		
	2016 %	2017 %	2018 %
International schools	73.9%	71.2%	63.3%
Staff costs	55.2%	53.1%	48.5%
Others ⁽¹⁾	18.7%	18.1%	14.8%
Bilingual schools	69.6%	63.4%	65.0%
Staff costs	47.2%	44.2%	45.5%
Others ⁽¹⁾	22.4%	19.2%	19.5%
Kindergartens	66.7%	57.3%	56.0%
Staff costs	47.2%	43.6%	41.3%
Others ⁽¹⁾	19.5%	13.7%	14.7%
Complementary education services	72.9%	60.9%	75.0%
Staff costs	40.7%	31.9%	30.7%
Others ⁽¹⁾	32.3%	29.0%	44.3%
Total	70.8%	64.8%	63.4%

(1) Includes primarily expenses relating to room and board services, depreciation and amortization and others.

Our cost of revenue increased from the 2016 fiscal year to the 2018 fiscal year primarily due to an increase in staff costs, resulting from an increase in the total number of our teachers and educational staff, and an increase in boarding expenses, which is in line with the increased number of our student enrollment and the expansion of our school network.

Our cost of revenue as a percentage of our total revenue decreased from 70.8% in the 2016 fiscal year to 64.8% in the 2017 fiscal year, and further to 63.4% in the 2018 fiscal year, primarily due to (1) our improved operating efficiency, including from budget control, improvement of teacher productivity and allocation of experienced teachers from mature schools to newer schools across our school network, and (2) the increase in our average tuition and fees.

Selling, general and administrative expenses

Our selling, general and administrative expenses primarily consisted of salaries and other benefits for our administrative, management and marketing personnel, maintenance costs of our office facilities and teaching equipment, and share-based compensation expenses. Our selling, general and administrative expenses were RMB290.1 million, RMB262.0 million and RMB368.1 million (US\$53.9 million) in the 2016, 2017 and 2018 fiscal years, respectively, accounting for 27.9%, 19.7% and 21.4% of our revenue for the same periods, respectively. Excluding the share-based compensation in the 2016 and 2018 fiscal years, our selling, general and administrative expenses would have been RMB195.0 million and RMB339.1 million (US\$49.6 million), accounting for 18.7% and 19.7% of our revenue in the 2016 and 2018 fiscal years. Our selling, general and administrative expenses before share-based compensation expenses as a percentage of our revenue increased from 18.7% in the 2016 fiscal year to 19.7% in the 2017 fiscal year primarily due to benefits we paid to additional general and administrative personal to support our growing business, as well as one-off expenses related to our initial public offering of RMB16.9 million incurred during the 2017 fiscal year. Such percentage remained at 19.7% in the 2018 fiscal year.

Results of Operations

The following tables set forth a summary of our combined and consolidated results of operations by amount and as a percentage of total revenue for the periods indicated. This information should be read together with our combined and consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of the results that may be expected for any future period.

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands, except share and per share data)			
Revenue	1,040,329	1,328,367	1,718,871	251,665
Cost of revenue	(736,205)	(860,330)	(1,090,595)	(159,677)
Gross profit	304,124	468,037	628,276	91,988
Selling, general and administrative expenses	(290,098)	(261,972)	(368,141)	(53,901)
Other operating income	4,283	8,874	12,027	1,761
Operating income	18,309	214,939	272,162	39,848
Interest income, net	2,148	4,901	27,297	3,996
Investment income	805	13,718	21,669	3,173
Other expenses	(457)	(779)	(4,803)	(703)
Income before income taxes and share of equity in income of unconsolidated affiliates	20,805	232,779	316,325	46,314
Income tax expenses	(17,889)	(40,970)	(67,382)	(9,866)
Share of equity in income of unconsolidated affiliates	—	—	(40)	(6)
Net income	2,916	191,809	248,903	36,442
Net income attributable to non-controlling interests ⁽¹⁾	39,290	19,759	1,934	283
Net (loss)/income attributable to ordinary shareholders	(36,374)	172,050	246,969	36,159
Adjusted net income ⁽²⁾	97,986	191,809	277,964	40,697
Net (loss)/earnings per share attributable to ordinary shareholders ⁽³⁾				
Basic	(0.38)	1.64	2.02	0.30
Diluted	(0.38)	1.64	2.02	0.30
Weighted average shares used in calculating net (loss)/earnings per ordinary share ⁽³⁾				
Basic	96,983,360	104,839,041	122,088,201	122,088,201
Diluted	96,983,360	104,839,041	122,186,796	122,186,796

- (1) Includes former shareholders that disposed of their minority investments in certain schools to us in the first quarter of the 2017 fiscal year, and net income attributable to our non-controlling interests in Can-achieve and several kindergartens we acquired in Wuhan in the 2018 fiscal year.
- (2) Represents net income before share-based compensation expenses. See “—A. Operating Results—Results of Operations—Non-GAAP measures” for details.
- (3) After giving effect to a share split effected on April 26, 2017, following which each of our authorized and issued ordinary shares was sub-divided into 10 ordinary shares.

Non-GAAP measures

In evaluating our business, we consider and use three non-GAAP measures, adjusted EBITDA, adjusted net income/(loss) and adjusted operating income as supplemental measures to review and assess our operating performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. We define adjusted EBITDA by excluding net interest income, income tax benefit and expense, depreciation and amortization expenses, non-recurring foreign exchange (gain)/loss, and share-based compensation expenses from net income. We define adjusted net income/(loss) as net income/(loss) excluding share-based compensation expenses. In the 2018 fiscal year we converted US\$50.0 million from U.S. dollars into RMB, which was utilized as the registered capital of Guangdong Bright Scholar Education Technology Co., Ltd. As a result of the change in the U.S. dollar to RMB exchange rate since our initial public offering and follow-up offering to the date of conversion, we recognized a non-recurring foreign exchange loss in the 2018 fiscal year. We define adjusted operating income as operating income excluding share-based compensation expenses. We incurred share-based compensation in the 2016 and 2018 fiscal years, which was associated with the acquisition of Mr. Junli He’s equity interests in Impetus in January 2016 and the grant of share options to purchase a total of 845,000 Class A ordinary shares to certain school principals and management team members.

We present the non-GAAP financial measures because they are used by our management to evaluate our operating performance and formulate business plans. Adjusted EBITDA, adjusted net income/(loss) and adjusted operating income enable our management to assess our operating results without considering the impact of non-cash charges, including depreciation expenses, share-based compensation expenses, and non-recurring foreign exchange gains or losses, and without considering the impact of non-operating items such as interest income and income tax benefit and expenses. We also believe that the use of the non-GAAP measure facilitate investors' assessment of our operating performance.

The non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. The non-GAAP financial measures have limitations as analytical tools. One of the key limitations of using these non-GAAP financial measures is that they do not reflect all items of income and expense that affect our operations. Interest income, income tax benefit and expenses, depreciation expenses and share-based compensation expenses have been and may continue to be incurred in our business and are not reflected in the presentation of adjusted EBITDA or adjusted net income/(loss). Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore their comparability may be limited.

We reconcile the non-GAAP financial measures to the nearest U.S. GAAP performance measures, which should be considered when evaluating our performance. We encourage you to review our financial information in its entirety and not rely on a single financial measure.

The following tables reconcile our adjusted EBITDA, adjusted net income/(loss) and adjusted operating income for the periods indicated to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP, which is net income/(loss):

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands)			
Reconciliation of net income to EBITDA and adjusted EBITDA				
Net income	2,916	191,809	248,903	36,442
Less: interest income, net	2,148	4,901	27,297	3,996
Add: income tax expense	17,889	40,970	67,382	9,866
Add: depreciation and amortization expense	72,094	78,056	85,879	12,574
Add: share-based compensation expenses	95,070	—	29,061	4,255
Add: foreign exchange loss	—	—	4,868	713
Adjusted EBITDA	185,821	305,934	408,796	59,854

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands)			
Reconciliation of net income to adjusted net income				
Net income	2,916	191,809	248,903	36,442
Add: share-based compensation expenses	95,070	—	29,061	4,255
Adjusted net income	97,986	191,809	277,964	40,697

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands)			
Reconciliation of operating income to adjusted operating income				
Operating income	18,309	214,939	272,162	39,848
Add: share-based compensation expenses	95,070	—	29,061	4,255
Adjusted operating income	113,379	214,939	301,223	44,103

Segment information

The following tables set forth the net revenue, cost of revenue and gross profit of our four segments of business by amount and as a percentage of total segment revenue for the periods indicated:

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands)			
Revenue	1,040,329	1,328,367	1,718,871	251,665
International schools	423,122	505,595	589,599	86,325
Bilingual schools	328,678	413,404	534,008	78,186
Kindergartens	252,013	312,008	399,249	58,455
Complementary education services	36,516	97,360	196,015	28,699
Cost of revenue	(736,205)	(860,330)	(1,090,595)	(159,677)
International schools	(312,527)	(360,044)	(373,391)	(54,669)
Bilingual schools	(228,889)	(262,283)	(346,868)	(50,786)
Kindergartens	(168,157)	(178,758)	(223,397)	(32,708)
Complementary education services	(26,632)	(59,245)	(146,939)	(21,514)
Gross profit	304,124	468,037	628,276	91,988
International schools	110,595	145,551	216,208	31,656
Bilingual schools	99,789	151,121	187,140	27,400
Kindergartens	83,856	133,250	175,852	25,747
Complementary education services	9,884	38,115	49,076	7,185

	Year Ended August 31,		
	2016	2017	2018
	%	%	%
	(as a percentage of segment revenue)		
Revenue	100.0%	100.0%	100.0%
International schools	100.0%	100.0%	100.0%
Bilingual schools	100.0%	100.0%	100.0%
Kindergartens	100.0%	100.0%	100.0%
Complementary education services	100.0%	100.0%	100.0%
Cost of revenue	(70.8)%	(64.8)%	(63.4)%
International schools	(73.9)%	(71.2)%	(63.3)%
Bilingual schools	(69.6)%	(63.4)%	(65.0)%
Kindergartens	(66.7)%	(57.3)%	(56.0)%
Complementary education services	(72.9)%	(60.9)%	(75.0)%
Gross profit	29.2%	35.2%	36.6%
International schools	26.1%	28.8%	36.7%
Bilingual schools	30.4%	36.6%	35.0%
Kindergartens	33.3%	42.7%	44.0%
Complementary education services	27.1%	39.1%	25.0%

Year ended August 31, 2017 compared to year ended August 31, 2018

Revenue. Our revenue increased by 29.4% from RMB1,328.4 million in the 2017 fiscal year to RMB1,718.9 million (US\$251.7 million) in the 2018 fiscal year, primarily due to a 23.3% increase in the average total number of students from 29,747 to 36,679, and a 1.7% increase in the average tuition and fees from RMB41,384 to RMB42,108 during the same periods. Our revenue from complementary education services also increased significantly from RMB97.4 million in the 2017 fiscal year to RMB196.1 million (US\$28.7 million) in the 2018 fiscal year, primarily due to revenue contribution from Can-achieve, our newly acquired international education consulting company, and an increase in the revenue of élan English learning centers.

- **International schools.** Our revenue from international schools increased by 16.6% from RMB505.6 million in the 2017 fiscal year to RMB589.6 million (US\$86.3 million) in the 2018 fiscal year, primarily due to a 17.2% increase in the average number of students from 6,283 to 7,366, partially offset by a 0.5% decrease in the average tuition and fees from RMB80,478 to RMB80,048 during the same period primarily due to pricing strategies related to our promotional efforts for schools in the ramp-up stage.
- **Bilingual schools.** Our revenue from bilingual schools increased by 29.2% from RMB413.4 million in the 2017 fiscal year to RMB534.0 million (US\$78.2 million) in the 2018 fiscal year, primarily due to an 18.4% increase in the average number of students from 13,189 to 15,620 and a 9.1% increase in the average tuition and fees from RMB31,346 to RMB34,187 during the same period.
- **Kindergartens.** Our revenue from kindergartens increased by 28.0% from RMB312.0 million in the 2017 fiscal year to RMB399.2 million (US\$58.5 million) in the 2018 fiscal year, primarily due to a 33.3% increase in the average number of students from 10,275 to 13,693, and a 1.2% increase in the average tuition and fees from RMB30,364 to RMB30,736 during the same period.
- **Complementary education services.** Our revenue from complementary education services increased significantly from RMB97.4 million in the 2017 fiscal year to RMB196.1 million (US\$28.7 million) in the 2018 fiscal year, primarily due to (1) a revenue contribution of RMB62.5 million (US\$9.2 million) from Can-achieve, (2) an RMB13.3 million increase in the revenue of élan English learning centers from the 2017 fiscal year, and (3) revenue contribution from FGE of RMB6.7 million (US\$1.0 million).

Cost of revenue. Our cost of revenue increased by 26.8% from RMB860.3 million in the 2017 fiscal year to RMB1,090.6 million (US\$159.7 million) in the 2018 fiscal year, primarily due to a RMB135.6 million increase in staff costs as a result of an increase in the number of teachers and educational staff needed to support the expansion of our school network and the ramp-up of recently-opened schools. We opened five bilingual schools and five kindergartens in the 2018 fiscal year. We also acquired five kindergartens in the 2018 fiscal year. The average number of our teachers and instructors increased by 18.4% from 3,628 in the 2017 fiscal year to 4,297 in the 2018 fiscal year.

- **International schools.** Our cost of revenue incurred by international schools increased by 3.7% from RMB360.0 million in the 2017 fiscal year to RMB373.4 million (US\$54.7 million) in the 2018 fiscal year, primarily due to a 6.6% increase in staff costs from RMB268.3 million to RMB286.0 million (US\$41.9 million) as a result of an increase in the number of teachers and educational staff needed to support the expansion of our school network and the ramp-up of schools.
- **Bilingual schools.** Our cost of revenue incurred by bilingual schools increased by 32.2% from RMB262.3 million in the 2017 fiscal year to RMB346.9 million (US\$50.8 million) in the 2018 fiscal year, primarily due to a 32.8% increase in staff costs from RMB182.6 million to RMB242.6 million (US\$35.5 million) as a result of an increase in the number of teachers and educational staff to support the expansion of our school network. We opened five bilingual schools during the 2018 fiscal year.
- **Kindergartens.** Our cost of revenue incurred by kindergartens increased by 25.0% from RMB178.8 million in the 2017 fiscal year to RMB223.4 million (US\$ 32.7 million) in the 2018 fiscal year, primarily due to a 21.2% increase in staff costs from RMB136.0 million to RMB164.9 million (US\$24.1 million) as a result of an increase in the number of teachers and educational staff to support the expansion of our school network and the ramp-up of recently-opened schools. We opened five kindergartens and acquired five kindergartens during the 2018 fiscal year.
- **Complementary education services.** Our cost of revenue incurred by complementary education services increased significantly from RMB59.2 million in the 2017 fiscal year to RMB146.9 million (US\$21.5 million) in the 2018 fiscal year, primarily due to (1) consolidation of Can-achieve's cost of revenue of RMB47.3 million (US\$6.9 million), and (2) an increase in cost of revenue of élan.

Gross profit. As a result of the foregoing, our gross profit increased significantly from RMB468.0 million in the 2017 fiscal year to RMB628.3 million (US\$92.0 million) in the 2018 fiscal year. Our gross margin increased from 35.2% in the 2017 fiscal year to 36.6% in the 2018 fiscal year, primarily due to our improved operating efficiency and the increased average tuition and fees. Since the beginning of the 2016 fiscal year, we have implemented various initiatives to improve operating efficiency and profitability, including budget control, improvement of teacher productivity and allocation of experienced teachers from mature schools to newer schools across our school network, resulting in an improvement in the student-to-teacher ratio in our schools from 8.4 for the 2017 fiscal year to 8.8 for the 2018 fiscal year.

Our gross profit margin for our bilingual schools decreased from the 2017 fiscal year to the 2018 fiscal year primarily due to the ramp-up of our five newly opened bilingual schools in the 2018 fiscal year, and our gross profit margin for our complementary education services decreased primarily due to (1) the ramp-up of élan English learning centers, and (2) the integration of our newly acquired international education consulting business under the brand of Can-achieve, the gross margin of which is generally lower than those of the private K-12 education business.

Selling, general and administrative expenses. Our selling, general and administrative expenses increased by 40.5% from RMB262.0 million in the 2017 fiscal year to RMB368.1 million (US\$53.9 million) in the 2018 fiscal year. Our selling, general and administrative expenses as a percentage of our revenue increased from 19.7% in the 2017 fiscal year to 21.4% in the 2018 fiscal year. This increase is primarily due to our share-based compensation to our selling, general and administrative staff of RMB29.1 million (US\$4.3 million).

Operating income. As a result of the foregoing, we experienced an operating gain of RMB214.9 million in the 2017 fiscal year, and an operating gain of RMB272.2 million (US\$39.8 million) in the 2018 fiscal year.

Interest income, net. Our net interest income increased significantly from RMB4.9 million in the 2017 fiscal year to RMB27.3 million (US\$4.0 million) in the 2018 fiscal year, primarily due to an increase in holdings of bank deposits from cash generated from our business operations and proceeds from our initial public offering and follow-on offering during the 2018 fiscal year.

Income tax expense. Our income tax expense was RMB67.4 million (US\$9.9 million) in the 2018 fiscal year, and our effective tax rate was 21.3%, lower than the statutory rate of 25.0%, primarily due to the utilization of net operating losses carry-forwards. Our effective tax rate increased from 17.6% in the 2017 fiscal year to 21.3% in the 2018 fiscal year, primarily due to (1) the increase in the number of schools that began to generate net profits in the 2018 fiscal year, and (2) the expiration of a five-year tax exemption previously enjoyed by Country Garden Venice Bilingual School and Country Garden Venice Kindergarten.

Income for the year. As a result of the foregoing, we experienced a net gain of RMB191.8 million for the 2017 fiscal year and a net gain of RMB248.9 million (US\$36.4 million) for the 2018 fiscal year.

Adjusted net income. We recorded an adjusted net income of RMB278.0 million (US\$40.7 million) for the 2018 fiscal year, compared to an adjusted net income of RMB191.8 million for the 2017 fiscal year. See “—Non-GAAP measures.”

Year ended August 31, 2016 compared to year ended August 31, 2017

Revenue. Our revenue increased by 27.7% from RMB1,040.3 million in the 2016 fiscal year to RMB1,328.4 million in the 2017 fiscal year, primarily due to a 15.0% increase in the average total number of students from 25,862 to 29,747, and a 6.6% increase in the average tuition and fees from RMB38,814 to RMB41,384 during the same period. Our revenue from complementary education services also increased significantly from RMB36.5 million in the 2016 fiscal year to RMB97.4 million in the 2017 fiscal year, primarily due to an increase in the revenue of élan English learning centers, and to a lesser extent, an increase in revenue from our camp programs.

- *International schools.* Our revenue from international schools increased by 19.5% from RMB423.1 million in the 2016 fiscal year to RMB505.6 million in the 2017 fiscal year, primarily due to a 15.4% increase in the average number of students from 5,443 to 6,283, and a 3.5% increase in the average tuition and fees from RMB77,744 to RMB80,478 during the same period.
- *Bilingual schools.* Our revenue from bilingual schools increased by 25.8% from RMB328.7 million in the 2016 fiscal year to RMB413.4 million, primarily due to a 15.3% increase in the average number of students from 11,441 to 13,189, and a 9.1% increase in the average tuition and fees from RMB28,729 to RMB31,346 during the same period.
- *Kindergartens.* Our revenue from kindergartens increased by 23.8% from RMB252.0 million in the 2016 fiscal year to RMB312.0 million in the 2017 fiscal year, primarily due to a 14.4% increase in the average number of students from 8,979 to 10,275, and a 8.2% increase in the average tuition and fees from RMB28,067 to RMB30,364 during the same period.
- *Complementary education services.* Our revenue from complementary education services increased significantly from RMB36.5 million in the 2016 fiscal year to RMB97.4 million, primarily due to an increase in the revenue of élan English learning centers, and to a lesser extent, an increase in revenue from our camp programs.

Cost of revenue. Our cost of revenue increased by 16.9% from RMB736.2 million in the 2016 fiscal year to RMB860.3 million in the 2017 fiscal year, primarily due to a RMB95.6 million increase in staff costs as a result of an increase in the number of teachers and educational staff needed to support the expansion of our school network and the ramp-up of recently-opened schools. The average number of our teachers and instructors increased by 14.3% from 3,175 in the 2016 fiscal year to 3,628 in the 2017 fiscal year.

- *International schools.* Our cost of revenue incurred by international schools increased by 15.2% from RMB312.5 million in the 2016 fiscal year to RMB360.0 million in the 2017 fiscal year, primarily due to a 14.9% increase in staff costs from RMB233.5 million to RMB268.3 million as a result of an increase in the number of teachers and educational staff needed to support the expansion of our school network and the ramp-up of recently-opened schools.
- *Bilingual schools.* Our cost of revenue incurred by bilingual schools increased by 14.6% from RMB228.9 million in the 2016 fiscal year to RMB262.3 million in the 2017 fiscal year, primarily due to a 17.7% increase in staff costs from RMB155.1 million to RMB182.6 million as a result of an increase in the number of teachers and educational staff to support the expansion of our school network.
- *Kindergartens.* Our cost of revenue incurred by kindergartens increased by 6.3% from RMB168.2 million in the 2016 fiscal year to RMB178.8 million in the 2017 fiscal year, primarily due to a 14.4% increase in staff costs from RMB118.9 million to RMB136.0 million as a result of an increase in the number of teachers and educational staff to support the expansion of our school network and the ramp-up of recently-opened schools.

- *Complementary education services.* Our cost of revenue incurred by complementary education services increased significantly from RMB26.6 million in the 2016 fiscal year to RMB59.2 million in the 2017 fiscal year, primarily due to an increase in cost of revenue of élan English learning centers.

Gross profit. As a result of the foregoing, our gross profit increased significantly from RMB304.1 million in the 2016 fiscal year to RMB468.0 million. Our gross margin increased from 29.2% in the 2016 fiscal year to 35.2% in the 2017 fiscal year, primarily due to our improved operating efficiency and the increased average tuition and fees. Since the beginning of the 2016 fiscal year, we have implemented various initiatives to improve operating efficiency and profitability, including budget control, improvement of teacher productivity and allocation of experienced teachers from mature schools to newer schools across our school network, resulting in a moderate increase in the student-to-teacher ratio in our schools from 8.3 for the 2016 fiscal year to 8.4 for the 2017 fiscal year.

Selling, general and administrative expenses. Our selling, general and administrative expenses decreased by 9.7% from RMB290.1 million in the 2016 fiscal year to RMB262.0 million in the 2017 fiscal year. Our selling, general and administrative expenses as a percentage of our revenue decreased from 27.9% in the 2016 fiscal year to 19.7% in the 2017 fiscal year. Our selling, general and administrative expenses before share-based compensation expenses as a percentage of our revenue increased from 18.7% in the 2016 fiscal year to 19.7% in the 2017 fiscal year primarily due to benefits we paid to additional general and administrative personal to support our growing business, as well as one-off expenses related to our initial public offering of RMB16.9 million incurred during the 2017 fiscal year.

Operating income. As a result of the foregoing, we experienced an operating gain of RMB18.3 million in the 2016 fiscal year, and an operating gain of RMB214.9 million in the 2017 fiscal year.

Interest income, net. Our net interest income increased by 128.2% from RMB2.1 million in the 2016 fiscal year to RMB4.9 million in the 2017 fiscal year, primarily due to an increase in holdings of bank deposits from cash generated from our business operations and proceeds from our initial public offering.

Income tax expense. Our income tax expense was RMB41.0 million in the 2017 fiscal year, and our effective tax rate was 17.6%, lower than the statutory rate of 25.0%, primarily due to the preferential tax treatment of Zhuhai Bright Scholar and certain tax exemptions granted to our Country Garden Venice Bilingual School and Country Garden Venice Kindergarten and the utilization of net operating losses carry-forwards.

Income for the year. As a result of the foregoing, we experienced a net gain of RMB2.9 million for the 2016 fiscal year and a net gain of RMB191.8 million for the 2017 fiscal year.

Adjusted net income. We recorded an adjusted net income of RMB191.8 million for the 2017 fiscal year, compared to an adjusted net income of RMB98.0 million for the 2016 fiscal year. See “—Non-GAAP measures.”

B. Liquidity and Capital Resources

Historically, we have financed our operations primarily through cash generated from our operating activities and proceeds from our financing activities. As of August 31, 2016, 2017 and 2018, we had RMB362.5 million, RMB1,896.7 million and RMB3,164.1 million (US\$463.3 million), respectively, in cash and cash equivalents and restricted cash. Approximately 44.2% of our cash and cash equivalents and restricted cash as of August 31, 2018 were held in China. Our cash primarily consists of cash on hand and interest-bearing financial instruments which are unrestricted as to withdrawal or use. We intend to finance our future working capital requirements and capital expenditures primarily from cash generated from operating activities, and to a lesser extent, from debt and equity financing activities.

Although we combine the results of our affiliated entities and their respective subsidiaries, we do not have direct access to the cash and cash equivalents or future earnings of our affiliated entities or their respective subsidiaries. However, a portion of the cash balances of our affiliated entities and their respective subsidiaries will be paid to us pursuant to our contractual arrangements with our affiliated entities and their respective subsidiaries. For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

We have not encountered any difficulties in meeting our cash obligations to date. When considering our liquidity position and our future capital resources and needs, we take into account price controls set by local governments that may affect the tuition and fees we are able to charge to students in our schools, annual enrollment numbers approved for our schools, the economic benefits we have received from our subsidiaries and affiliated entities attributable to the provision of services to these entities and the economic benefits we may receive from our subsidiaries and affiliated entities directly through payments under our exclusive management services and business cooperation agreement. We believe that our current cash and cash equivalents and anticipated cash flow from operations, will be sufficient to meet our anticipated cash needs for longer than the next twelve months.

The following table sets forth a condensed summary of our cash flows for the periods indicated.

	Year Ended August 31,			
	2016	2017	2018	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash provided by operating activities	360,658	464,919	554,216	81,145
Net cash provided by/(used in) investing activities	32,086	(55,725)	(472,460)	(69,174)
Net cash (used in)/provided by financing activities	(274,541)	1,161,511	1,092,604	159,971
Net increase in cash and cash equivalents, and restricted cash	118,203	1,570,705	1,174,360	171,942
Cash and cash equivalents, and restricted cash at beginning of the year	244,248	362,451	1,896,662	277,696
Effect of exchange rate change	—	(36,494)	93,059	13,625
Cash and cash equivalents, and restricted cash at end of the year	<u>362,451</u>	<u>1,896,662</u>	<u>3,164,081</u>	<u>463,263</u>

Operating activities

We generate cash from operating activities primarily from tuition and fees for our schools and fees for our complementary education services, all of which are typically paid in advance before the respective services are rendered. Tuition and fees for schools and fees for our complementary education services are initially recorded under deferred revenue. We recognize such amounts received as revenue proportionately over the relevant period in which the students attend the applicable programs.

For the 2018 fiscal year, we had net cash from operating activities of RMB554.2 million (US\$81.1 million). This amount represents our net income of RMB248.9 million (US\$36.4 million), adjusted primarily for (1) increase in deferred revenue of RMB190.6 million (US\$27.9 million) due to increased enrollment of students and increase in our average tuitions, (2) depreciation of RMB78.3 million (US\$11.5 million) relating primarily to our school facilities capitalized renovation construction, (3) accrued unpaid expenses of RMB50.9 million (US\$7.5 million), and (4) share-based compensation of RMB29.1 million (US\$4.3 million).

For the 2017 fiscal year, we had net cash from operating activities of RMB464.9 million. This amount represents our net income of RMB191.8 million, adjusted primarily for (1) depreciation of RMB74.4 million relating primarily to our school facilities capitalized renovation construction, and (2) accrued unpaid expenses of RMB69.1 million; (3) increase in deferred revenue of RMB96.5 million due to increased enrollment of students and increase in our average tuitions.

For the 2016 fiscal year, we had net cash from operating activities of RMB360.7 million. This amount represents our net income of RMB2.9 million, adjusted primarily for (1) depreciation of RMB69.5 million relating primarily to our school facilities and renovation construction, (2) share-based compensation of RMB95.1 million, and (3) changes in working capital items that positively affected operating cash flow, including an increase in deferred revenue of RMB160.9 million as a result of our business growth and an increase in accrued expenses and other current liabilities of RMB25.1 million relating primarily to payment of salaries and other benefits to our employees and collection of student-related fees on behalf of third parties.

Investing activities

For the 2018 fiscal year, we had net cash used in investing activities of RMB472.5 million (US\$69.2 million), primarily attributable to (1) purchase of held-to-maturity investments of RMB1,428.0 million (US\$209.1 million), (2) purchase of debt investments of RMB469.0 million (US\$68.7 million), (3) purchase of long-term investment of RMB190.9 million (US\$28.0 million), (4) acquisition payment in the 2018 fiscal year of RMB179.6 million (US\$26.3 million), and (5) capital expenditures in the 2018 fiscal year of RMB117.6 million (US\$17.2 million) partially offset by (1) proceeds from disposal of held-to-maturity investments of RMB1,445.4 million (US\$211.6 million), and (2) proceeds from disposal of debt investments of RMB477.2 million (US\$69.9 million). For details on our acquisitions, see “Item 4. Information on the Company—B. Business Overview—Our Acquisitions and Expansions.”

For the 2017 fiscal year, we had net cash used in investing activities of RMB55.7 million, primarily attributable to (1) purchase of held-to-maturity investments of RMB186.0 million; (2) purchase of debt investment of RMB780.0 million and (3) advances to related parties of RMB144.6 million, partially offset by (1) proceeds from disposal of debt investment RMB787.6 million, (2) net repayment of loans from related parties of RMB229.2 million, and (3) proceeds from disposal of held-to-maturity investments of RMB215.9 million.

For the 2016 fiscal year, we had net cash from investing activities of RMB32.1 million, primarily attributable to net repayment of loans from related parties of RMB155.3 million, partially offset by (1) capital expenditures of RMB92.7 million for maintenance and renovation of school facilities, and (2) purchase of short-term investments in a limited liability partnership and debt securities of RMB30.5 million.

Financing activities

For the 2018 fiscal year, we had net cash from financing activities of RMB1,092.6 million (US\$160.0 million), primarily due to net proceeds from our follow-on offering (net of offering cost paid RMB6.0 million) of RMB1,151.7 million (US\$181.4 million), and proceeds from bank borrowings of RMB49.8 million (US\$7.3 million), partially offset by repurchase of ordinary shares of RMB108.9 million (US\$16.0 million). For the translations of our net proceeds from our initial public offering and follow-on offering, we used the foreign exchange rate on the date of closing of the initial public offering and follow-on offering, respectively.

For the 2017 fiscal year, we had net cash from financing activities of RMB1,161.5 million, primarily due to net proceeds from our initial public offering (net of offering cost paid RMB3.2 million) of RMB1,147.9 million, and advances from related parties of RMB71.4 million, partially offset by net repayments of loans to our related parties of RMB57.7 million.

For the 2016 fiscal year, we had net cash used in financing activities of RMB274.5 million, representing net repayment of loans from related parties relating primarily to repayment of borrowings from Country Garden.

Capital Expenditures

We incurred capital expenditures of RMB92.7 million, RMB97.1 million and RMB117.6 million (US\$17.2 million) in the 2016, 2017 and 2018 fiscal years, respectively, primarily in connection with the construction, maintenance and renovation of school facilities and purchase of educational equipment. We intend to fund our future capital expenditures with our existing cash balance, proceeds from our offering and other financing alternatives. We will continue to incur capital expenditures to support the growth of our business.

Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries and affiliated entities in China. As a result, our ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our PRC subsidiaries or any newly formed subsidiaries incur any debt in the future, the instruments governing their debt may restrict their ability to pay dividends to us. Our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and affiliated entities is required to set aside at least 10.0% of its after-tax profits each year, if any, to fund a statutory surplus reserve until such reserve reaches 50.0% of its registered capital. In addition, each of our PRC subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion fund and staff bonus and welfare fund at its discretion. Each of our affiliated entities may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. Although the statutory surplus reserves can be used to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. Furthermore, at the end of each fiscal year, each of our schools that are private school in China is required to allocate a certain amount to its development fund for the construction or maintenance of the school properties or purchase or upgrade of school facilities. In particular, our schools that require reasonable returns must allocate no less than 25.0% of their annual net income, and our schools that do not require reasonable returns must allocate no less than 25.0% of their annual increase in the net assets of the school for such purposes. For the 2016, 2017 and 2018 fiscal years, our PRC subsidiaries did not make any apportion to the statutory surplus reserve fund, and our schools made apportions of RMB23.8 million, RMB17.1 million and nil to the development fund, respectively. Our PRC subsidiaries have not historically paid any dividends to our offshore entities until they generate accumulated profits and meet the requirements for statutory reserve funds.

The following table sets forth the respective revenue contributions of (1) our affiliated entities and (2) our subsidiaries for the periods indicated as a percentage of total revenue:

	2016		As of August 31, 2017		2018		% of total revenue
	RMB	% of total revenue	RMB (in thousands, except percentages)	% of total revenue	RMB	US\$	
Our affiliated entities	1,040,329	100.0%	1,320,421	99.4%	1,621,872	237,463	94.4%
Our subsidiaries	—	—	7,946	0.6%	96,999	14,202	5.6%
Total revenue	<u>1,040,329</u>	<u>100.0%</u>	<u>1,328,367</u>	<u>100.0%</u>	<u>1,718,871</u>	<u>251,665</u>	<u>100%</u>

The following table sets forth the respective asset contributions of (1) our affiliated entities and (2) our subsidiaries as of the date indicated as a percentage of total assets:

	As of August 31,						% of total assets
	2016		2017		2018		
	RMB	% of total assets	RMB	% of total assets	RMB	US\$	
	(in thousands, except percentages)						
Our affiliated entities	1,238,511	99.9%	1,488,123	55.4%	1,690,615	247,528	36.2%
Our subsidiaries	721	0.1%	1,198,509	44.6%	2,975,866	435,705	63.8%
Total assets	1,239,232	100.0%	2,686,632	100.0%	4,666,481	683,233	100%

C. Research and Development, Patents and Licenses, etc.

See “Item 4. Information on the Company—B. Business Overview—Research and Curriculum Development.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the 2018 fiscal year that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholders’ equity or that are not reflected in our combined and consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

We do not currently have any outstanding off-balance sheet arrangements or commitments. We have no plans to enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships established for the purpose of facilitating off-balance sheet arrangements or commitments.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of August 31, 2018.

	Payment Due by Period					
	Total		Less than one year	One to three years	Three to five years	More than five years
	RMB	US\$	RMB	RMB	RMB	RMB
Operating lease commitments	255,489	37,407	38,990	53,459	30,625	132,415

We lease certain school and office premises under non-cancellable operating leases that expire at various dates. We incurred rental expenses under operating leases of RMB15.2 million, RMB20.2 million and RMB28.1 million (US\$4.1 million) in the 2016, 2017 and 2018 fiscal years, respectively.

We also have certain capital commitments that primarily relate to commitments for construction of schools. Total capital commitments contracted but not yet reflected in the combined and consolidated financial statements was RMB53.2 million (US\$7.8 million) as of August 31, 2018. All of these capital commitments will be fulfilled in the future according to the construction progress.

G. Safe Harbor on Forward-Looking Statements

This annual report contains forward-looking statements that reflect our current expectations and projections of future events. You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections of future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements about:

- our goals and strategies;
- growth of the private education market in China;
- our expectations regarding demand for our services;
- our future business development, results of operations and financial condition;
- trends and competition in the private education industry in China;
- relevant government policies and regulations governing our corporate structure, business and industry;
- our use of proceeds from the offering;
- general economic and business condition in China and elsewhere; and
- assumptions underlying or related to any of the foregoing.

You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to the registration statement, of which this annual report is a part, completely and with the understanding that our actual future results may be materially different from and worse than what we expect. Moreover, new risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

This annual report also contains certain data and information that we obtained from various government and private publications, including the Frost & Sullivan report. Statistical data in these publications also include projections based on a number of assumptions. The private education industry in China may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material adverse effect on our business and the market price of our ADSs. In addition, due to the rapidly evolving nature of the private education industry, projections or estimates about our business and financial prospects involve significant risks and uncertainties. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to the registration statement, of which this annual report is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Executive Officers

The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Huiyan Yang	37	Chairperson of the Board of Director
Junli He	44	Chief Executive Officer and Director
Shuting Zhou	34	Director
Peter Andrew Schloss	58	Director
Jun Zhao	56	Director
Ronald J. Packard	55	Director
Dongmei Li	50	Chief Financial Officer
Alexander Shu Chen	34	Vice President
Jinsheng Cheng	55	Vice President

Huiyan Yang is a co-founder of certain of our schools and has served as a director and the chairperson of Bright Scholar Holdings since our inception. Ms. Yang joined Country Garden Holdings Company Limited, a related party, which is a HKSE-listed Chinese residential property developer, in 2005, as the manager of its procurement department. Ms. Yang has served as a director of Country Garden since December 2006, its vice chairperson since March 2012, and its co-chairperson since December 2018. Ms. Yang graduated from Ohio State University with a bachelor degree in marketing and logistics. Ms. Yang received her middle school education from Guangdong Country Garden School. She received the “China Charity Award Special Contribution Award” in 2008.

Junli He has served as the chief executive officer and a director of Bright Scholar Holdings since October 2015. Prior to joining us, Mr. He was the founder and chief executive officer of Time Education China Holdings Ltd., and he also served as chief financial officer, chief executive officer and a director of Noah Education Holdings Ltd., a former NYSE-listed private education services provider in China, from July 2009 to December 2011. Mr. He was a portfolio manager at Morgan Stanley Global Wealth Management from June 2008 to June 2009 and worked at Bear Stearns from July 2006 to May 2008. Mr. He obtained a bachelor degree in science from Peking University and a MBA with Honors from the University of Chicago, Booth School of Business. Mr. He is also a CFA charter holder.

Shuting Zhou became a director of Bright Scholar Holdings in May 2017. Ms. Zhou has been a deputy financial controller of Guangdong Country Garden Property Management Co., Ltd., a subsidiary of Country Garden Holdings Company Limited, since May 2016. Ms. Zhou held various managerial positions at Guangdong Country Garden Property Management Co., Ltd. from February 2009 to April 2016. From March 2007 to January 2009, Ms. Zhou served as an accounting manager at Gaoyao Biyi Property Development Co., Ltd. and Shaoguan Country Garden Property Development Co., Ltd., both of which are subsidiaries of Country Garden Holdings Company Limited. Ms. Zhou obtained a bachelor degree in financial management from Guangdong University of Finance & Economics.

Peter Andrew Schloss became a director of Bright Scholar Holdings in May 2017. Mr. Schloss has served as the managing partner and chief executive officer of CastleHill Partners since November 2015. Mr. Schloss has been serving as a director of Zhaopin Limited, a China-based career platform listed on the New York Stock Exchange, since February 2016, and a director and the audit committee chairman of YY, Inc., an interactive social platform listed on the NASDAQ Stock Market, since 2012. Mr. Schloss was a director and the audit committee chairman of Giant Interactive Group Inc., a China-based online game developer and operator, from 2007 to 2015, and a partner at Phoenix Media Fund L.P., a private equity fund established by Phoenix Television Group, from 2012 to May 2016. From 2009 to 2012, Mr. Schloss served as the founder and chief executive officer of Allied Pacific Sports Network Limited, a leading over-the-top provider of live and on-demand sports in Asia. Prior to joining Allied Pacific Sports Network Limited, Mr. Schloss worked at TOM Online Inc., serving as the chief financial officer from 2003 to 2005, as an executive director from 2004 to 2007 and as the chief legal officer from 2005 to 2007. Mr. Schloss obtained a bachelor degree in political science and a juris doctor degree from Tulane University.

Jun Zhao became a director of Bright Scholar Holdings in May 2017. Mr. Zhao has served as the chairman of Beijing Fellow Partners Investment Management Ltd. since October 2014 and an independent director of China Merchants Bank Co., Ltd., a company listed on Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, since January 2015. Mr. Zhao served as a managing partner at DT Capital Partners from July 2005 to September 2014. From May 2000 to July 2005, he served as a managing director of ChinaVest, Ltd. Mr. Zhao obtained a bachelor degree in shipbuilding engineering from Harbin Engineering University, a master degree in ocean engineering from Shanghai Jiao Tong University, a doctor degree in civil engineering from University of Houston and a MBA from Yale University.

Ronald J. Packard became a director of Bright Scholar Holdings in May 2018. Mr. Packard is the CEO and Founder of Pansophic Learning, a global technology based education company. He was previously the long-time CEO and founder of K12 Inc. Prior to K12 Inc., Mr. Packard was the Vice President of Knowledge Universe and CEO of Knowledge Schools, one of the nation's largest early childhood education companies. Mr. Packard also previously worked for McKinsey & Company and for Goldman Sachs and earned the Chartered Financial Analyst (CFA) designation in 1992. Mr. Packard holds a B.A. degree from the University of California at Berkeley and an M.B.A. from the University of Chicago, both with honors.

Dongmei Li has served as the chief financial officer of Bright Scholar Holdings since February 2017. Prior to joining us, Ms. Li served as financial controller, vice president of finance and chief financial officer of Noah Education Holdings Ltd. from December 2007. Previously, Ms. Li served as the financial controller and the head of investor relations of China GrenTech, a NASDAQ-listed company, from April 2007 to November 2007. From February 1999 to March 2007, Ms. Li served as a senior finance manager at Conair Corp., a Fortune 500 company. Ms. Li obtained a bachelor degree in business administration and tourism management from the Beijing Second Foreign Language Institute, and a master degree in business administration from the Arizona State University, Thunderbird School of Global Management. She is a certified master financial manager from the American Academy of Financial Management and is also a member of the Institute of Management Accountants.

Alexander Shu Chen has served as a vice president of Bright Scholar Holdings since March 2017. Mr. Chen has also served as a managing director of Kirkcaldy Family Office, primarily engaged in education planning for children of clients and financial strategy development for clients' overseas investments, since 2015. From 2015 to 2017, Mr. Chen served as a managing director of Feishang Group, a Chinese investment holding company. From 2008 to 2015, Mr. Chen was the founder and chairman of Yinghao College (International), one of China's first international schools. Mr. Chen was a senior consultant in Segway Inc. from 2010 to 2012, the chairman of Zeus Education from 2007 to 2014 and an investment analyst in Agilo from 2007 to 2008. Mr. Chen obtained a bachelor degree in economics from University College London.

Jinsheng Cheng has served as a vice president of Bright Scholar Holdings since November 2015 and the principal of Guangdong Country Garden School since January 2017. Mr. Cheng joined Guangdong Country Garden School since its establishment in 1994. He served as the principal of Guangdong Country Garden School from July 2003 to May 2005 and the principal of Phoenix City Bilingual School from May 2005 to January 2017. Mr. Cheng has served as the vice president of BGY Education Investment, our affiliated entity, since September 2016 and he has over 30 years' education experience. Mr. Cheng obtained a bachelor degree in science from Anhui Normal University and completed master course in Beijing Normal University.

B. Compensation

Compensation of Directors and Executive Officers

For the fiscal year ended August 31, 2018, we paid an aggregate of approximately RMB10.4 million (US\$1.5 million) in cash to our executive officers, and RMB0.6 million (US\$0.1 million) to our directors. Other than the statutory benefits that we are required by the PRC law to contribute for each employee, including pension insurance, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors.

Share Incentive Plan

In February 2017, our board of directors approved the 2017 Share Incentive Plan to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. Under the 2017 Share Incentive Plan, or the 2017 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards under the 2017 Plan shall be 5,263,158 ordinary shares, which constitutes 5.0% of the total outstanding shares of our company on an as-converted basis as of the date of adoption of the 2017 Plan, after giving effect to a ten-for-one share split effected on April 26, 2017. In December 2017, we granted share options to purchase a total of 845,000 Class A ordinary share to certain school principals and management team members at an exercise price of US\$8.74 per share with vesting period varying from three to five years. In September 2018, we granted options to purchase 167,138 Class A ordinary shares to certain members of the senior management team of Can-achieve pursuant to the 2017 Plan at an exercise price of US\$8.74 per share with vesting periods ending on December 31, 2018, 2019 and 2020.

In the 2018 fiscal year, our share-based payment expenses were RMB29.1 million (US\$4.3 million) in connection with the share options granted to employees.

The following table summarizes, as of the date of this annual report, the outstanding options we had granted to our directors, officers and other individuals under our 2017 Plan:

Name	Options	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Dongmei Li	*	US\$ 8.74	December 15, 2017	December 14, 2027
Jinsheng Cheng	*	US\$ 8.74	December 15, 2017	December 14, 2027
Senior management members of Can-achieve	167,138	US\$ 8.74	September 1, 2018	December 14, 2027
Other individuals as a group	585,804	US\$ 8.74	December 15, 2017	December 14, 2027

* Less than 1% of our total outstanding shares on an as-converted basis or voting power assuming full exercise of the options.

The following table sets forth the number of options that have been granted, exercised, and forfeited as of the date of this annual report.

	Options
Granted**	1,012,138
Exercised	3,858
Forfeited	56,415
Outstanding	951,865

** Includes the 167,138 options granted to senior management members of Can-achieve of which none has been exercised or forfeited as of the date of this annual report.

The following paragraphs describe the principal terms of the 2017 Plan.

Types of awards. The 2017 Plan permits the awards of options, restricted shares or restricted share units.

Plan administration. Our board of directors or a committee of one or more members of the board of directors will administer the 2017 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award agreement. Awards granted under the 2017 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to our employees, directors and consultants of our company, and other individuals, as determined by the plan administrator. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of our parent companies and subsidiaries.

Vesting schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is 10 years from the date of a grant.

Transfer restrictions. Awards may not be transferred in any manner by the recipient except under limited circumstances, including by will or the laws of descent and distribution, unless otherwise provided by the plan administrator.

Termination and amendment of the 2017 Plan. Unless terminated earlier, the 2017 Plan has a term of 10 years. Our board of directors has the authority to amend or terminate the plan. However, no such action may adversely affect in any material way any awards previously granted without the prior written consent of the recipient.

C. Board Practices

Board of Directors

Our board of directors consists of six directors. A director is not required to hold any shares in our company. A director may vote with respect to any contract, proposed contract, or arrangement in which he or she is materially interested provided (1) such director, if his interest in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, either specifically or by way of a general notice and (2) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. A director may exercise all the powers of the company to borrow money, mortgage its business, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee and adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of Messrs Peter Andrew Schloss, Jun Zhao and Mr. Ronald J. Packard, and is chaired by Mr. Schloss. Messrs Schloss, Zhao and Packard satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and meet the independence standards under Rule 10A-3 under the Exchange Act. We have determined that Mr. Schloss qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- reviewing and reassessing annually the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent registered public accounting firm; and

- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Mr. Jun Zhao, Mr. Peter Andrew Schloss and Ms. Huiyan Yang, and is chaired by Mr. Zhao. Messrs Zhao and Schloss satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which their compensation is deliberated upon. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Mr. Jun Zhao, Mr. Peter Andrew Schloss and Ms. Huiyan Yang, and is chaired by Mr. Zhao. Messrs Zhao and Schloss satisfy the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The nominating and corporate governance committee assists the board in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;
- selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as of the nominating and corporate governance committee itself;
- developing and reviewing the corporate governance principles adopted by the board and advising the board with respect to significant developments in the law and practice of corporate governance and our compliance with such laws and practices; and
- evaluating the performance and effectiveness of the board as a whole.

Duties of Directors

Under Cayman Islands law, our directors owe to us fiduciary duties, including a duty of loyalty, a duty to act honestly and a duty to act in what they consider in good faith to be in our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company may have the right to seek damages if a duty owed by our directors is breached.

Terms of Directors and Officers

Pursuant to the amended and restated memorandum and articles of association, our officers are elected by and serve at the discretion of the board. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office by ordinary resolution of our shareholders. A director will be removed from office automatically if, among other things, the director (1) becomes bankrupt or has a receiving order made against him or her or suspends payment or compounds with his or her creditors; or (2) dies or becomes of unsound mind.

Employment Agreements

We have entered into employment agreements with our executive officers. Each of our executive officers is employed for a specified time period, which will be automatically extended for successive one-year terms unless either party gives the other party a prior written notice to terminate employment. We may terminate the employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, including conviction or pleading of guilty to a felony, fraud, misappropriation or embezzlement; negligent or dishonest act to our detriment; misconduct or failure to perform his or her duty; disability; or death. An executive officer may terminate his or her employment at any time with a one-month prior written notice if there is a material and substantial reduction in such executive officer's existing authority and responsibilities or at any time if the termination is approved by our board of directors.

Each executive officer has agreed to hold, both during and after the employment agreement expires, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information. Each executive officer has also agreed to assign to us all his or her all inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works and trade secrets.

D. Employees

We had 5,716 employees in 2016 fiscal year, 6,501 in 2017 fiscal year and 7,891 in 2018 fiscal year. The majority of our employees are full-time and have signed employment agreements for one year, renewable with substantially same terms on mutual agreements. In addition to teachers, we also have supporting staff such as security guards, chefs, electricians and chauffeurs, and educational and administrative staff including teaching assistants, librarians, medical staff, and employees in sales and marketing, finance and general administration. In the 2018 fiscal year, we began to classify certain nursery staff as teachers, and we retrospectively made the reclassification for the 2016 and 2017 fiscal years. The following table sets forth the average numbers of our employees, categorized by function for the period indicated.

	<u>2016 fiscal year</u>	<u>2017 fiscal year</u>	<u>2018 fiscal year</u>
Teachers and instructors	3,175	3,628	4,297
Managerial staff	110	139	469
Educational and administrative staff	935	969	1,012
Supporting staff	1,496	1,765	2,113
Total	<u>5,716</u>	<u>6,501</u>	<u>7,891</u>

As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local PRC governments, including housing, pension, medical insurance and unemployment insurance. We compensate our employees with basic salaries and performance-based bonuses. None of our employees is represented by any collective bargaining arrangements. We believe we have maintained good relationship with our employees.

E. Share Ownership

The following table sets forth information concerning the beneficial ownership of our ordinary shares as of the date of this annual report by:

- each of our directors and executive officers; and
- each person known to us to beneficially own more than 5.0% of our ordinary shares.

The calculations in the table below are based on the fact that there are 123,923,676 ordinary shares outstanding, including (1) 17,250,000 Class A ordinary shares sold by us in our initial public offering in the form of ADSs, (2) 10,000,000 Class A ordinary shares sold by us in our follow-on offering in the form of ADSs, (3) 3,858 Class A ordinary shares issued as a result of our employees' exercise of their share options under the 2017 Plan and (4) 100,000,000 Class B ordinary shares, excluding (1) 3,009,655 Class A ordinary shares we have repurchased and cancelled as of the date of this annual report, and (2) 320,527 Class A ordinary shares repurchased but not yet cancelled as of the date of this annual report.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned			% of aggregate ordinary shares***	% of aggregate voting power†***
	Class A ordinary shares	Class B ordinary shares	Total ordinary shares on an as-converted basis		
Directors and Executive Officers: **					
Ms. Huiyan Yang ⁽¹⁾	451,559	20,000,000	20,451,559	16.50%	19.79%
Mr. Junli He ⁽²⁾	52,000	7,410,000	7,462,000	6.02%	7.32%
Ms. Shuting Zhou	—	—	—	—	—
Mr. Peter Andrew Schloss	—	—	—	—	—
Mr. Jun Zhao	—	—	—	—	—
Ms. Dongmei Li	*	—	—	*	*
Mr. Alexander Shu Chen	—	—	—	—	—
Mr. Jinsheng Cheng	*	—	—	*	*
Directors and executive officers as a group	565,482	27,410,000	27,975,482	22.57%	27.11%
Principal Shareholders:					
Excellence Education Investment Limited ⁽³⁾	—	72,590,000	72,590,000	58.58%	71.73%
Ms. Huiyan Yang ⁽⁴⁾	451,559	20,000,000	20,451,559	16.50%	19.79%
Mr. Junli He ⁽⁵⁾	52,000	7,410,000	7,462,000	6.02%	7.32%
Serenity Capital affiliates ⁽⁶⁾	5,180,111	—	5,180,111	4.18%	0.26%
Hillhouse Capital Management, Ltd. ⁽⁷⁾	3,985,797	—	3,985,797	3.22%	0.20%
Indus Capital Partners, LLC ⁽⁸⁾	3,143,931	—	3,143,931	2.54%	0.16%
Tiger Global Management affiliates ⁽⁹⁾	2,016,707	—	2,016,707	1.63%	0.10%

† For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per share and each holder of our Class B ordinary shares is entitled to 20 votes per share on all matters submitted to them for a vote. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Our Class B ordinary shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis.

* Less than 1% of our total outstanding share on an as-converted basis or voting power.

** The business address of our directors and executive officers is No. 1, Country Garden Road, Beijiao Town, Shunde District, Foshan, Guangdong 528300, China.

*** The calculation of percentage of aggregate ordinary shares and aggregate voting power does not take into account the 249,479 Class A ordinary shares issued to The Bank of New York Mellon for further issuance to beneficiaries under the 2017 Plan. We have, however, included the 3,078 Class A ordinary shares already issued upon exercise of options under the 2017 Plan. We have also included Class A ordinary shares that may be issued for options exercisable within 60 days from the date of this annual report, provided that these shares are not included in the computation of the percentage ownership or voting power of any other person. The calculation of percentage of aggregate ordinary shares and aggregate voting power also does not take into account the 3,330,182 Class A ordinary shares we repurchased as of the date of this annual report, out of which 3,009,655 have been duly cancelled.

(1) Represents 20,000,000 Class B ordinary shares directly held by Ultimate Wise Group Limited, a British Virgin Islands company wholly owned by Ms. Huiyan Yang, and 451,559 Class A ordinary shares directly held by Concrete Win Limited, a British Virgin Islands company wholly owned by Ms. Huiyan Yang. Ms. Meirong Yang is Ms. Huiyan Yang's relative. The registered office of Ultimate Wise Group Limited is Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands. The registered office of Concrete Win Limited is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. According to the acting-in-concert agreement entered into between Ms. Huiyan Yang and Ms. Meirong Yang, Ms. Huiyan Yang will agree with Ms. Meirong Yang when voting and deciding on material matters in relation to the management of our company.

- (2) Includes 52,000 Class A ordinary shares in the form of ADSs acquired from open market, 5,310,000 Class B ordinary shares directly held by Mr. Junli He and 2,100,000 Class B ordinary shares held in an irrevocable discretionary trust established by Mr. He.
- (3) Excellence Education Investment Limited is a British Virgin Islands company wholly owned by Ms. Meirong Yang. The registered office of Excellence Education Investment Limited is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands.
- (4) In her capacity as an individual principal shareholder. See also footnote (1) above.
- (5) In his capacity as an individual principal shareholder. See also footnote (2) above.
- (6) Represents 5,180,111 Class A ordinary shares in the form of ADSs beneficially owned by Serenity Capital LLC as reported in Form 13F-HR filed by Serenity Capital LLC on November 14, 2018. Serenity Capital LLC is a company incorporated in Delaware, United States with its business address at 530 Lytton Avenue, Palo Alto, California 94301.
- (7) Represents 3,985,797 Class A ordinary shares in the form of ADSs beneficially owned by Hillhouse Capital Management, Ltd. as reported in Form 13F-HR filed by Hillhouse Capital Management, Ltd. on November 14, 2018. Hillhouse Capital Management, Ltd. is a company incorporated in the Cayman Islands with its business address at c/o DMS House, 20 Genesis Close P.O. Box 2587 George Town, Grand Cayman E9 KY1-1103.
- (8) Represents 3,143,931 Class A ordinary shares in the form of ADSs beneficially owned by Indus Capital Partners, LLC as reported in Form 13F-HR filed by Indus Capital Partners, LLC on November 14, 2018. Indus Capital Partners, LLC is a company incorporated in Delaware, United States with its business address at 888 Seventh Avenue, 26th Floor, New York, New York 10019.
- (9) Represents 2,016,707 Class A ordinary shares in the form of ADSs beneficially owned by Tiger Global Management LLC as reported in Form 13F-HR filed by Tiger Global Management LLC on November 14, 2018. Tiger Global Management LLC is a company incorporated in the Delaware, United States with its business address at 9 West 57th Street, 35th Floor, New York, NY 10019.

On February 8, 2017, Ms. Meirong Yang and Ms. Huiyan Yang, who together beneficially own 75.08% of the equity interests in our company, entered into an acting-in-concert agreement. According to the acting-in-concert agreement, Ms. Huiyan Yang and Ms. Meirong Yang must consult with each other before voting and deciding on material matters in relation to the management of our company, including matters subject to approvals by board or shareholders' meetings, such as appointment of directors and officers and adoption of key group-level policies. If no consensus could be reached through consultation, the decision made by Ms. Meirong Yang prevails. Ms. Huiyan Yang and Ms. Meirong Yang retrospectively confirmed in the acting-in-concert agreement that they have been acting-in-concert since 2008. The acting-in-concert agreement will continue until (1) such agreement is terminated by the parties thereto or (2) the disposal of all of either party's interests in our company and affiliated entities and termination of either party's employment or directorship with our company and affiliated entities.

To our knowledge, as of August 31, 2018, the record holders of our Class A ordinary shares in the United States include Serenity Capital LLC, Indus Capital Partners, LLC, Tiger Global Management LLC, and The Bank of New York Mellon, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

B. Related Party Transactions

Contractual Arrangements with Our Affiliated Entities and Their Shareholders

We entered into a series of contractual arrangements with our affiliated entities, including our schools, and Ms. Meirong Yang, and Mr. Wenjie Yang, the shareholders of our affiliated entities, in January 2017. Such contractual arrangements enable us to (1) has the power to direct the activities that most significantly affects the economic performance of the affiliated entities; (2) bear the obligation to absorb losses of our affiliated entities that could potentially be significant to the affiliated entities or to receive benefits from the affiliated entities that could potentially be significant to the affiliated entities; and (3) have an exclusive option to purchase all of the equity interests in our affiliated entities when and to the extent permitted under PRC law. Therefore, we control our affiliated entities, including our schools. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure—Our Contractual Arrangements."

All of our newly launched and acquired schools have executed Rights and Obligations Assumption Letters in 2018 to enjoy the rights and perform the obligations under the contractual arrangements.

School Operation Agreements with Country Garden

As of August 31, 2018, substantially all of our schools, other than those that do not operate on Country Garden properties, had entered into a three-year school operation agreement with Country Garden. Under these agreements, Country Garden provides the premises and facilities for us to operate these schools, while we are responsible for the operation and management of these schools. We may also provide preferential student placements and tuition discounts to Country Garden's homeowners. We are in the process of arranging the execution of such school operation agreements with Country Garden for our schools established after August 31, 2018.

Trademark Licensing Agreements with Country Garden

As of August 31, 2018, substantially all of our schools had entered into a trademark licensing agreement with Country Garden, pursuant to which Country Garden agreed to grant such schools the right to use certain trademarks, including "Country Garden," free of charge for a term expiring in 2020. We are in the process of arranging the execution of such trademark licensing agreements with Country Garden for schools that have not already executed such agreements and for the kindergarten established after August 31, 2018.

Transactions with Certain Related Parties

Purchase of services and materials

We purchase services and materials, which include mechanics and electricians engineering services, construction services, shuttle bus services and furniture, from other entities controlled by Ms. Huiyan Yang, our chairperson, including Country Garden. In the 2016, 2017 and 2018 fiscal years, we entered into various agreements with certain entities controlled by Ms. Huiyan Yang or her affiliates, including primarily the following:

- Guangzhou Country Garden Shuttle Bus Services Limited
- Zhaoqing Country Garden Furniture Co., Ltd.
- Zhaoqing Contemporary Zhumei Furnishing Co., Ltd.
- Guangdong Shunde Chuang Xi Bang Sheng Furniture Co., Ltd.
- Guangdong Giant Leap Construction Co., Ltd.
- Guangyuan Country Garden Investment Co., Ltd.
- Foshan Shunde Country Garden Property Development Co., Ltd.
- Zengcheng Crystal Water Plant Co., Ltd.
- Guangdong Phoenix Holiday International Travel Service Co., Ltd.
- Huidong Country Garden Real Estate Development Co., Ltd.

For the 2016, 2017 and 2018 fiscal years, we entered into transactions of an aggregate of approximately RMB30.3 million, RMB15.7 million, and RMB16.8 million (US\$2.5 million), respectively, to purchase materials, construction services and other services from such related parties.

Advances and loans from and to related parties

The following table presents amounts owed from and to our related parties as of August 31, 2017 and 2018:

	As of August 31,	
	2017	2018
	RMB	RMB
	(in thousands)	
Amounts due from related parties		
Guangdong Country Garden Vocational Education School ⁽¹⁾	14	25
Guangdong Giant Leap Construction Co., Ltd. ⁽¹⁾	5,026	—
Foshan Shunde Country Garden Property Development Co., Ltd. ⁽¹⁾	—	4,172
Guangdong Shunde Chuang Xi Bang Sheng Furniture Co., Ltd. ⁽¹⁾	321	735
Huidong Country Garden Real Estate Development Co., Ltd. ⁽²⁾	1,809	3,445
Changsha Ningxiang Country Garden Property Development Co., Ltd. ⁽²⁾	208	2,186
Kaiping Country Garden Property Development Co., Ltd. ⁽⁶⁾	—	1,590
Zengcheng Country Garden Property Development Co., Ltd. ⁽⁵⁾	—	948
Szeto Kwok Kin, Daniel ⁽³⁾	—	999
Can-Achieve Global Edutour Co., Ltd. ⁽⁴⁾	—	2,505
Others ⁽¹⁾	562	1,355
Total	<u>7,940</u>	<u>17,960</u>

Amounts due from related parties are non-interest bearing, unsecured, and due on demand.

- (1) The amounts mainly represent the advance payment for purchasing services and materials or construction services provided by the entities controlled by Ms. Huiyan Yang.
- (2) The amounts mainly represent the receivables of the enrolment tuition discount to the owners of properties with the other real-state subsidiaries controlled by Ms. Huiyan Yang.
- (3) The amounts mainly represent other receivable due from a non-controlling interest shareholder acquired through the acquisition of FGE.
- (4) The amounts mainly represent other receivable arising out of the acquisition of Can-achieve.
- (5) The amounts represent expenses paid on behalf of entities controlled by Ms. Huiyan Yang.
- (6) The amounts mainly represent the receivables of providing consulting services on pre-opening schools to Kaiping Country Garden.

	As of August 31,	
	2017	2018
	RMB	RMB
	(in thousands)	
Amounts due to related parties		
Guangzhou Country Garden Shuttle Bus Services Limited ⁽¹⁾	255	4
Laian Country Garden Property Development Co., Ltd. ⁽²⁾	11,550	11,550
Changsha Ningxiang Country Garden Property Development Co., Ltd. ⁽²⁾	8,732	8,732
Chuzhou Country Garden Property Development Co., Ltd. ⁽²⁾	12,000	12,000
Wuhan Country Garden Property Management Co., Ltd. ⁽²⁾	3,154	3,154
Guangdong Teng An Mechanics and Electrics Engineering Co., Ltd. ⁽³⁾	8,013	5,781
Guangdong Giant Leap Construction Co., Ltd. ⁽³⁾	20,701	17,058
Foshan Shunde Bi Ri Security Engineering Co., Ltd. ⁽³⁾	228	228
Guangyuan Country Garden Investment Co., Ltd. ⁽³⁾	6,000	1,200
Baoding Baigou New Town Honghua Eaton Commerce Co., Ltd. ⁽⁴⁾	—	3,000
New Learning Management Co., Ltd. ⁽⁵⁾	—	89,469
Others	5,800	5,119
Total	76,433	157,295

Amounts due to related parties are non-interest bearing, unsecured, and due on demand.

- (1) The amounts represent the purchase of shuttle bus service fees payable to Guangzhou Country Garden Shuttle Bus Services Limited.
- (2) The amounts mainly represent financing funds for maintaining daily operation of schools held by affiliated entities under common control from other entities controlled by Ms. Huiyan Yang.
- (3) The amounts mainly represent construction services provided by other entities controlled by Ms. Huiyan Yang.
- (4) The amounts represent the financing funds for maintaining daily operation from Baoding BaiGou, the non-controlling interest shareholder.
- (5) The amounts represent the acquisition payables for the acquisition of kindergartens in Hubei in the 2018 fiscal year to New Learning Management Co., Ltd., the non-controlling interest shareholder.

We utilize facilities and equipment provided by other real-estate subsidiaries controlled by Ms. Huiyan Yang. In return, we give enrolment priorities to the owners of properties with these affiliated companies when providing our educational services.

Employment Agreements

See “Item 6. Directors, Senior Management and Employees—C. Board Practices—Employment Agreements.”

Share Incentive Plan

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plan.”

C. Interests of Experts and Counsels

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Combined and Consolidated Statements and Other Financial Information

We have appended combined and consolidated financial statements filed as part of this annual report.

B. Legal Proceedings

See “Item 4. Information on the Company—B. Business Overview—Legal Proceedings.”

C. Dividend Policy

We have not previously declared or paid cash dividends and we have no plan to declare or pay any dividends in the near future on our shares or ADSs. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. Under Cayman Islands law, a Cayman Islands company may pay a dividend on its shares out of its profits, realized or unrealized, or from any reserve set aside from profits which its directors determine is no longer required or out of the share premium account or any other fund or account that can be authorized for this purpose in accordance with the Companies Law (2018 Revision) of the Cayman Islands, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

We are a holding company incorporated in the Cayman Islands. We rely principally on dividends from our Hong Kong and PRC subsidiaries for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our subsidiaries and affiliated entities in China are subject to restrictions on making dividends and other payments to us.”

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited combined and consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ADSs are listed on the New York Stock Exchange under the symbol “BEDU.” Each ADS represents one Class A ordinary share (or right to receive one Class A ordinary share) of our ordinary shares.

The following table provides the high and low trading prices for our ADSs on the New York Stock Exchange for the periods specified.

	<u>Sales Price (US\$)</u>	
	<u>High</u>	<u>Low</u>
Annual High and Low		
Fiscal 2017 (since May 18, 2017)	19.05	10.55
Fiscal 2018	28.18	10.80
Quarterly High and Low		
June 1, 2017 to August 31, 2017	19.05	11.59
September 1, 2017 to November 30, 2017	28.18	17.91
December 1, 2017 to February 28, 2018	23.99	16.71
March 1, 2018 to May 31, 2018	20.95	12.24
June 1, 2018 to August 31, 2018	19.50	10.80
September 1, 2018 to November 31, 2018	13.50	8.83
Monthly High and Low		
June 2018	19.50	15.48
July 2018	17.24	14.75
August 2018	15.71	10.80
September 2018	13.45	11.00
October 2018	12.97	9.13
November 2018	13.50	8.83
December 2018 (through December 13, 2018)	11.65	9.87

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed for trading on the New York Stock Exchange under the symbol “BEDU” since May 18, 2017.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report our amended and restated memorandum of association and our amended and restated articles of association filed as Exhibit 3.2 to our F-1 registration statement (File No. 333-217359), as amended, initially filed with the SEC on April 18, 2017.

C. Material Contracts

Material contracts other than in the ordinary course of business are described in Item 4 and Item 7 or elsewhere in this annual report.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulations—PRC Laws and Regulations Relating to Foreign Exchange.”

E. Taxation

The following discussion of material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs or Class A ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands.

The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet that:

- no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our shares, debentures or other obligations.

The undertaking for us is for a period of 20 years from January 10, 2017.

People’s Republic of China Taxation

Bright Scholar Holdings is a holding company incorporated in the Cayman Islands and its income depends primarily on dividends from our PRC subsidiaries. The PRC enterprise income tax law and its implementation rules provide that an income tax rate of 10.0% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprise shareholders unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions. Under the Double Tax Avoidance Arrangement, dividends paid by a foreign-invested enterprise in the PRC to its direct holding company, which is considered a Hong Kong tax resident and is determined by the PRC tax authority to have satisfied relevant requirements under the Double Tax Avoidance Arrangement between China and Hong Kong and other applicable PRC laws, will be subject to withholding tax at the rate of 5.0%. Entitlement to a lower tax rate on dividends according to tax treaties or arrangements between the PRC central government and governments of other countries or regions is subject to inspection or approval of the relevant tax authorities. Furthermore, the State Administration of Taxation promulgated Circular 9 to clarify the definition of beneficial owner under PRC tax treaties and tax arrangements. According to Circular 9, a beneficial owner refers to a party who holds ownership of and control over the income of the entity, or the rights or assets from which such income is derived. The test to determine whether a resident of the other contracting party to the double taxation treaty or arrangement is a beneficial owner shall focus on several factors including, among others, (1) whether the applicant is under the obligation to pay 50% or more of the income received to any resident of any third country or region within 12 months upon receipt of the income; and (2) whether the business activities carried out by the applicant constitutes substantive business activities, which include substantive manufacturing, distribution, management and other activities. See “Item 3. Key Information—D. Risk Factors—Risk Related to Doing Business in China—There are significant uncertainties under the PRC enterprise income tax law relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.”

Under the PRC enterprise income tax law, enterprises established under the laws of jurisdictions outside China with their “de facto management body” located within China may be considered to be PRC tax resident enterprises for tax purposes and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The implementation rules of the PRC enterprise income tax law define the term “de facto management body” as a management body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China, which include all of the following conditions: (1) the senior management and core management departments in charge of daily operations are located mainly within China, (2) financial and human resources decision are subject to determination or approval by persons or bodies in China, (3) major assets, accounting books, company seals and minutes and files of board and shareholders’ meeting are located or kept within China, and (4) at least half of the enterprise’s directors with voting rights or senior management reside within China. The State Administration of Taxation issued a bulletin on August 3, 2011 to provide more guidance on the implementation of Circular 82. The bulletin clarifies certain matters relating to resident status determination, post-determination administration and competent tax authorities. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in the bulletin may reflect the general position of the State Administration of Taxation on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises and the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals. See “Item 3. Key Information—D. Risk Factors—Risk Related to Doing Business in China—Under the PRC enterprise income tax law, we may be classified as a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our non-PRC shareholders.”

United States Federal Income Tax Considerations

The following discussion is a summary of United States federal income tax considerations relating to the ownership and disposition of our ADSs or Class A ordinary shares by a U.S. Holder, as defined below, who holds our ADSs or Class A ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended, or the Code. This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service, or the IRS, with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not address all aspects of United States federal income taxation that may be important to particular investors in light of their individual circumstances, including investors subject to special tax rules (such as, for example, financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships or other pass-through entities and their partners or investors, tax-exempt organizations (including private foundations)), investors who are not U.S. Holders, investors subject to special accounting rules under Section 451(b) of the Code, investors that own (directly, indirectly, or constructively) 10% or more of our stock by vote or by value, investors that hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction, or investors that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this discussion does not address any state, local, alternative minimum tax, or non-United States tax considerations, or the Medicare contribution tax on net investment income. Each potential investor is urged to consult its tax advisor regarding the United States federal, state, local and non-United States income and other tax considerations of an investment in our ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or Class A ordinary shares that is, for United States federal income tax purposes, (1) an individual who is a citizen or resident of the United States, (2) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (3) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (4) a trust (a) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (b) that has otherwise elected to be treated as a United States person under the Code.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ADSs or Class A ordinary shares, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships and partners of a partnership holding our ADSs or Class A ordinary shares are urged to consult their tax advisors regarding an investment in our ADSs or Class A ordinary shares.

For United States federal income tax purposes, a U.S. Holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will generally not be subject to United States federal income tax.

Passive foreign investment company considerations

A non-United States corporation, such as our company, will be classified as a “passive foreign investment company,” or PFIC, for United States federal income tax purposes, if, in the case of any particular taxable year, either (1) 75% or more of its gross income for such year consists of certain types of “passive” income or (2) 50% or more of its average quarterly assets during such year produce or are held for the production of passive income. For this purpose, cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other non-U.S. corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Although the law in this regard is unclear, we treat our affiliated entities as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we combine and consolidate their operating results in our combined and consolidated financial statements. Assuming that we are the owner of our affiliated entities for United States federal income tax purposes, based upon our current income and assets, we do not believe that we were classified as a PFIC for the taxable year ending August 31, 2018, and we do not expect to be classified as a PFIC for the current taxable year or for the foreseeable future.

While we do not expect to become a PFIC in the current or future taxable years, the determination of whether we are or will become a PFIC will depend upon the composition of our income (which may differ from our historical results and current projections) and assets and the value of our assets from time to time, including, in particular the value of our goodwill and other unbooked intangibles (which may depend upon the market value of our ADSs or Class A ordinary shares from time-to-time and may be volatile). In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our market capitalization, which may fluctuate. If our market capitalization is less than anticipated, we may be classified as a PFIC for the current or future taxable years. It is also possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being, or becoming classified as, a PFIC for the current or one or more future taxable years.

The determination of whether we will be or become a PFIC may also depend, in part, on how, and how quickly, we use our liquid assets, including cash. Under circumstances where we retain significant amounts of liquid assets including cash, or if our affiliated entities were not treated as owned by us for United States federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year. If we were classified as a PFIC for any year during which a U.S. holder held our ADSs or Class A ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. holder held our ADSs or Class A ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the basis that we will not be classified as a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are classified as a PFIC for the current taxable year or any subsequent taxable year are discussed below under “Passive Foreign Investment Company Rules.”

Dividends

Subject to the PFIC rules described below, any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or Class A ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of Class A ordinary shares, or by the depositary bank, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution will generally be treated as a “dividend” for United States federal income tax purposes. Under current law, a non-corporate recipient of dividend income will generally be subject to tax on dividend income from a “qualified foreign corporation” at the lower applicable net capital gains rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period and other requirements are met.

A non-United States corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will generally be considered to be a qualified foreign corporation (1) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (2) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs are listed on the New York Stock Exchange. Accordingly, we believe that the ADSs are readily tradable on an established securities market in the United States and that we will be a qualified foreign corporation with respect to dividends paid on the ADSs. Since we do not expect that our Class A ordinary shares will be listed on established securities markets, it is unclear whether dividends that we pay on our Class A ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. In the event we are deemed to be a PRC resident enterprise under the EIT Law, we may be eligible for the benefits of the Agreement Between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income (the “United States-PRC income tax treaty”) (which the Secretary of the Treasury of the United States has determined is satisfactory for this purpose), in which case we would be treated as a qualified foreign corporation with respect to dividends paid on our Class A ordinary shares or ADSs. U.S. Holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends in their particular circumstances. Dividends received on our ADSs or Class A ordinary shares will not be eligible for the dividends received deduction allowed to corporate shareholders of a domestic corporation.

For United States foreign tax credit purposes, dividends paid on our ADSs or Class A ordinary shares will generally be treated as income from foreign sources and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the EIT Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid, if any, on our ADSs or Class A ordinary shares. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or Class A ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for United States federal income tax purposes in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or other disposition of ADSs or ordinary shares

Subject to the PFIC rules discussed below, a U.S. Holder will generally recognize capital gain or loss, if any, upon the sale or other disposition of ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder's adjusted tax basis in such ADSs or Class A ordinary shares. Any capital gain or loss will be long-term gain or loss if the ADSs or Class A ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. Long-term capital gains of non-corporate tax payers are currently eligible for reduced rates of taxation. In the event that we are treated as a PRC resident enterprise under the EIT Law, and gain from the disposition of the ADSs or Class A ordinary shares is subject to tax in the PRC, such gain may be treated as PRC source gain for foreign tax credit purposes under the United States-PRC income tax treaty. The deductibility of a capital loss may be subject to limitations. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or Class A ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares, unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will, except as discussed below, be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (1) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or Class A ordinary shares), and (2) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of ADSs or Class A ordinary shares. Under the PFIC rules:

- the excess distribution and/or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or Class A ordinary shares;
- the amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC, or a pre-PFIC year, will be taxable as ordinary income; and
- the amount allocated to each prior taxable year, other than the current taxable year or a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the individuals or corporations, as appropriate, for that year, and will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each such other taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" in a PFIC may make a mark-to-market election with respect to our ADSs, provided that the ADSs are "regularly traded" (as specially defined) on the New York Stock Exchange. No assurances may be given regarding whether our ADSs will continue to qualify as being regularly traded in this regard. If a mark-to-market election is made, the U.S. Holder will generally (1) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (2) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes an effective mark-to-market election, in each year that we are a PFIC any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Because our ordinary shares are not listed on a stock exchange, U.S. Holders will not be able to make a mark-to-market election with respect to our ordinary shares.

If a U.S. Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the U.S. Holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not classified as a PFIC.

Because a mark-to-market election cannot be made for any lower-tier PFICs that a PFIC may own, a U.S. Holder who makes a mark-to-market election with respect to our ADSs may continue to be subject to the general PFIC rules with respect to such U.S. Holder's indirect interest in any of our non-United States subsidiaries that is classified as a PFIC.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

As discussed above under "Dividends," dividends that we pay on our ADSs or Class A ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. In addition, if a U.S. Holder owns our ADSs or Class A ordinary shares during any taxable year that we are a PFIC, the holder must file an annual information return with the IRS. Each U.S. Holder is urged to consult its tax advisor concerning the United States federal income tax consequences of purchasing, holding, and disposing ADSs or Class A ordinary shares if we are or become a PFIC, including the possibility of making a mark-to-market election and the unavailability of the qualified electing fund election.

Information reporting

Certain U.S. Holders are required to report information to the IRS relating to an interest in "specified foreign financial assets," including shares issued by a non-United States corporation, for any year in which the aggregate value of all specified foreign financial assets exceeds \$50,000 (or a higher dollar amount prescribed by the IRS), subject to certain exceptions (including an exception for shares held in custodial accounts maintained with a United States financial institution). These rules also impose penalties if a U.S. Holder is required to submit such information to the IRS and fails to do so.

In addition, U.S. Holders may be subject to information reporting to the IRS and backup withholding with respect to dividends on and proceeds from the sale or other disposition of our ADSs or ordinary shares. Information reporting will apply to payments of dividends on, and to proceeds from the sale or other disposition of, ordinary shares or ADSs by a paying agent within the United States to a U.S. Holder, other than U.S. Holders that are exempt from information reporting and properly certify their exemption. A paying agent within the United States will be required to withhold at the applicable statutory rate, currently 24%, in respect of any payments of dividends on, and the proceeds from the disposition of, ordinary shares or ADSs within the United States to a U.S. Holder (other than U.S. Holders that are exempt from backup withholding and properly certify their exemption) if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements. U.S. Holders who are required to establish their exempt status generally must provide a properly completed IRS Form W-9.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS in a timely manner and furnishing any required information. Each U.S. Holder is advised to consult with its tax advisor regarding the application of the United States information reporting rules to their particular circumstances.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on display

We have previously filed with the SEC our registration statement on Form F-1 (File Number 333-217359), as amended and our registration statement on Form F-1 (File Number 333-223193), as amended .

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will furnish The Bank of New York Mellon, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited combined and consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

I. Subsidiary Information

For a listing of our subsidiaries, see "Item 4. Information on the Company—C. Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency risk

Our revenues, expenses and assets and liabilities are primarily denominated in Renminbi. Renminbi is not freely convertible into foreign currencies for capital account transactions. The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation subsided and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On March 17, 2014, the PRC government announced a policy to further expand the maximum daily floating range of Renminbi trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2.0%. On August 10, 2015, the PRC government announced that it had changed the calculation method for Renminbi's daily central parity exchange rate against the U.S. dollar, which resulted in an approximately 2.0% depreciation of Renminbi on that day. We expect Renminbi to fluctuate more significantly in value against the U.S. dollar or other foreign currencies in the future, depending on the market supply and demand with reference to a basket of major foreign currencies. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. To the extent that we need to convert U.S. dollars we received from the offering into Renminbi for our operations or capital expenditures, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

In addition, very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

Concentration of credit risk

Financial instruments that potentially subject us to significant concentration of credit risk consist primarily of cash and cash equivalents and restricted cash. As of August 31, 2018, substantially all of our cash and cash equivalents and term deposits were deposited with financial institutions with high-credit ratings and quality.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Expenses

Our ADS holders are required to pay the following service fees to the depositary bank, the Bank of New York Mellon, and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

<i>Persons depositing or withdrawing shares or ADS holders must pay :</i>	<i>For :</i>
US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US\$0.05 (or less) per ADS	Any cash distribution to ADS holders

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders
US\$0.05 (or less) per ADS per calendar year	Depository services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-217359) in relation to our initial public offering of 17,250,000 ADSs representing 17,250,000 Class A ordinary shares, at an initial offering price of US\$10.50 per ADS, and the F-1 Registration Statement (File Number 333-223193) in relation to our follow-on public offering of 10,000,000 ADSs representing 10,000,000 Class A ordinary shares at US\$19.00 per ADS. Our initial public offering closed in June 2017, and our follow-on offering closed in March 2018. Morgan Stanley & Co. International plc and Deutsche Bank Securities Inc. were the representatives of the underwriters for our initial public offering, and Deutsche Bank Securities Inc. and Goldman Sachs (Asian) LLC were the representatives of the underwriters for our follow-on public offering.

The F-1 registration statement for our initial public offering was declared effective by the SEC on May 17, 2017. For the period from the effective date of the F-1 registration statement to August 31, 2017, the total expenses incurred for our company’s account in connection with our initial public offering was approximately US\$0.6 million. We received net proceeds of approximately US\$174.7 million from our initial public offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

The F-1 registration statement for our follow-on public offering was declared effective by the SEC on February 27, 2018. For the period from the effective date of the F-1 registration statement to August 31, 2018, the total expenses incurred for our company’s account in connection with our follow-on public offering was approximately US\$1.0 million. We received net proceeds of approximately US\$181.4 million from our follow-on offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the follow-on offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from May 17, 2017, the date that the F-1 registration statement in connection with our initial public offering was declared effective by the SEC, to the date of this annual report, we have used (1) approximately US\$50.0 million as the registered capital of Guangdong Bright Scholar Education Technology Co., Ltd., (2) approximately US\$40.7 million in the repurchase of our ADSs, and (3) approximately US\$30.0 million in the acquisitions of schools and other business entities.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of August 31, 2018. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of August 31, 2018 were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of August 31, 2018. The assessment was based on criteria established in the framework Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of August 31, 2018.

Attestation Report of the Registered Public Accounting Firm

This annual report on Form 20-F does not include an attestation report of our registered public accounting firm due to rules of the SEC where domestic and foreign registrants that are “emerging growth companies” which we are, are not required to provide the auditor attestation report.

Changes in Internal Control over Financial Reporting

We believe we have made progress on remediating the material weaknesses and the significant deficiency disclosed in Form 20-F for the year ended August 31, 2017. Our historical material weaknesses of the lack of accounting personnel with appropriate knowledge of U.S. GAAP and SEC financial reporting requirements and the lack of accounting policies and procedures over financial reporting in accordance with U.S. GAAP have been remediated during the year ended August 31, 2018.

We have implemented a number of remediation measure to address the abovementioned material weaknesses as of and for the year ended August 31, 2017 by (1) retaining sufficient accounting personnel with appropriate knowledge and experiences in U.S. GAAP and SEC financial reporting and assigning the financial controller, who has extensive work experience in a public accounting firm, more period-end control oversight responsibilities to enhance the capability of the financial reporting team and to assist the chief financial officer in overseeing the financial reporting process, (2) providing more comprehensive training on knowledge of U.S. GAAP and controls over financial reporting to our accounting staff and other relevant personnel, and (3) developing a more comprehensive Accounting Manual for our company and enhancing monthly and quarterly closing process to standardize and accelerate the preparation of consolidated financial statements in accordance with U.S. GAAP.

Meanwhile, we have implemented several remediation measures to address the significant deficiency related to risk assessment process and monitoring activities as of and for the year ended August 31, 2017 by (1) employing an experienced internal auditor director who is independent from our operations and reports directly to the audit committee, and establishing an internal department to enhance the internal control, and (2) engaging an external consultant to assist us in establishing our formal risk assessment process and internal control framework and reviewing the appropriateness and sufficiency of the process to identify and address risk of material misstatement related to U.S. GAAP reporting and disclosures.

In the 2018 fiscal year, we and our independent registered public accountant identified no material weakness and one significant deficiency within our internal control over financial reporting. The significant deficiency identified related to the lack of sufficient documentation of goodwill impairment test processes and results. Having identified such significant deficiency, we are in the process of enhancing the implementation a set of internal control policies that include detailed procedures and guidance on goodwill impairment test, which will better enable us to track and identify potential impairment indicators in a more systematic way.

However, we cannot assure you that we will not identify additional material weaknesses or significant deficiencies in the future. In addition, the process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to employ significant resources to maintain a financial reporting system that satisfies our reporting obligations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately or timely report our results of operations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.” As a result, we may be subject to a number of risks, including increased risks that we have or may not file our financial statements and related reports with the SEC on a timely basis and that there are errors in our reported financial statements and material misstatements in our reports and other documents filed with the SEC.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Peter Andrew Schloss, an independent director (under the standards set forth in Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Exchange Act) and the chairman of our audit committee, is our audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted our code of conduct and ethics, a code that applies to members of the board of directors including its chairman and other senior officers, including the chief executive officer, the chief financial officer and the chief operations officer. This code is publicly available on our website at <http://ir.brightscholar.com/>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP (“Deloitte”), our independent registered public accounting firm, its member firms of Deloitte Touche Tohmatsu Limited, and their respective affiliates (“Deloitte Entities”), for the periods indicated. We did not pay any other fees to the Deloitte Entities during the periods indicated below.

	2017 Fiscal Year	2018 Fiscal Year
	(in thousands)	
Audit fees ⁽¹⁾	RMB4,556	RMB5,785
Audit-related fee ⁽²⁾	—	RMB1,700
All other fees ⁽³⁾	—	RMB2,494

- (1) Audit fees represent the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal accountant for the audit of our annual consolidated financial statements, review of quarterly financial information, and audit services that are normally provided by the principal accountant in connection with regulatory filings or engagements for those fiscal years.
- (2) Audit-related fees represent the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees.
- (3) All other fees represent the aggregate fees billed in each of the fiscal years listed for products and services provided by our principal accountant, other than the services reported in (1) and (2).

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In April 2018, our board of directors announced our share repurchase program pursuant to which we would repurchase up to US\$100 million worth of our ADSs. As of the date of this annual report, we have repurchased 3,330,182 of our ADSs for an aggregate purchase price of approximately US\$40.7 million, pursuant to the abovementioned share repurchase plan.

The table below is a summary of the shares repurchased by us as of the date of this annual report. All ADSs were repurchased in the open market pursuant to the share repurchase program announced in April 2018.

	Total Number of ADSs Purchased	Average Price Paid per ADS	Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plans or Programs
April 2018	—	—	—	\$ 100,000,000
May 2018	—	—	—	\$ 100,000,000
June 2018	24,653	\$ 15.98	24,653	\$ 99,606,124
July 2018	238,786	\$ 15.85	238,786	\$ 95,820,886
August 2018	944,026	\$ 13.37	944,026	\$ 83,195,886
September 2018	810,622	\$ 11.83	810,622	\$ 73,604,348
October 2018	916,678	\$ 10.79	916,678	\$ 63,714,106
November 2018	171,666	\$ 11.47	171,666	\$ 61,744,637
December 2018	223,751	\$ 10.92	223,751	\$ 59,301,233

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on the New York Stock Exchange, we are subject to New York Stock Exchange corporate governance listing standards. However, the New York Stock Exchange rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from New York Stock Exchange corporate governance listing standards. Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. To the extent we choose to follow home country practice with respect to corporate governance matters, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Ordinary Shares and ADSs—As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from New York Stock Exchange corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with New York Stock Exchange corporate governance listing standards.”

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our combined and consolidated financial statements are included at the end of this annual report.

ITEM 19. EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	<u>Amended and Restated Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017</u>
2.1	<u>Registrant’s specimen American depositary receipt (included in Exhibit 2.3)</u>
2.2	<u>Registrant’s specimen certificate for ordinary shares (incorporated by reference to Exhibit 4.2 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on May 5, 2017</u>
2.3	<u>Form of deposit agreement by and among the Registrant, the depositary and holders of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on May 5, 2017</u>
3.1	<u>English translation of acting-in-concert agreement between Ms. Meirong Yang and Ms. Huiyan Yang dated February 8, 2017 (incorporated by reference to Exhibit 4.4 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017</u>
4.1	<u>Form of employment agreement between the Registrant and the executive officers of the Registrant (incorporated by reference to Exhibit 10.1 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017</u>
4.2	<u>Form of indemnification agreement by and between the Registrant and its directors and executive officers (incorporated by reference to Exhibit 10.2 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017</u>

Exhibit No.	Description of Exhibit
4.3	<u>English translation of exclusive management service and business cooperation agreement among Zhuhai Bright Scholar, our affiliated entities, and Ms. Meirong Yang and Mr. Wenjie Yang, dated January 25, 2017 (incorporated by reference to Exhibit 10.3 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017</u>
4.4	<u>English translation of exclusive call option agreement among Zhuhai Bright Scholar, Ms. Meirong Yang and Mr. Wenjie Yang, and BGY Education Investment dated January 25, 2017 (incorporated by reference to Exhibit 10.4 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017)</u>
4.5	<u>English translation of power of attorney granted by BGY Education Investment dated January 25, 2017 (incorporated by reference to Exhibit 10.5 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017)</u>
4.6	<u>English translation of power of attorney granted by Ms. Meirong Yang dated January 25, 2017 (incorporated by reference to Exhibit 10.6 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017)</u>
4.7	<u>English translation of power of attorney granted by Mr. Wenjie Yang dated January 25, 2017. (incorporated by reference to Exhibit 10.7 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017)</u>
4.8	<u>English translation of equity pledge agreement among Zhuhai Bright Scholar, Ms. Meirong Yang and Mr. Wenjie Yang, and BGY Education Investment dated January 25, 2017 (incorporated by reference to Exhibit 10.8 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017)</u>
4.9	<u>2017 Share Incentive Plan (incorporated by reference to Exhibit 10.9 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017)</u>
4.10	<u>English Translation of Rights and Obligations Assumption Letter executed by Baoding Baigou New City Bright Scholar Shenghua Education Consulting Co., Ltd. dated June 14, 2017 (incorporated by reference to Exhibit 4.10 of our Form 20-F (file No. 001-38077) filed with the Securities and Exchange Commission on December 7, 2017)</u>
4.11	<u>English Translation of Rights and Obligations Assumption Letter executed by Chuzhou Country Garden Kindergarten dated August 30, 2017 (incorporated by reference to Exhibit 4.12 of our Form 20-F (file No. 001-38077) filed with the Securities and Exchange Commission on December 7, 2017)</u>
4.12	<u>English Translation of Rights and Obligations Assumption Letter executed by Chuzhou Country Garden Foreign Language School dated October 13, 2017 (incorporated by reference to Exhibit 4.13 of our Form 20-F (file No. 001-38077) filed with the Securities and Exchange Commission on December 7, 2017)</u>
4.13	<u>English Translation of Rights and Obligations Assumption Letter executed by Kaiping Country Garden Jade Bay Kindergarten dated July 5, 2017 (incorporated by reference to Exhibit 4.14 of our Form 20-F (file No. 001-38077) filed with the Securities and Exchange Commission on December 7, 2017)</u>
4.14	<u>English Translation of Rights and Obligations Assumption Letter executed by Shaoguan Country Garden English Foreign Language School dated September 3, 2017 (incorporated by reference to Exhibit 4.15 of our Form 20-F (file No. 001-38077) filed with the Securities and Exchange Commission on December 7, 2017)</u>
4.15	<u>English Translation of Rights and Obligations Assumption Letter executed by Shenghua Country Garden Bilingual School dated October 10, 2017 (incorporated by reference to Exhibit 4.16 of our Form 20-F (file No. 001-38077) filed with the Securities and Exchange Commission on December 7, 2017)</u>
4.16	<u>English Translation of Rights and Obligations Assumption Letter executed by Kaiping Country Garden School dated September 25, 2017 (incorporated by reference to Exhibit 4.17 of our Form 20-F (file No. 001-38077) filed with the Securities and Exchange Commission on December 7, 2017)</u>
4.17*	<u>English Translation of Rights and Obligations Assumption Letter executed by Wuhan East Lake High-tech Development Zone Xinqiao-Jinxu Longcheng Kindergarten dated October 22, 2018</u>
4.18*	<u>English Translation of Rights and Obligations Assumption Letter executed by Wuhan East Lake High-tech Development Zone Xinqiao Kindergarten dated October 22, 2018</u>
4.19*	<u>English Translation of Rights and Obligations Assumption Letter executed by Wuhan Dongxihu District Dongqiao Kindergarten dated October 22, 2018</u>

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
4.20*	<u>English Translation of Rights and Obligations Assumption Letter executed by Wuhan Hongshan District Xinqiao Aijia Kindergarten dated October 22, 2018</u>
4.21*	<u>English Translation of Rights and Obligations Assumption Letter executed by Wuhan Qingshan District Xinqiao Bilingual Kindergarten dated October 22, 2018</u>
4.22*	<u>English Translation of Rights and Obligations Assumption Letter executed by Wuhan Qiaosheng Education Investment Co., Ltd. dated October 23, 2018</u>
4.23*	<u>English Translation of Rights and Obligations Assumption Letter executed by Foshan Shunde Beijiao Country Garden Guilanshan Kindergarten Co., Ltd. dated November 3, 2018</u>
4.24*	<u>English Translation of Rights and Obligations Assumption Letter executed by Chengdu Yinzhe Education and Technology Co., Ltd. dated December 13, 2018</u>
4.25*	<u>English Translation of Rights and Obligations Assumption Letter executed by Chengdu Laizhe Education and Technology Co., Ltd. dated December 13, 2018</u>
4.26*	<u>Business and Asset Sale and Purchase Agreement in relation to the sale and purchase of the Business and Asset of Bournemouth Collegiate School dated October 1, 2018</u>
8.1*	<u>List of subsidiaries and affiliated entities of the Registrant</u>
11.1	<u>Code of business conduct and ethics (incorporated by reference to Exhibit 99.1 of our Registration Statement on Form F-1 (file No. 333-217359) filed with the Securities and Exchange Commission on April 18, 2017)</u>
12.1*	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
15.1*	<u>Consent of Frost & Sullivan</u>
15.2*	<u>Consent of JunHe LLP</u>
15.3*	<u>Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this annual report on Form 20-F

** Furnished with this annual report on Form 20-F

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**BRIGHT SCHOLAR EDUCATION
HOLDINGS LIMITED**

By: /s/ Dongmei Li
Name: Dongmei Li
Title: Chief Financial Officer

Date: December 14, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Bright Scholar Education Holdings Limited

Opinion of the Financial Statements

We have audited the accompanying consolidated balance sheets of Bright Scholar Education Holdings Limited (the “Company”), its subsidiaries, other affiliated entities and its variable interest entities under common control with the Company (collectively referred to as the “Group”) as of August 31, 2017 and 2018, the related combined and consolidated statements of operations, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended August 31, 2018, and the related notes and the schedule (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of August 31, 2017 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2(g). Such United States dollar amounts are presented solely for the convenience of the readers.

Basis for Opinion

These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on the Group’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Guangzhou, China
December 14, 2018

We have served as the Group’s auditor since 2016.

BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except shares and par value data)

	Note	As of August 31,		As of August 31,	
		2017	2018	2018	USD
		RMB	RMB		(Note 2)
ASSETS					
Current assets					
Cash and cash equivalents	25	1,883,000	3,153,852	461,765	
Restricted cash	25	13,662	10,229	1,498	
Held-to-maturity investments	4	6,390	—	—	
Accounts receivable		20	809	118	
Amounts due from related parties	19	7,940	17,960	2,630	
Other receivables, deposits and other assets	5	30,535	52,457	7,681	
Inventories		8,598	9,174	1,343	
Total current assets		1,950,145	3,244,481	475,035	
Property and equipment, net	6	423,344	460,485	67,421	
Land use right, net	7	34,694	33,721	4,937	
Intangible assets, net	8	21,177	73,657	10,784	
Goodwill	11	104,035	609,511	89,240	
Long-term investments	10	—	204,968	30,010	
Equity method investments	26	—	2,313	339	
Other investments		—	83	12	
Prepayments for construction contract		5,490	2,983	437	
Deferred tax assets, net	17	25,337	18,129	2,654	
Deposits for acquisition	9	78,750	8,854	1,296	
Other non-current assets	12	43,660	7,296	1,068	
Total non-current assets		736,487	1,422,000	208,198	
TOTAL ASSETS		2,686,632	4,666,481	683,233	
LIABILITIES AND EQUITY					
Current liabilities					
Short term loan (including short term loan of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of nil and nil as of August 31, 2017 and August 31, 2018, respectively)		—	49,840	7,297	
Accounts payable (including accounts payable of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of RMB 50,899 and RMB 37,271 as of August 31, 2017 and 2018, respectively)		50,899	63,602	9,312	
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of RMB 62,138 and RMB 142,068 as of August 31, 2017 and 2018, respectively)	19	76,433	157,295	23,030	
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of RMB 255,859 and RMB 289,388 as of August 31, 2017 and 2018, respectively)	13	272,479	335,857	49,174	
Income tax payable (including income tax payable of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of RMB 13,958 and RMB 23,886 as of August 31, 2017 and 2018, respectively)		40,387	53,598	7,847	
Current portion of deferred revenue (including deferred revenue of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of RMB 761,876 and RMB 936,615 as of August 31, 2017 and 2018, respectively)		761,876	965,152	141,311	
Total current liabilities		1,202,074	1,625,344	237,971	
Deferred tax liabilities, net (including deferred tax liabilities, net of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of RMB 5,294 and RMB 14,452 as of August 31, 2017 and 2018, respectively)	17	5,294	17,067	2,499	
Other non-current liabilities (including other non-current liabilities of the consolidated VIEs without recourse to Bright Scholar Education Holdings Limited of RMB 59,806 and RMB 7,817 as of August 31, 2017 and 2018, respectively)	12	59,806	12,471	1,826	
Total non-current liabilities		65,100	29,538	4,325	
TOTAL LIABILITIES		1,267,174	1,654,882	242,296	
Commitments and Contingencies					
EQUITY					
Share capital (US\$0.00001 par value; 117,250,000 shares issued and outstanding as of August 31, 2017, 127,250,000 shares issued and outstanding as of August 31, 2018)	14	7	9	1	
Additional paid-in capital		1,403,608	2,469,815	361,613	
Statutory reserves		64,945	64,945	9,509	
Accumulated other comprehensive (loss)/income		(36,494)	75,770	11,094	
Accumulated (deficit)/retained earnings		(15,933)	231,036	33,826	
Shareholders' equity		1,416,133	2,841,575	416,043	
Non-controlling interests	21	3,325	170,024	24,894	
Total equity		1,419,458	3,011,599	440,937	
TOTAL LIABILITIES AND EQUITY		2,686,632	4,666,481	683,233	

The accompanying notes are an integral part of these combined and consolidated financial statements.

BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
 COMBINED AND CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED AUGUST 31, 2016, 2017 AND 2018
 (Amounts in thousands, except for share and per share data)

	Note	2016	2017	2018	
		RMB	RMB	RMB	USD (Note 2)
Revenue	15	1,040,329	1,328,367	1,718,871	251,665
Cost of revenue		(736,205)	(860,330)	(1,090,595)	(159,677)
Gross profit		304,124	468,037	628,276	91,988
Selling, general and administrative expenses		(290,098)	(261,972)	(368,141)	(53,901)
Other operating income		4,283	8,874	12,027	1,761
Operating income		18,309	214,939	272,162	39,848
Interest income, net		2,148	4,901	27,297	3,996
Investment income		805	13,718	21,669	3,173
Other expenses		(457)	(779)	(4,803)	(703)
Income before income taxes and share of equity in income of unconsolidated affiliates		20,805	232,779	316,325	46,314
Income tax expense	17	(17,889)	(40,970)	(67,382)	(9,866)
Share of equity in income of unconsolidated affiliates		—	—	(40)	(6)
Net income		<u>2,916</u>	<u>191,809</u>	<u>248,903</u>	<u>36,442</u>
Net income attributable to non-controlling interests	21	<u>39,290</u>	<u>19,759</u>	<u>1,934</u>	<u>283</u>
Net (loss)/income attributable to ordinary shareholders		<u>(36,374)</u>	<u>172,050</u>	<u>246,969</u>	<u>36,159</u>
Net (loss)/earnings per share attributable to ordinary Shareholders					
Basic	18	(0.38)	1.64	2.02	0.30
Diluted	18	(0.38)	1.64	2.02	0.30
Weighted average shares used in calculating net (loss)/earnings per ordinary share:					
Basic	18	<u>96,983,360</u>	<u>104,839,041</u>	<u>122,088,201</u>	<u>122,088,201</u>
Diluted	18	<u>96,983,360</u>	<u>104,839,041</u>	<u>122,186,796</u>	<u>122,186,796</u>

The accompanying notes are an integral part of these combined and consolidated financial statements.

BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
 COMBINED AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED AUGUST 31, 2016, 2017 AND 2018
 (Amounts in thousands)

	2016	2017	2018	
	RMB	RMB	RMB	USD (Note 2)
Net income	<u>2,916</u>	<u>191,809</u>	<u>248,903</u>	<u>36,442</u>
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustment	—	(36,494)	112,264	16,436
Other comprehensive (loss) income	<u>—</u>	<u>(36,494)</u>	<u>112,264</u>	<u>16,436</u>
Comprehensive income	<u>2,916</u>	<u>155,315</u>	<u>361,167</u>	<u>52,878</u>
Less: comprehensive income attributable to non-controlling interests	39,290	19,759	1,934	283
Comprehensive (loss) income attributable to ordinary shareholders	<u>(36,374)</u>	<u>135,556</u>	<u>359,233</u>	<u>52,595</u>

The accompanying notes are an integral part of these combined and consolidated financial statements.

BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
 COMBINED AND CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 (Amounts in thousands, except for share data)

	Share capital		Additional paid-in capital	Statutory reserves	Accumulated (deficit)/retained earnings	Accumulated other comprehensive (loss)/income	Total	Non-controlling interests	Total equity
	Number of shares	RMB							
Balance at August 31, 2015	92,590,000	7	42,160	24,020	(110,684)	—	(44,497)	5,542	(38,955)
Net (loss) income for the year	—	—	—	—	(36,374)	—	(36,374)	39,290	2,916
Transfer to statutory reserve	—	—	—	23,793	(23,793)	—	—	—	—
Acquisition of subsidiaries	3,844,870	—	102,530	—	—	—	102,530	—	102,530
Share-based compensation	3,565,130	—	95,070	—	—	—	95,070	—	95,070
Balance at August 31, 2016	100,000,000	7	239,760	47,813	(170,851)	—	116,729	44,832	161,561
Net income for the year	—	—	—	—	172,050	—	172,050	19,759	191,809
Transfer to statutory reserve	—	—	—	17,132	(17,132)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	(36,494)	(36,494)	—	(36,494)
Capital injection	—	—	—	—	—	—	—	3,600	3,600
Acquisition of additional interest in subsidiaries of non-controlling interests	—	—	49,154	—	—	—	49,154	(64,866)	(15,712)
Distribution to owners under group Reorganization (Note*)	—	—	(32,167)	—	—	—	(32,167)	—	(32,167)
Issuance of ordinary shares upon initial public offering (“IPO”), net of offering cost	17,250,000	—	1,146,861	—	—	—	1,146,861	—	1,146,861
Balance at August 31, 2017	117,250,000	7	1,403,608	64,945	(15,933)	(36,494)	1,416,133	3,325	1,419,458
Net income for the year	—	—	—	—	246,969	—	246,969	1,934	248,903
Acquisition of subsidiaries (Note 21)	—	—	—	—	—	—	—	166,718	166,718
Issuance of ordinary shares upon follow on offering, net of offering cost	10,000,000	2	1,151,700	—	—	—	1,151,702	—	1,151,702
Foreign currency translation adjustment	—	—	—	—	—	112,264	112,264	—	112,264
Repurchase of ordinary shares**	—	—	(114,554)	—	—	—	(114,554)	—	(114,554)
Share-based compensation	—	—	29,061	—	—	—	29,061	—	29,061
Disposal of a subsidiary	—	—	—	—	—	—	—	(1,953)	(1,953)
Balance at August 31, 2018 in RMB	127,250,000	9	2,469,815	64,945	231,036	75,770	2,841,575	170,024	3,011,599
Balance at August 31, 2018 in USD	127,250,000	1	361,613	9,509	33,826	11,094	416,043	24,894	440,937

The accompanying notes are an integral part of these combined and consolidated financial statements.

Note*: Distribution represented the payment of capital to Mr. Yang Guoqiang, Ms. Yang Huiyan, daughter of Mr. Yang Guoqiang and Ms. Yang Meirong, sister of Yang Guoqiang (collectively as the “Yang’s Family”) for the transfer of schools held by other affiliated entities under common control of Yang’s Family to Guangdong Country Garden Education Investment Management Co., Ltd. (“BGY Education Investment”) as a result of Reorganization as disclosed in Note 1 and was recorded as distribution to owners in the combined and consolidated statements of shareholders’ equity.

Note**: Treasury stock represent ordinary shares repurchased by the Group that are no longer outstanding and are held by the Group. The repurchase of ordinary shares is accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. During the years ended December 31, 2016, 2017 and 2018, the Group repurchased a total of nil, nil and 1,207,465 shares from the market for a cash consideration of nil, nil and RMB 114,554.

BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
 COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED AUGUST 31, 2016, 2017 AND 2018
 (Amounts in thousands)

	Note	2016	2017	2018	
		RMB	RMB	RMB	USD (Note 2)
<i>Cash flows from operating activities</i>					
Net income for the year		2,916	191,809	248,903	36,442
<i>Adjustments to reconcile net cash flows from operating activities:</i>					
Depreciation		69,548	74,436	78,286	11,463
Amortization of land use right		973	973	973	142
Amortization of acquired intangible assets		1,573	2,647	6,620	969
Exchange loss		—	—	4,868	713
Income on disposal of property and equipment		83	80	117	17
Share of equity in income of unconsolidated affiliates		—	—	40	6
Share-based compensation		95,070	—	29,061	4,255
Gain on disposal of subsidiaries		—	—	(2,443)	(358)
Investment income		—	(13,406)	(19,226)	(2,815)
Deferred income taxes		4,769	975	6,691	980
<i>Changes in operating assets and liabilities and other, net:</i>					
Accounts receivable		(2,066)	2,181	(424)	(62)
Inventories		(485)	982	(468)	(69)
Amounts due from related parties		—	(2,405)	(7,674)	(1,123)
Other receivables, deposits and other assets		(2,253)	(1,180)	(13,948)	(2,042)
Accounts payable		(8,438)	14,550	(2,738)	(401)
Amounts due to related parties		(1,958)	1,411	(5,865)	(859)
Accrued expenses and other current liabilities		25,122	69,105	50,920	7,455
Deferred revenue		160,941	96,473	190,575	27,903
Other assets and liabilities		14,863	26,288	(10,052)	(1,471)
Net cash provided by operating activities		<u>360,658</u>	<u>464,919</u>	<u>554,216</u>	<u>81,145</u>
<i>Cash flows from investing activities</i>					
Purchase of held-to-maturity investments	4	(30,500)	(186,000)	(1,428,000)	(209,077)
Purchase of debt investments	4	—	(780,000)	(469,000)	(68,668)
Purchase of long-term investments		—	—	(190,920)	(27,953)
Proceeds from disposal of held-to-maturity investments	4	—	215,885	1,445,368	211,620
Proceeds from disposal of debt investment	4	—	787,631	477,248	69,875
Payment for acquisition deposits		—	(78,750)	(8,854)	(1,296)
Additions of property and equipment		(92,687)	(97,116)	(117,556)	(17,211)
Proceeds from sale of property and equipment		32	73	859	126
Acquisition of subsidiaries, net of cash acquired of RMB 6,899, RMB 651 and RMB 60,155 in 2016, 2017 and 2018, respectively		(101)	(2,125)	(179,571)	(26,292)
Disposal of subsidiaries		—	—	(2,034)	(298)
Advances to related parties		(716,788)	(144,560)	—	—
Repayments from related parties		872,130	229,237	—	—
Net cash provided by/(used in) investing activities		<u>32,086</u>	<u>(55,725)</u>	<u>(472,460)</u>	<u>(69,174)</u>
<i>Cash flows from financing activities</i>					
Proceeds from capital contribution		—	3,600	—	—
Proceeds from initial public offering, net of offering cost paid of RMB 3,226 in 2017		—	1,147,886	—	—
Proceeds from follow-on offering, net of offering cost paid of RMB 5,996 in 2018		—	—	1,151,702	168,624
Advances from related parties		112,586	71,367	—	—
Payment for the consideration for the transfer of schools as a result of Reorganization		—	(3,667)	—	—
Repayments to related parties		(387,127)	(57,675)	—	—
Repurchase of ordinary shares		—	—	(108,938)	(15,950)
Proceeds from bank borrowings		—	—	49,840	7,297
Net cash (used in)/provided by financing activities		<u>(274,541)</u>	<u>1,161,511</u>	<u>1,092,604</u>	<u>159,971</u>
Net increase in cash and cash equivalents, and restricted cash		<u>118,203</u>	<u>1,570,705</u>	<u>1,174,360</u>	<u>171,942</u>
Cash and cash equivalents and restricted cash at beginning of the year		244,248	362,451	1,896,662	277,696
Effect of exchange rate changes on cash and cash equivalents and restricted cash		—	(36,494)	93,059	13,625
Cash and cash equivalents and restricted cash at end of the year	25	<u>362,451</u>	<u>1,896,662</u>	<u>3,164,081</u>	<u>463,263</u>
<i>Supplemental disclosure of cash flow information:</i>					
Income tax paid		2,209	16,378	65,136	9,537
<i>Non-cash investing activities:</i>					
Acquisition of subsidiaries		102,530	—	—	—
Acquisition of additional interest in subsidiaries of non-controlling interests		—	15,712	—	—
Distribution to owners under group Reorganization		—	32,167	—	—
<i>For the year ended August, 31, 2016, 2017 and 2018</i>					
Other payable related to cost of initial public offering		—	(1,025)	—	—
Other payable related to stock repurchase		—	—	(5,616)	(822)
Accounts payable balance for acquisition of property and equipment		(10,557)	(28,281)	(5,751)	(842)
Amounts due to related parties balance for acquisition of property and equipment		(707)	(1,858)	(27,869)	(4,080)

The accompanying notes are an integral part of these combined and consolidated financial statements.

BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except for share and per share data, unless otherwise stated)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Bright Scholar Education Holdings Limited (the “Company”) was incorporated under the laws of Cayman Islands on December 16, 2016. The Company, its subsidiaries, other affiliated entities and its variable interest entities under common control with the Company (collectively referred to as the “Group”) are principally engaged in the provision of full spectrum private fundamental education and complementary education services, including kindergarten, primary, middle, high school and international schools in the People’s Republic of China (the “PRC”).

Reorganization

In order to raise capital for the Group through an initial public offering (“IPO”), the Group undertook a reorganization (“Reorganization”) which includes:

- 1) During the period from September 1, 2016 to February 28, 2017, the interests of all schools/subsidiaries held by other affiliated entities under common control of Yang’s Family has been transferred to BGY Education Investment, a company owned by Yang’s Family.
- 2) The Company was incorporated in the Cayman Islands (“Cayman”) as the proposed listing entity on December 16, 2016. As of the incorporation date, the total issued share capital was 10 ordinary shares with a par value of USD0.00001 and total authorized share capital is US\$50 divided into 5,000,000,000 shares.
- 3) Impetus Investment Limited (“Impetus”), a company owned by Yang’s Family, set up a wholly owned PRC subsidiary, Zhuhai Hengqin Bright Scholar Management Consulting Co. Ltd (“Zhuhai Bright Scholar”) on January 24, 2017.
- 4) Pursuant to the PRC laws and regulations which currently prohibits foreign ownership of companies and institutions providing compulsory education services at primary and middle school levels, and restricts foreign investment in education services at the kindergarten and high school level. Due to these restrictions, Impetus, through its PRC subsidiary, Zhuhai Bright Scholar, have entered into a series of contractual arrangements with BGY Education Investment, the schools that BGY Education Investment owns and the shareholders of BGY Education Investment on January 25, 2017 (“the VIE Arrangement”).
- 5) On February 8, 2017, the Company issued additional 99,999,990 shares to exchange 100% equity interest of Impetus to the Company. After the Company’s share increment, the total outstanding share of the Company was 100,000,000 share, among that, 72.6%, 20% and 7.4% of its shares are held by Ms. Meirong Yang (“Ms. M”), Ms. Huiyan Yang (“Ms. H”) and Mr. Junli He (“Mr. He”), the chief executive officer of the Group, respectively. Each shareholder maintain individual ownership interests in the Group prior to the Reorganization. The 7.4% of the Company’s shares was issued to Mr. He as the exchange of his interest of the Education Group which includes primary schools, middle schools, high schools, international schools and kindergartens in the PRC (collectively referred to as the “Education Group”) as part of the acquisition transaction as described in Note 3.

The Company was incorporated in December 2016 and the current structure was completed in February 2017. The Group has accounted for the Reorganization akin to a reorganization of entities under common control and accordingly, the accompanying combined and consolidated financial statements have been prepared as if the current corporate structure has been in existence throughout the periods presented and the assets, liabilities, revenue, expenses and cash flows of the Group are presented by using historical costs. The share and per share data relating to the ordinary shares issued by the Company are presented as if the Reorganization occurred at the beginning of the first period presented.

In May 2017, the Group completed its initial public offering (“IPO”) and issued 17,250,000 American Depositary Shares (“ADSs”). Net proceeds from the IPO after deducting underwriting discount and offering costs were RMB 1,146,861.

The Group's principal subsidiaries and VIEs and schools as of August 31, 2018 are as follows:

Name	Place of establishment	Date of establishment	Equity interest attributed to the Group as of August 31, 2018	Principal activities
Wholly owned subsidiaries:				
Impetus	Cayman	April 1, 2014	100%	Investment holding
Zhuhai Bright Scholar	The PRC	January 24, 2017	100%	Management consulting service
Time Education China Holdings Limited	Hong Kong	August 16, 2013	100%	Investment holding
Time Elan Education Technology Co., Ltd.	The PRC	December 6, 2013	100%	Complementary education services
Shenzhen Qianhai Bright Scholar Management Consulting Co., Ltd.	The PRC	December 15, 2016	100%	Complementary education services
Bright Scholar (Enlightenment) Investment Holdings Limited	Cayman	December 27, 2017	100%	Investment holding
Bright Scholar (UK) Holdings Limited	United Kingdom	July 31, 2018	100%	Inactive
Bright Scholar (BCS) Limited	United Kingdom	August 1, 2018	100%	Inactive
Bright Scholar (BCS) Property Limited	United Kingdom	August 1, 2018	100%	Inactive
Bright Scholar (BCS) Management Limited	United Kingdom	August 1, 2018	100%	Inactive
Beijing Bright Scholar Education Consulting Limited Co., Ltd.	The PRC	July 20, 2016	100%	Complementary education services
Foshan Shunde Elan Education Training Co., Ltd.	The PRC	April 12, 2017	100%	Complementary education services
Shenzhen Elan Education Training Co., Ltd.	The PRC	April 1, 2017	100%	Complementary education services
Guangdong Bright Scholar Education Technology Co., Ltd.	The PRC	September 26, 2017	100%	Complementary education services
Guangzhou Elan Education Consulting Co., Ltd.	The PRC	December 20, 2017	100%	Complementary education services
Non-wholly owned subsidiaries:				
Zhuhai Hengqin Kaidi Education Consulting Co., Ltd.	The PRC	May 11, 2017	80%	Complementary education services
Zhuhai Xin Xu Education Management Co., Ltd.	The PRC	August 8, 2018	75%	Inactive
Xin Rui Management Co., Ltd.	Hong Kong	May 2, 2018	75%	Inactive
New Bridge Management Co., Ltd.	Cayman	March 21, 2018	75%	Inactive
Foundation Education China Limited	Hong Kong	July 19, 2012	75%	Study-abroad consulting service
Foundation Academy Limited	Hong Kong	June 16, 2009	75%	Study-abroad consulting service
Foundation Education Services Limited	Hong Kong	April 12, 2000	75%	Study-abroad consulting service
Foundation Information Consulting (Shenzhen) Co., Ltd.	The PRC	October 29, 2012	75%	Inactive
FGE Holdings Limited	The British Virgin Islands	March 24, 2016	75%	Study-abroad consulting service
Foundation Global Education Limited	Hong Kong	June 22, 2009	75%	Study-abroad consulting service
Can-achieve (Beijing) Education Consulting Co., Ltd.	The PRC	May 14, 2008	70%	Study-abroad consulting service and referral service
Can-achieve Global Education, Inc. (Los Angeles)	United States	August 1, 2016	70%	Study-abroad consulting service and referral service
Can-Achieve International Education Limited	Hong Kong	July 23, 2015	70%	Study-abroad consulting service and referral service
Guangzhou Can-achieve Global Consulting Co., Ltd.	The PRC	May 19, 2016	70%	Study-abroad consulting service and referral service
Zhengzhou Dahua Education Consulting Co., Ltd.	The PRC	March 28, 2001	70%	Study-abroad consulting service and referral service
Beijing Wanjia Culture Communication Co., Ltd.	The PRC	June 11, 1999	70%	Study-abroad consulting service and referral service

Name	Place of establishment	Date of establishment	Equity interest attributed to the Group as of August 31, 2018	Principal activities
VIEs				
BGY Education Investment	The PRC	October 16, 2014	100%	Investment holding
Time Elan Education Technology (Beijing) Co., Ltd.	The PRC	December 17, 2012	100%	Complementary education services
Shenzhen Time Elan Technology Co., Ltd.	The PRC	October 19, 2015	100%	Complementary education services
Shanghai Elan Education and Training Co., Ltd.	The PRC	September 30, 2016	100%	Complementary education services
Guangdong Xingjian Education Co., Ltd.	The PRC	April 2, 2015	100%	Complementary education services
Guangdong Country Garden School (“GCGS”)	The PRC	January 3, 1994	100%	Kindergarten and formal education services*
Huanan Country Garden School (“HCGS”)	The PRC	June 2, 2004	100%	Formal education services*
Huanan Country Garden Bilingual Kindergarten	The PRC	June 22, 2004	100%	Kindergarten education services
Phoenix City Country Garden Kindergarten	The PRC	December 13, 2009	100%	Kindergarten education services
Phoenix City Bilingual School (“PCBS”)	The PRC	April 1, 2004	100%	Formal education services*
Country Garden Huacheng School	The PRC	August 21, 2003	100%	Formal education services*
Country Garden Huacheng Kindergarten	The PRC	August 21, 2003	100%	Kindergarten education services
Xiju Country Garden Kindergarten	The PRC	March 3, 2013	100%	Kindergarten education services
Dalang Country Garden Kindergarten	The PRC	March 15, 2013	100%	Kindergarten education services
Huadu Holiday Peninsula Kindergarten	The PRC	August 5, 2013	100%	Kindergarten education services
Jurong Country Garden School	The PRC	September 1, 2013	100%	Kindergarten and formal education services*
Maoming Country Garden Kindergarten	The PRC	March 5, 2013	100%	Kindergarten education services
Country Garden Venice Bilingual School (“CGBS”)	The PRC	September 1, 2007	100%	Formal education services*
Wuyi Country Garden Bilingual School	The PRC	September 1, 2009	100%	Kindergarten and formal education services*
Heshan Country Garden School	The PRC	September 1, 2010	100%	Formal education services*
Wuhan Country Garden School	The PRC	August 26, 2011	100%	Formal education services*
Ningxiang Country Garden School	The PRC	September 1, 2014	100%	Formal education services*
Zengcheng Country Garden School	The PRC	October 8, 2013	100%	Formal education services*
Country Garden Silver Beach School	The PRC	August 20, 2015	100%	Formal education services*
Country Garden Experimental School	The PRC	July 1, 2015	100%	Formal education services*
Huaxi Country Garden International School	The PRC	September 1, 2015	100%	Formal education services*
Laian Country Garden Foreign Language School	The PRC	August 11, 2015	100%	Formal education services*
Taishan Country Garden School	The PRC	August 24, 2015	100%	Kindergarten and formal education services*
Lanzhou Country Garden School	The PRC	September 1, 2016	100%	Kindergarten and formal education services*
Chuzhou Country Garden Foreign Language School	The PRC	April 17, 2017	100%	Formal education services*
Shaoguan Country Garden Foreign Language School	The PRC	September 1, 2017	100%	Formal education services*
Kaiping Country Garden School	The PRC	September 22, 2017	100%	Formal education services*
Huidong Silver Beach Education Consulting Co., Ltd.	The PRC	June 30, 2015	100%	Formal education services*
Ningxiang Country Garden Foreign Language Training School	The PRC	September 1, 2014	100%	Formal education services*
Phoenix City Bilingual Kindergarten	The PRC	April 16, 2008	100%	Kindergarten education services
Foshan Shunde Shengbo Culture and Arts Training Co., Ltd.	The PRC	July 16, 2015	100%	Complementary education services
Licheng Country Garden Bilingual Kindergarten	The PRC	November 17, 2004	100%	Kindergarten education services

Name	Place of establishment	Date of establishment	Equity interest attributed to the Group as of August 31, 2018	Principal activities
Huaxi Country Garden International Kindergarten	The PRC	September 1, 2014	100%	Kindergarten education services
Nansha Country Garden Bilingual Kindergarten	The PRC	August 7, 2009	100%	Kindergarten education services
Shawan Country Garden Kindergarten	The PRC	July 5, 2010	100%	Kindergarten education services
Heshan Country Garden Kindergarten	The PRC	September 1, 2010	100%	Kindergarten education services
Country Garden Venice Kindergarten	The PRC	September 1, 2011	100%	Kindergarten education services
Wuhan Country Garden Kindergarten	The PRC	August 26, 2011	100%	Kindergarten education services
Huanan Country Garden Cuiyun Mountain Kindergarten	The PRC	May 31, 2012	100%	Kindergarten education services
Zengcheng Country Garden Kindergarten	The PRC	October 18, 2013	100%	Kindergarten education services
Fengxin Country Garden Kindergarten	The PRC	August 25, 2014	100%	Kindergarten education services
Phoenix City Fengyan Kindergarten	The PRC	August 25, 2014	100%	Kindergarten education services
Huiyang Country Garden Kindergarten	The PRC	September 17, 2014	100%	Kindergarten education services
Country Garden Silver Beach Kindergarten	The PRC	August 20, 2014	100%	Kindergarten education services
Haoting Country Garden Kindergarten	The PRC	November 27, 2014	100%	Kindergarten education services
Danyang Country Garden Kindergarten	The PRC	September 1, 2015	100%	Kindergarten education services
Qingyuan Country Garden Bilingual Kindergarten	The PRC	September 1, 2015	100%	Kindergarten education services
Shaoguan Zhenjiang Country Garden Foreign Language Kindergarten	The PRC	November 1, 2015	100%	Kindergarten education services
Gaoming Country Garden Kindergarten	The PRC	August 13, 2015	100%	Kindergarten education services
Enping Country Garden Kindergarten	The PRC	August 3, 2015	100%	Kindergarten education services
Laian Country Garden Kindergarten	The PRC	August 11, 2015	100%	Kindergarten education services
Kaiping Country Garden Jade Bay Kindergarten	The PRC	May 22, 2017	100%	Kindergarten education services
Chuzhou Country Garden Kindergarten	The PRC	April 17, 2017	100%	Kindergarten education services
Shenghua Country Garden Kindergarten	The PRC	May 28, 2017	100%	Kindergarten education services
Dongguan Qishi Country Garden Kindergarten	The PRC	January 12, 2018	100%	Kindergarten education services
Dongguan Qingxi Country Garden Kindergarten	The PRC	January 9, 2018	100%	Kindergarten education services
Ningxiang Country Garden Kindergarten	The PRC	September 1, 2014	100%	Kindergarten education services
Wuhan Qiaosheng Education Investment Co., Ltd.	The PRC	July 21, 2017	75%	Complementary education services
Wuhan Qingshan District Bilingual Kindergarten	The PRC	August 16, 2006	75%	Kindergarten education services
Wuhan Donghu Tech Development Zone Xinqiao Kindergarten	The PRC	September 8, 2008	75%	Kindergarten education services
Wuhan Donghu Tech Development Zone Xinqiao-Jinxiu Longcheng Kindergarten	The PRC	April 20, 2009	75%	Kindergarten education services
Wuhan Dongxihu District Dongqiao Kindergarten	The PRC	August 8, 2008	75%	Kindergarten education services
Wuhan Hongshan District Xinqiao Aijia Kindergarten	The PRC	November 25, 2011	75%	Kindergarten education services
Shenghua Country Garden Bilingual School	The PRC	September 7, 2017	70%	Formal education services*
Baoding Baigou New City Bright Scholar Shenghua Education Consulting Co., Ltd.	The PRC	May 19, 2017	70%	Complementary education services
Guangzhou Zangxing Network Technology Co., Ltd. (“Zangxing”)	The PRC	December 30, 2014	51.67%	Education Promotion Service

* Formal education services includes primary, middle, high and international school services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation and combination and consolidation

The combined and consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

The Group has considered the Reorganization as a change in reporting entity for a reorganization of entities under common control of the Yang’s Family and hence reflect the Reorganization in a manner similar to the pooling of interests method of accounting and the combined revenues and expenses are all reflected under historical cost basis of the Yang’s Family. Accordingly, all financial information presented for the two years ended August 31, 2016 and 2017 (prior to the consummation of Reorganization and the incorporation of the Company) was prepared on a combined basis which represents the combined results of operations and cash flows of all the entities under common control of the Yang’s Family as if the Reorganization occurred on the earliest date during which all the entities were under common control of the Yang’s Family.

(b) Principles of consolidation

The accompanying combined and consolidated financial statements include the financial information of the Company, its subsidiaries and its consolidated VIEs (collectively the “Group”). All intercompany balances and transactions have been eliminated.

BGY Education Investment, its subsidiaries and schools, other affiliated entities and variable interest entities under common control of Yang’s Family are collectively referred to as the “Combined Entities”. The Group’s combined and consolidated financial statements include (i) the combined financial statements of each of the Combined Entities from their respective date of incorporation or date of combination through December 16, 2016 (date of the incorporation of the Company), and (ii) the consolidated financial statements of the Company, its wholly-owned subsidiaries and its consolidated VIEs for the period from December 16, 2016 to August 31, 2018. The combined and consolidated financial statements reflect the operations of the Combined Entities through December 16, 2016 and the Group’s consolidated operations thereafter.

Consolidation of VIEs

PRC laws and regulations currently prohibit foreign ownership of companies and institutions providing compulsory education services at primary and middle school levels, and restrict foreign investment in education services at the kindergarten and high school level. In addition, the PRC government regulates the provision of education services through strict licensing requirements.

Accordingly, the Company, through its wholly owned subsidiary in China (the “WFOE”), Zhuhai Bright Scholar, have entered into the following contractual arrangements with BGY Education Investment, BGY Education Investment’s schools and subsidiaries and BGY Education Investment’s shareholders that enable the Company to (1) have power to direct the activities that most significantly affects the economic performance of the VIE, and (2) receive the economic benefits of the VIE that could be significant to the VIE.

Agreements that provide the Group with effective control over the VIEs include:

Voting Rights Proxy Agreement & Irrevocable Power of Attorney

Under voting right proxy agreement and irrevocable power of attorney, each of the shareholders of BGY Education Investment has executed a power of attorney to grant Zhuhai Bright Scholar the power of attorney to act on his or her behalf on all matters pertaining the BGY Education Investment and to exercise all of his or her rights as a shareholder of BGY Education Investment, including but not limited to convene, attend and vote at shareholders’ meetings, designate and appoint directors and senior management members. The proxy agreement will remain in effect unless Zhuhai Bright Scholar terminates the agreement by giving a prior written notice or gives its consent to the termination by BGY Education Investment.

Exclusive Call Option Agreement

Under the exclusive call option agreement, each of the shareholders of BGY Education Investment granted Zhuhai Bright Scholar or its designated representative(s) an irrevocable and exclusive option to purchase their equity interests in BGY Education Investment when and to the extent permitted by PRC law. Zhuhai Bright Scholar or its designated representative(s) has sole discretion as to when to exercise such options, either in part or in full. Without Zhuhai Bright Scholar’s written consent, the shareholders of BGY Education Investment shall not transfer, donate, pledge, or otherwise dispose any equity interests of BGY Education Investment in any way. The acquisition price for the shares or assets will be the minimum amount of consideration permitted under the PRC law at the time when the option is exercised. The agreement cannot be terminated by BGY Education Investment or their shareholders.

Equity Pledge Agreement

Under the equity pledge agreement, each of the shareholders pledged all of their equity interests in BGY Education Investment to Zhuhai Bright Scholar as collateral to secure their obligations under the equity pledge agreements. If the shareholders of BGY Education Investment breach their respective contractual obligations, Zhuhai Bright Scholar, as pledgee, will be entitled to certain rights, including the right to dispose the pledged equity interests. Pursuant to the agreement, the shareholders of BGY Education Investment shall not transfer, assign or otherwise create any new encumbrance on their respective equity interest in BGY Education Investment without prior written consent of Zhuhai Bright Scholar. The equity pledge right held by Zhuhai Bright Scholar will expire when the shareholders of BGY Education Investment and Zhuhai Bright Scholar have fully performed their respective obligations under the Consulting Services Agreement and Operating Agreement, or the shareholder is no longer a shareholder of BGY Education Investment or the satisfaction of all its obligations by BGY Education Investment under the VIE contractual arrangements.

The agreements that transfer economic benefits of BGY Education Investment to the Group include:

Exclusive Management Services and Business cooperation Agreement

Under the exclusive management services and business cooperation agreement, BGY Education Investment engages Zhuhai Bright Scholar as its exclusive technical and operational consultant and under which Zhuhai Bright Scholar agrees to assist in business development and related services necessary to conduct BGY Education Investment's operational activities. BGY Education Investment shall not seek or accept similar services from other providers without the prior written approval of Zhuhai Bright Scholar. The agreements will be effective as long as BGY Education Investment exists. Zhuhai Bright Scholar may terminate this agreement at any time by giving a prior written notice to BGY Education Investment.

Under the above agreements, the shareholders of BGY Education Investment irrevocably granted Zhuhai Bright Scholar the power to exercise all voting rights to which they were entitled. In addition, Zhuhai Bright Scholar has the option to acquire all of the equity interests in BGY Education Investment, to the extent permitted by the then-effective PRC laws and regulations, for nominal consideration. Finally, Zhuhai Bright Scholar is entitled to receive service fees for certain services to be provided to BGY Education Investment.

The Call Option Agreement and Voting Rights Proxy Agreement provide the Group with effective control over the BGY Education Investment, while the Equity Pledge Agreements secure the obligations of the shareholders of BGY Education Investment under the relevant agreements. Because the Group, through Zhuhai Bright Scholar, has (i) the power to direct the activities of BGY Education Investment, that most significantly affect the entity's economic performance and (ii) the right to receive substantially all of the benefits from BGY Education Investment, the Group is deemed the primary beneficiary of BGY Education Investment. Accordingly, the Company consolidates and combines BGY Education Investment's financial results of operations, assets and liabilities in the Group's consolidated and combined financial statements.

The Group believes that the contractual arrangements with the VIEs are in compliance with the PRC law and are legally enforceable. However, the contractual arrangements are subject to risks and uncertainties, including:

- BGY Education Investment and their shareholders may have or develop interests that conflict with the Group's interests, which may lead them to pursue opportunities in violation of the aforementioned contractual arrangements. If the Group cannot resolve any conflicts of interest or disputes between the Group and the shareholders of BGY Education Investment, the Group would have to rely on legal proceedings, which could result in disruption of its business, and there may be substantial uncertainty as to the outcome of any such legal proceedings.
- BGY Education Investment and their shareholders could fail to obtain the proper operating licenses or fail to comply with other regulatory requirements. As a result, the PRC government could impose fines, new requirements or other penalties on the VIEs or the Group, mandate a change in ownership structure or operations for the VIEs or the Group, restrict the VIEs or the Group's use of financing sources or otherwise restrict the VIEs or the Group's ability to conduct business.
- The PRC government may declare the aforementioned contractual arrangements invalid. They may modify the relevant regulations, have a different interpretation of such regulations, or otherwise determine that the Group or the VIEs have failed to comply with the legal obligations required to effectuate such contractual arrangements.
- If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government may restrict or prohibit the Group's use of the proceeds of the additional public offering to finance the Group's business and operations in China.

The Group's ability to conduct its business may be negatively affected if the PRC government were to carry out of any of the aforementioned actions. As a result, the Group may not be able to consolidate BGY Education Investment in its combined and consolidated financial statements as it may lose the ability to exert effective control over BGY Education Investment and their shareholders, and it may lose the ability to receive economic benefits from BGY Education Investment.

The following amounts and balances of BGY Education Investment were included in the Group's combined and consolidated financial statements after the elimination of intercompany balances and transactions.

	As of August 31	
	2017	2018
	RMB	RMB
ASSETS		
Current assets		
Cash and cash equivalents	777,964	891,735
Restricted cash	13,662	10,229
Held-to-maturity investments	6,390	—
Accounts receivable	20	671
Amounts due from related parties	7,940	10,522
Other receivables, deposits and other assets	26,307	35,643
Inventories	8,598	8,944
Total current assets	840,881	957,744
Property and equipment, net	412,849	380,483
Land use right, net	34,694	33,721
Intangible assets, net	21,177	57,808
Goodwill	104,035	237,544
Prepayment for construction contract	5,490	267
Deferred tax assets, net	25,337	16,799
Other non-current assets	43,660	6,249
Total non-current assets	647,242	732,871
TOTAL ASSETS	1,488,123	1,690,615
LIABILITIES		
Current liabilities		
Accounts payable	50,899	37,271
Amounts due to related parties	62,138	142,068
Accrued expenses and other current liabilities	255,859	289,388
Income tax payable	13,958	23,886
Current portion of deferred revenue	761,876	936,615
Total current liabilities	1,144,730	1,429,228
Deferred tax liabilities, net	5,294	14,452
Deferred revenue	—	—
Other non-current liabilities	59,806	7,817
Total non-current liabilities	65,100	22,269
TOTAL LIABILITIES	1,209,830	1,451,497

	For the year ended August 31,		
	2016	2017	2018
	RMB	RMB	RMB
Total revenue	1,040,329	1,320,421	1,621,872
Net income	3,530	34,447	67,224
Net cash provided by operating activities	207,501	466,704	192,745
Net cash provided by/(used in) investing activities	182,783	(38,909)	(82,407)
Net cash (used in)/provided by financing activities	(272,269)	1,568	—
Net increase in cash and cash equivalents and restricted cash	118,015	429,363	110,338
Cash and cash equivalents and restricted cash at beginning of year	244,248	362,263	791,626
Cash and cash equivalents, and restricted cash at end of year	362,263	791,626	901,964

BGY Education Investment contributed 100%, 99.4% and 94.4% of the Group's combined and consolidated revenue for three years ended August 31, 2016, 2017 and 2018. As of August 31, 2017 and 2018, BGY Education Investment accounted for an aggregate of 55.4% and 36.2%, respectively, of the audited consolidated total assets, and 90.3% and 87.7%, respectively, of the consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to BGY Education Investment. However, if BGY Education Investment were ever to need financial support, the Group may, at its option and subject to statutory limits and restrictions, provide financial support to its VIEs through loans to the shareholders of BGY Education Investment or entrustment loans to BGY Education Investment.

The Group believes that there are no assets held in the BGY Education Investment that can be used only to settle obligations of BGY Education Investment, except for registered capital and the PRC statutory reserves. As the BGY Education Investment is incorporated as a limited liability company under the PRC Company Law, creditors of the BGY Education Investment do not have recourse to the general credit of the Company for any of the liabilities of the BGY Education Investment. Relevant PRC laws and regulations restrict BGY Education Investment from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 24 for disclosure of restricted net assets.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's financial statements include assessment of realization of deferred tax assets, impairment assessment of long-lived assets, valuation of share-based compensation and goodwill and assumptions used to determine the fair value of the assets acquired through business combination. Actual results may differ materially from those estimates.

(d) Fair value

Fair value is considered to be the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data. The Group has long-term investment in a USD fund-linked note that is measured at fair value with a maturity date of May 28, 2020 and classified as level 2 fair value measurements (see Note 10). Various inputs for the investment valuation, including time value, volatility factors, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures, substantially are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying values of financial instruments, which consist of cash and cash equivalents, restricted cash, accounts receivable, amounts due from related parties, other receivables, deposits, accounts payable, other payables, amounts due to related parties and other current liabilities are recorded at cost which approximates their fair value due to the short-term nature of these instruments.

(e) Foreign currency translation

The Group's reporting currency is Renminbi ("RMB"). The functional currency of the affiliates incorporated outside the mainland China includes the United States dollar ("US dollar" or "US\$"), Hong Kong dollar ("HKD" or "HK\$"), and Canadian dollar ("CAD"). The functional currency of all the other subsidiaries and the VIEs is RMB.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates.

(f) Foreign currency risk

The RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the Peoples Bank of China, controls the conversion of RMB into other currencies. The value of the RMB is subject to changes in central government policies, international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The Group's cash and cash equivalents, restricted cash, and term deposits denominated in RMB amounted to RMB 796,587 and RMB 1,387,936 as of August 31, 2017 and 2018, respectively.

(g) Convenience translation

The Group's business is primarily conducted in China and almost all of the revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into US dollars using the then current exchange rates, for the convenience of the readers. Translations of balances in the consolidated balance sheets, and the related combined and consolidated statements of operations, comprehensive income, shareholders' equity and cash flows from RMB into US dollars as of and for the year ended August 31, 2018 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB 6.8300, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on August 31, 2018. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on August 31, 2018, or at any other rate.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and principal-secured floating rate financial instruments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

(i) Restricted cash

The Group's restricted cash mainly represents (a) deposit held in a designated bank account for the sole purpose of business operation including the establishment of new schools and subsidiaries; and (b) deposit restricted as to withdrawal or use under government regulations. Restricted cash is classified as current based on respective agreements with the banks and governing authorities, the term of which are 12 months or less.

(j) Held-to-maturity investments

Financial investments consist of one held-to-maturity investment with an original maturity term of six months. The Group's held-to-maturity investments are classified as current investments on the consolidated balance sheets as of August 31, 2017 since the term of the investments matured within one year. The held-to-maturity investments are stated at their amortized costs.

The Group reviews its held-to-maturity investments for other-than-temporary impairment ("OTTI") based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating the potential impairment of its short-term investments. If the cost of an investment exceeds the investments fair value, the Group considers, among other factors, general market conditions, expected future performance of the investees, the duration and the extent to which the fair value of the investment is less than the cost, and the Groups intent and ability to hold the investments. OTTI is recognized as a loss in the combined and consolidated statement of operations.

(k) Inventories

Inventories are stated at the lower of cost or net realizable value.

(l) Property and equipment, net

Property and equipment is generally stated at historical cost and depreciated on a straight-line basis over the estimated useful lives of the assets. Depreciation expense is included in either cost of revenue or selling, general and administrative expenses, as appropriate. Property and equipment consist of the following and depreciation is calculated on a straight-line basis over the following estimated useful lives:

Buildings	20 - 40 years
Leasehold improvement	3 - 5 years or the lesser of remaining life of lease
Motor vehicles	4 - 10 years
Electronic equipment	5 - 10 years
Office equipment	3 - 5 years
Other equipment	3 - 5 years
Others	3 years
Construction in progress	*

Note*: The Group constructs certain of its property. In addition to cost under the construction contracts, external costs, including consulting fee directly related to the construction of such facilities, are capitalized. Depreciation is recorded at the time assets are ready for the intended use.

(m) Land use right, net

Land use right is recorded at cost less accumulated amortization. Amortization is provided over the term of the land use right agreement on a straight-line basis over the term of the agreement, which is 40 years.

(n) Impairment of long-lived assets

The Group evaluates the recoverability of long-lived assets with determinable useful lives whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. The Group measures the carrying amount of long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require judgment and actual results may differ from assumed and estimated amounts. No impairment loss was recognized for the years ended August 31, 2016, 2017 and 2018.

(o) Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Intangible assets with finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows.

Goodwill is tested for impairment annually at the end of the fourth quarter, or sooner if impairment indicators arise. In the evaluation of goodwill for impairment, the Group may perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is not, no further analysis is required. If it is, a prescribed two-step goodwill impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit, if any.

The first step in the two-step impairment test is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of a reporting unit is estimated by applying valuation multiples and/or estimating future discounted cash flows. The selection of multiples is dependent upon assumptions regarding future levels of operating performance as well as business trends and prospects, and industry, market and economic conditions. When estimating future discounted cash flows, we consider the assumptions that hypothetical marketplace participants would use in estimating future cash flows. In addition, where applicable, an appropriate discount rate is used, based on an industry-wide average cost of capital or location-specific economic factors. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step compares the implied fair value of goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination (i.e., the fair value of the reporting unit is allocated to all the assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit). If the implied fair value of goodwill exceeds the carrying amount, goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

The Group did not incur any impairment loss on goodwill for the years ended August 31, 2016, 2017 and 2018, respectively.

Acquired intangible assets other than goodwill consist of trademarks and brand names, customer relationship, non-compete agreement and core curriculum are carried at cost, less accumulated amortization and impairment. The amortization periods by major intangible asset classes are as follows:

Trademarks and brand names	10-20 years
Core curriculum	10 years
Non-compete agreement	7 years
Customer relationship	4 years

(p) Revenue recognition

Revenue is recognized when persuasive evidence that an arrangement exists, delivery of the product or service has occurred, the selling price is both fixed and determinable and collection is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of returns, discounts, and sales related tax. The primary sources of the Group's revenues are as follows:

Educational programs and services

Service income includes tuition fees and boarding fees from international schools and bilingual schools of the Group and tuition fees from kindergartens of the Group.

Tuition and boarding fees received are generally paid in advance prior to the beginning of each semester, and are initially recorded as deferred revenue. In very limited circumstances students may, with special approval of the management, receive education first and pay their tuition in arrears later. Tuition and boarding fees are recognized proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded deferred revenue and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year. The academic year of the Group's school is generally from September to January of the following year and from March to July.

Educational materials

Revenue attributable to educational materials is recognized upon the delivery of the products to the students, which is when the risks and rewards have been transferred to the students.

Training course and program fees

Revenue derived from providing language training and other programs is recognized proportionally as the Group deliver these services over the period of the course.

Commission income

The Group earns commission revenue by providing referral services to overseas education universities and institutions. Commission revenue is recognized when the referred students registers at the overseas education universities and institutions and the tuition fees are paid.

Study-abroad consulting service fees

The Group offers study abroad consulting services to provide quality advisory guidance for students who intend to study abroad. The Group charges each student an up-front prepaid fee based on the scope of consulting services requested by the student, and recognizes revenue over the service period. The prepaid services fee consist of a refundable and non-refundable fee. The non-refundable service fee is recognized as revenue over the service period; and the refundable fee is deferred and recognized as revenue if the contingency of the student successfully gaining admission is resolved.

(q) Cost of revenues

Cost of revenues consists of the following:

- staff costs, which primarily consist of salaries and other benefits for the teachers,
- education expenses, which primarily consist of expenses related to educational activities, including teaching material expenses, scholarships and student activity expenses,
- utilities and maintenance costs for the schools, and
- cost of goods sold for ancillary services, which primarily consist of cost of goods sold at the on-campus canteens.

(r) Government Subsidies

The Group recognizes government subsidies as other operating income when they are received because they are not subject to any past or future conditions, there are no performance conditions or conditions of use, and they are not subject to future refunds. Government subsidies received and recognized as other operating income totaled RMB 2,474, RMB 2,099 and RMB 9,088 for the years ended August 31, 2016, 2017 and 2018, respectively.

(s) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets for amounts more likely than not to be realized.

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items.

The Group record unrecognized tax benefit liabilities for known or anticipated tax issues based on our analysis of whether, and the extent to which, additional taxes will be due. The Group accrues interest and penalties related to unrecognized tax benefits in other liabilities and recognizes the related expense in income tax expense.

(t) Employee Benefits

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the period during which services are rendered by employees. Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organized by the relevant local government authorities for its eligible employees whereby the Group is required to make contributions to the Schemes at certain percentages of the deemed salary rate announced annually by the local government authorities.

The Company also makes payments to other defined contribution plans for the benefit of employees employed by subsidiaries outside of the PRC. Amounts contributed during the years ended August 31, 2016, 2017 and 2018 were insignificant.

The Group provides housing subsidies benefit for certain employees of GCGS. In June 2018, the Group canceled the housing subsidies benefit program, however, the employees who were entitled to the subsidy prior to the cancelation are still eligible to claim the payments. The Group estimates the expenses and related costs on the basis of the probability of GCGS' entitled employees' claiming for payment taking into consideration of assumptions including the employees' turnover rate and historical rate of claiming for payments.

The Group has no other material obligation for payment of pension benefits associated with those schemes beyond the annual contributions described above.

(u) Share-based compensation

Share-based payment transactions with employees are measured based on the grant date fair value of the equity instrument issued and recognized as compensation expense net of a forfeiture rate on a straight-line basis, over the requisite service period, with a corresponding impact reflected in additional paid-in capital.

The estimate of forfeiture rate will be adjusted over the requisite service period to the extent that actual forfeiture rate differs, or is expected to differ, from such estimates. Changes in estimated forfeiture rate will be recognized through a cumulative catch-up adjustment in the period of change.

(v) Comprehensive income

Comprehensive income is defined to include all changes in equity from transactions and other events and circumstances from non-owner sources. For the years presented, the Group's comprehensive income includes net income and foreign currency translation adjustments and is presented in the combined and consolidated statements of comprehensive income.

(w) Contingent Liabilities

The Group is subject to lawsuits, investigations and other claims related to the operation of these schools and entities, environmental, product, taxing authorities and other matters, and are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses and fees.

A determination of the amount of accruals and disclosures required, if any, for these contingencies is made after considerable analysis of each individual issue. The Group accrues for contingent liabilities when an assessment of the risk of loss is probable and can be reasonably estimated. The Group discloses contingent liabilities when the risk of material loss is at least reasonably possible or probable.

The contingent liabilities contain uncertainties because the eventual outcome will result from future events. The determination of accruals and any reasonably possible losses in excess of those accruals require estimates and judgments related to future changes in facts and circumstances, interpretations of the law, the amount of damages or fees, and the effectiveness of strategies or other factors beyond the Group's control. If actual results are not consistent with the Group's estimates or assumptions, the Group may be exposed to gains or losses that could be material.

(x) Operating leases

Leases where substantially all the rewards and risks of the ownership of the assets remain with the leasing companies are accounted for as operating leases. Payments made for the operating leases are charged to the combined and consolidated statements of operations on a straight-line basis over the lease term and have been included in the operating expenses in the combined and consolidated statements of operations.

(y) Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and long-term investments. As of August 31, 2018, substantially all of the Group's cash and cash equivalents, term deposits and long-term investments were deposited with financial institutions with high-credit ratings and quality.

(z) Earnings per Share

Basic earnings per share is computed by dividing earning attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares.

(aa) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (or "FASB") issued Accounting Standards Updates (or "ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards ("IFRS"). An entity has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016, and early adoption is not permitted. In August, 2015, the FASB updated this standard to ASU 2015-14, the amendments in this Update defer the effective date of Update 2014-09, that the Update should be applied to annual reporting periods beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Topic 606 also impacts certain other areas, such as the accounting for costs to obtain or fulfill a contract. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group plans to adopt this standard on September 1, 2018 using the modified-retrospective transition method in which case the cumulative effect of applying the standard would be recognized on the date of adoption. The Group also estimates that the new guidance will not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which requires that equity investments, except for those accounted for under the equity method or those that result in consolidation of the investee, be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 also impacts the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only for certain provisions. The guidance should be applied prospectively upon its effective date. The Group plans to adopt this ASU beginning on September 1, 2018, and based on the Group's equity investments as of August 31, 2018, the application of ASU 2016-01 may result in the Group's cost method investments to be measured at fair value, with subsequent changes in fair value recognized in net income. The Group also expects that it may elect to measure certain equity investments that do not have readily determinable fair values at cost minus impairment, with appropriate adjustments resulting from observable price changes in orderly and comparable transactions, if any.

ASU 2016-01 was further amended in February 2018 by ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". This update was issued to clarify certain narrow aspects of guidance concerning the recognition of financial assets and liabilities established in ASU 2016-01. This includes an amendment to clarify that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair valuation method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would apply to that security and all identical or similar investments of the same issued.

ASU 2016-01 and ASU 2018-03 are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. Adoption of the amendment must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except for amendments related to equity instruments that do not have readily determinable fair values which should be applied prospectively. The Group will apply the new standard beginning September 1, 2018. For investments in equity securities without readily determinable fair values, the Group will elect to use the measurement alternative defined as cost, less impairments, adjusted by observable price changes. The Group anticipates that the adoption of ASU 2016-01 may increase the volatility of its other (expense)/income, as a result of the remeasurement of its equity securities upon the occurrence of observable price changes.

In February 2016, the FASB issued ASU 2016-02 related to Leases. Under the new guidance, lessees will be required to recognize all leases (with the exception of short-term leases) at the commencement date including a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees (for capital and operating leases) and must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted. While the Company is evaluating the impact of the lease guidance on its consolidated financial statements, the Company anticipates that the impact will be material due to the right-of-use assets and lease liabilities related to existing operating leases that will be recorded on the Company's consolidated balance sheets upon adoption of the standard.

In August 2016, the FASB issued new pronouncements ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update provide guidance on the following specific cash flow issues such as: (1) Contingent Consideration Payments Made After a Business Combination; (2) Distributions Received from Equity Method Investees. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elect early adoption must adopt all of the amendments in the same period. The Company intends to adopt this standard as of September 1, 2018, and does not anticipate this standard will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01: Business Combinations (Topic 805): Clarifying the Definition of a Business. The Update requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this Update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. Early application of the amendments in this Update is allowed. The amendments in this Update should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company intends to adopt this standard as of September 1, 2018, and does not anticipate this standard will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment." Under the new accounting guidance, an entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will perform its goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value but not to exceed the total amount of the goodwill of the reporting unit. In addition, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment, if applicable. The provisions of the new accounting guidance are required to be applied prospectively. The new accounting guidance is effective for the Company for goodwill impairment tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The Company is in the process of assessing the impact on its consolidated financial statements from the adoption of the new guidance.

In May 2017, the FASB issued ASU 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting”. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. For all entities, the ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Group does not anticipate that the adoption of ASU 2017-09 will have a material impact on the consolidated financial statements.

In July, 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases. The amendments in this ASU are of a similar nature to the items typically addressed in the Codification improvements project. However, the Board decided to issue a separate ASU for the improvements related to Accounting Standards Update No. 2016-02, Leases (Topic 842), to increase stakeholders' awareness of the amendments and to expedite the improvements. The amendments in this ASU affect narrow aspects of the guidance issued in ASU 2016-02. For entities that have early adopted Topic 842, the amendments in this Update should be effective upon issuance of the final Update and the transition requirements should be the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements of the amendments should be the same as the effective date and transition requirements in Topic 842.

In July, 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. The amendments in this ASU related to separating components of a contract affect the amendments in ASU 2016-02, which are not yet effective but can be early adopted. For entities that have not adopted Topic 842 before the issuance of this ASU, the effective date and transition requirements for the amendments in this ASU related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. All entities, including early adopters that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.

In August, 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU improve the effectiveness of fair value measurement disclosures and modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted.

3. BUSINESS COMBINATION

Acquisition of Impetus

On January 27, 2016, Yang's Family completed the acquisition of 100% equity interests in Impetus, together with its subsidiaries and variable interest entities (collective as "Time Education Group"). Time Education Group operates 15 training institutes in the PRC under the brand of "Elan". The merging of Time Education Group's training institutes with the Education Group's strong management team, leading brands and vertically integrated model allows the Education Group to provide high-quality, competitively priced and diversified services to the customers.

The equity interests was originally held at 30%, 14%, and 56% by Greenergy Development Pte. Ltd ("Greenergy"), Accurate Vision Holdings Ltd ("Accurate Vision") and Mr. Junli He (Mr. He), respectively. Mr. He became the CEO of the Education Group after the acquisition of Impetus. Greenergy and Accurate Vision are companies owned by independent third parties.

The total consideration included i) cash consideration of RMB 54,600 which has been paid to the selling shareholders by August 31, 2016 and ii) 7.41% interests of Education Group to Mr. He. In addition, as part of the transaction, Mr. He has obligation to provide services to the Education Group and act as CEO after the acquisition. Hence, the Group determined that part of the consideration is related to the costs of services provided by Mr. He and allocated RMB 95,070 to share-based compensation (see Note 16 for details).

The Group determined the total consideration for the acquisition of Time Education Group as follows:

	<u>RMB</u>
Fair value of 7.41% interests of Education Group as of acquisition date (Note 16)	150,000
Cash paid to the shareholders of Time Education Group by Yang's Family	47,600
Cash paid to the shareholders of Time Education Group by the Group	7,000
Total amount	204,600
Attributable to cost of services provided by Mr. He as CEO	95,070
Total consideration for the acquisition	109,530

The fair value of Education Group and Time Education Group on the acquisition date are calculated by adopting income approach, in particular, the discounted cash flow method to analyze the indicative value of both of the groups. The fair value are estimated based on significant inputs which mainly include the financial results, growth trends and discount rate (see Note 16 for details).

The acquisition of 100% equity interest of Time Education Group has been accounted for using the acquisition method of accounting, and accordingly, the acquired assets and liabilities were recorded at their fair value at the date of acquisition. The Group engaged a third party valuation firm to assist them with the valuation of interest in Time Education Group as well as property and equipment and intangible assets. The excess of the total consideration over the fair value of the assets acquired was recorded as goodwill which is not tax deductible. The results of these acquired entities' operations have been included in the combined and consolidated financial statements since the date of acquisition. The purchase price was allocated as of the date of acquisition as follows:

	<u>RMB</u>	<u>Amortization period</u>
Cash	6,899	
Other current assets	10,443	
Property and equipment	7,434	3-5 years
Intangible assets		
Trademarks and brand names	24,186	10 years
Core curriculum	1,007	10 years
Goodwill	102,332	
Other current liabilities	(36,473)	
Deferred tax liabilities	(6,298)	
Total consideration and value to be allocated to net assets	<u>109,530</u>	

The identifiable tangible and intangible assets acquired and any non-controlling interest in the acquiree are required to be recognized and measured at fair value as of the acquisition date. An intangible asset is identified if it meets either the separability criterion or the contractual-legal criteria in accordance with ASC 805, Business Combination. Fair value of property and equipment acquired approximates the net book value of these assets. The goodwill was assigned to the complementary education services segment as a result of these acquisitions.

Acquisition of Can-achieve Group

On March 1, 2018, the Group acquired 70% equity interest of Can-achieve (Beijing) Education Consulting Co., Ltd. and its subsidiaries ("Can-achieve Group") with a total cash consideration of RMB 264,338, all of which has been paid as of August 31, 2018. Can-achieve Group provides referral services to overseas education universities and institutions and study abroad consulting services to students.

The acquisition of 70% equity interest of Can-achieve Group has been accounted for using the acquisition method of accounting, and accordingly, the acquired assets and liabilities were recorded at their fair value at the date of acquisition. The Group engaged a third party valuation firm to assist them with the valuation of interest in Can-achieve Group as well as property and equipment and intangible assets. The excess of the total consideration over the fair value of the assets acquired was recorded as goodwill which is not tax deductible. The results of these acquired entities' operations have been included in the combined and consolidated financial statements since the date of acquisition. The purchase price was allocated as of March 1, 2018, the date of acquisition, as follows:

	<u>RMB</u>	<u>Amortization period</u>
Cash	48,294	
Other current assets	8,492	
Property and equipment	1,422	3-5 years
Intangible asset		
Non-compete agreement	17,100	7 years
Other non-current assets	3,150	
Goodwill	345,501	
Account payables	(18,219)	
Other current liabilities	(17,478)	
Deferred revenue	(7,814)	
Deferred tax liabilities	(2,822)	
Non-controlling interests	(113,288)	
Total consideration and value to be allocated to net assets	<u>264,338</u>	

The identifiable tangible and intangible assets acquired and any non-controlling interests in the acquiree are required to be recognized and measured at fair value as of the acquisition date. An intangible asset is identified if it meets either the separability criterion or the contractual-legal criteria in accordance with ASC 805, Business Combination. Fair value of fixed assets acquired approximates the net book value of these assets. The goodwill was assigned to the complementary education services segment as a result of these acquisitions.

Acquisition of Xinqiao Group

On March 1, 2018, the Group acquired 75% equity interest of Wuhan Qiaosheng Education Investment Co., Ltd. and its subsidiaries (“Xinqiao Group”) with a total cash consideration of RMB 114,469, of which RMB 89,469 has not been paid as of August 31, 2018 and was recorded in amounts due to related parties (non-controlling shareholder of Xinqiao Group) in the consolidated balance sheets. Xinqiao Group operates five kindergartens under the brand name of “New Jordan” in Wuhan.

The acquisition of 75% equity interest of Xinqiao Group has been accounted for using the acquisition method of accounting, and accordingly, the acquired assets and liabilities were recorded at their fair value at the date of acquisition. The Group engaged a third party valuation firm to assist them with the valuation of interest in Xinqiao Group as well as property and equipment and intangible assets. The excess of the total consideration over the fair value of the assets acquired was recorded as goodwill which is not tax deductible. The results of these acquired entities’ operations have been included in the combined and consolidated financial statements since the date of acquisition. The purchase price was allocated as of March 1, 2018, the date of acquisition, as follows:

	<u>RMB</u>	<u>Amortization period</u>
Cash	3,790	
Other current assets	5,753	
Property and equipment	836	3-5 years
Intangible assets		
Brand name	24,000	20 years
Customer relationship	18,000	4 years
Goodwill	119,735	
Other current liabilities	(3,544)	
Deferred tax liabilities	(10,500)	
Deferred revenue	(5,445)	
Non-controlling interests	(38,156)	
Total consideration and value to be allocated to net assets	<u>114,469</u>	

The identifiable tangible and intangible assets acquired are required to be recognized and measured at fair value as of the acquisition date. An intangible asset is identified if it meets either the separability criterion or the contractual-legal criteria in accordance with ASC 805, Business Combination. Fair value of fixed assets acquired approximates the net book value of these assets. The goodwill was assigned to the kindergarten segment as a result of these acquisitions.

Other acquisitions

During the year ended August 31, 2018, the Group made two other business acquisitions.

The Group acquired 75% of ownership interest in FGE Holdings Limited and its subsidiaries (“FGE Group”) which is primarily engaged in providing study abroad consulting services to students, for which the consideration of approximately RMB 19,894 was paid in full as of August 31, 2018. The goodwill and non-controlling interests acquired from the acquisition were approximately RMB 26,466 and RMB 6,631, respectively.

The Group acquired 51.67% of ownership interest in Zangxing Network Technology Co., Ltd (“Zangxing”) which is primarily engaged in operating online platform to provide education promotion services to schools and training institutions, for which the consideration of RMB 9,242 was paid in full as of August 31, 2018. The goodwill and non-controlling interests acquired from the acquisition were RMB 13,774 and RMB 8,646, respectively.

Pro forma results of acquisitions (unaudited)

The following table summarizes unaudited pro forma results of operations for the years ended August 31, 2016, 2017 and 2018, assuming that these acquisitions occurred as of the beginning of the comparable annual reporting period. These pro forma results have been prepared for comparative purpose only based on management's best estimate and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of the beginning of period:

Pro forma for the year ended August 31, 2016, 2017 and 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Pro forma revenue	1,113,651	1,439,952	1,780,129
Pro forma income from operations	31,967	246,561	303,968
Pro forma net (loss) income attributable to the Group	(30,698)	189,471	266,438

Revenues and net loss in the amount of RMB 25,577 and RMB 8,464, respectively, attributable to Time Education Group acquired in January 2016 were included in the combined statements of operations in 2016 since the acquisition date.

Revenues and net income in the amount of RMB 62,523 and RMB 9,457, respectively, attributable to the four acquired subsidiaries during the year ended August 31, 2018 were included in the combined and consolidated statements of operations since the acquisition dates.

4. HELD-TO-MATURITY INVESTMENTS AND DEBT INVESTMENTS

As of August 31, 2017, the Group's held-to-maturity investments consist of investment in a Limited Liability Partnership ("LLP"), which principally invests in the film and television venture capital fund of Beijing Pinjin Capital Management LLP in the PRC carried at amortized cost of RMB 6,000, which approximate the aggregate fair value. The amount of unrealized holding gain as of August 31, 2017 was RMB 390. During the year ended August 31, 2018, the Group purchased investments in such LLP and other held-to-maturity products amounting to RMB 1,428,000, and collected RMB 1,445,368 with investment income of RMB 10,978. All of the above investments matured during the year and its balance as of August 31, 2018 is nil.

The held-to-maturity investments have fixed maturity dates and pay a target return on the amount invested. The Group has the positive intent and ability to hold the investments to maturity. There has been no impairment recognized and no sales of any held-to-maturity investments before maturities during the periods presented.

For the year ended August 31, 2018, the Group purchased available-for-sale investments in debt securities, which principally invests in the real estate properties of Country Garden Holdings Company Limited in the PRC, amounting to RMB 469,000, and collected RMB 477,248 with investment income of RMB 8,248.

5. OTHER RECEIVABLES, DEPOSITS AND OTHER ASSETS

Other receivables, deposits and other assets consisted of the following:

	<u>As of August 31,</u>	
	<u>2017</u>	<u>2018</u>
	<u>RMB</u>	<u>RMB</u>
Other receivables from third parties	358	1,253
Advances to employees	5,740	9,286
Deposits	7,714	5,722
Unamortized expense for housing subsidies- current	2,735	—
Interest receivable	—	1,919
Prepaid tax and deductible value-added tax-in	2,353	9,912
Rental prepayment	—	6,199
Prepayment for suppliers	—	4,598
Others	11,635	13,568
Total	<u>30,535</u>	<u>52,457</u>

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following:

	As of August 31,	
	2017	2018
	RMB	RMB
Buildings	509,862	527,453
Leasehold improvement	145,851	192,423
Motor vehicles	13,033	14,216
Electronic equipment	35,481	44,865
Office equipment	39,957	56,519
Other equipment	63,863	63,739
Construction in progress	26,473	33,365
Others	56,823	72,833
Total costs	891,343	1,005,413
Less: accumulated depreciation	467,999	544,928
Property and equipment, net	423,344	460,485

For the years ended August 31, 2016, 2017 and 2018, depreciation expenses were RMB 69,548 , RMB 74,436 and RMB 78,286 respectively.

7. LAND USE RIGHT, NET

Land use right, net, consisted of the following:

	As of August 31,	
	2017	2018
	RMB	RMB
Land in Ningxiang, Changsha City	38,920	38,920
Less: accumulated amortization	4,226	5,199
Land use right, net	34,694	33,721

The lease period of the land use right is from November 2013 to November 2053. Amortization expenses were RMB 973 for each of the three years ended August 31, 2018.

8. INTANGIBLE ASSETS, NET

Intangible assets, net, consisted of the following:

	As of August 31,	
	2017	2018
	RMB	RMB
Trademarks and brand names	24,186	48,186
Core curriculum	1,007	1,007
Customer relationship	—	18,000
Non-compete agreement	—	17,100
Total costs	25,193	84,293
Less: accumulated amortization	4,016	10,636
Intangible assets, net	21,177	73,657

Amortization expenses for the intangible assets for the years ended August 31, 2016, 2017 and 2018 were RMB 1,573, RMB 2,647 and RMB 6,620 respectively. As of August 31, 2018, the estimated amortization expenses related to intangible assets for each of the next three years is expected to be RMB 10,722, and RMB 8,472 and RMB 6,222 for the fourth and fifth year, respectively.

9. DEPOSITS FOR ACQUISITION

During the year ended August 31, 2017, the Group paid a deposit of RMB 78,750 to acquire shares of Can-Achieve Beijing Education Consulting Limited, a Beijing education consulting company. The acquisition was completed during the year ended August 31, 2018, and the deposit was applied to the total purchase price (see Note 3 for details).

On October 1, 2018, the Group signed an agreement to acquire the Bournemouth Collegiate School, an established independent school which offers day and boarding education from ages 2-18 on two campuses in the United Kingdom, for total cash consideration of Great Britain Pound (“GBP”) 10,000. As of August 31, 2018, the Group paid GBP 1,000 (approximately RMB 8,854) as the deposit.

10. LONG-TERM INVESTMENTS

The Group’s long-term investments pertains to principal-protected investments in a USD fund-linked note (the “Notes”) with a maturity date of May 28, 2020 and a notional amount of USD 30,000 (approximately RMB 190,920 on the transaction date). The Notes will be redeemed at the maturity date at an amount determined by reference to the performance of the underlying fund and such performance will therefore affect the nature and value of the investment return on the Notes.

The Group classifies such investments as held-to-maturity as it has both the positive intent and ability to hold the Notes until maturity. Long-term investments are reclassified as short-term when their contractual maturity date is less than one year.

11. Goodwill

Changes in the carrying amount of goodwill for the years ended August 31, 2017 and August 31, 2018 consist of the following:

	As of August 31,	
	2017	2018
	RMB	RMB
Beginning balance	102,332	104,035
Additions*	1,703	505,476
Impairment	—	—
Goodwill	<u>104,035</u>	<u>609,511</u>

Note*:

For the year ended August 31, 2017, the Company acquired 100% equity interest of Guangdong Xingjian Education Co., Ltd. using the acquisition method of accounting, and accordingly, the acquired assets and liabilities were recorded at their fair value at the date of acquisition. The excess of the total consideration over the fair value of the assets acquired was recorded as goodwill amount to RMB 1,703.

For the year ended August 31, 2018, the additions to goodwill reflects the excess of the consideration paid over the fair values of the identifiable net assets acquired of the Can-achieve Group, Xinqiao Group, FGE Group and Zangxing acquisitions (Note 3).

The Group did not incur impairment loss on goodwill for the years ended August 31, 2017, and 2018.

12. OTHER NON-CURRENT ASSETS/ OTHER NON-CURRENT LIABILITIES

Other non-current assets and other non-current liabilities were as follows:

	As of August 31,	
	2017	2018
	RMB	RMB
Other non-current assets:		
Housing subsidies- non-current*	43,660	—
Deposits	—	1,363
Prepayment for rental- non-current	—	5,933
Total Other non-current assets	<u>43,660</u>	<u>7,296</u>
Other non-current liabilities:		
Housing subsidies- non-current*	59,806	7,817
ADR reimbursement**	—	4,654
Total Other non-current liabilities	<u>59,806</u>	<u>12,471</u>

Note*: The Group provides housing subsidies benefit for eligible employees of GCGS. Eligible employees can be entitled for the housing subsidies if they fulfill the following criteria: 1) who awarded as distinguished teachers in five consecutive years or in seven years accumulated; and 2) who continue to be distinguished teachers in next five consecutive years or in seven accumulated years after they fulfill the first criterion. In June 2018, the Group canceled the future provision of such benefit while the employees who were entitled to the subsidy prior to the cancelation are still eligible to claim the payments.

The future housing subsidies expenses to eligible employees were recognized as assets in prior years, and amortized over the remaining tenure of each eligible employee as agreed in respective housing subsidy agreement. Total unamortized expense was RMB 46,395 as of August 31, 2017. The current portion of the unamortized expense for housing subsidies of RMB 2,735 as of August 31, 2017 was included in other receivables, deposits and other assets (Note 5). The remaining non-current unamortized expense of RMB 43,660 as of August 31 2017 was included in other non-current assets. The remaining housing subsidies expenses to eligible employees was nil as of August 31, 2018.

The Group also has a present obligation as a result of such benefit plan and believes that it is more likely than not that an outflow will be required to settle the obligation. Prior to the change to the benefit in 2018, the Group estimates the expenses and related costs on the basis of the probability of the eligibility of GCGS' employees at 59.9%, the average tenure of 35 years, employees' turnover rate at 10% and reasonable discount rates at 9%. Total non-current liabilities was RMB 59,806 as of August 31, 2017. The Group estimates the expenses and related costs on the basis of the probability of GCGS' entitled employees' claiming for payment rate at 68.3%, taking into consideration of other assumptions including the employees' turnover rate and historical claiming for payment rate. Total non-current liabilities was RMB 7,817 while the current portion of the obligation of RMB 3,006 which the Group estimate the cost would be paid in next year was included in accrued expenses and other current liabilities (Note 13).

Note**: According to the American Depositary Receipts (the "ADR") arrangements, the Group will have the right to receive reimbursements after the closing of IPO as a return for using Depository Bank's services. All the reimbursements are subject to the compliance of the Group on all terms of the contract, including the non-existence of default conditions stipulated in the contracts. The Group performed detailed assessments over such conditions and deemed the potential for these conditions to materialize to be remote as of August 31, 2018. The reimbursements are recognized over the five-year contract term as other income. RMB 399 and RMB 1,590 was recorded in other income for the year ended August 31, 2017 and August 31, 2018, respectively. RMB 4,654 was recorded in other non-current liabilities as of August 31, 2018 while RMB 1,551 was recorded in accrued expenses and other current liabilities as of current portion (Note 13).

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	As of August 31,	
	2017	2018
	RMB	RMB
Payroll and related benefits	137,738	166,240
Temporary receipt from students	97,628	108,209
Deposits received	19,947	21,477
Education subsidies	2,889	4,478
Professional fees payable	—	5,016
Payable related to stock repurchase	—	5,616
ADR reimbursement	—	1,551
Housing subsidies- current	—	3,006
Other taxes payable	2,556	4,806
Others	11,721	15,458
Total	<u>272,479</u>	<u>335,857</u>

14. SHARE CAPITAL

Holder of Class A Ordinary Shares and Class B Ordinary Shares are entitled to the same rights except for voting and conversion rights. In respect of matters requiring a shareholder's vote, each Class A Ordinary Share is entitled to one vote and each Class B Ordinary Share is entitled to 20 votes. Class B Ordinary Shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis.

The Company was incorporated in December 16, 2016. As of the incorporation date, the total issued share capital of the Company is USD 0.0001 consisting of 10 ordinary shares with a par value of USD 0.00001 and total authorized share capital is USD 50 divided into 5,000,000,000 shares. In February 2017, the Company issued additional 99,999,990 shares to exchange 100% equity interest of Impetus. After the Company's share increment, the total outstanding share of the Company was 100,000,000 shares, among that, 72.6%, 20% and 7.4% of its shares are held by Ms. M, Ms. H and Mr. He, the chief executive officer of the Group, respectively, and each shareholder maintain individual ownership interests in the Group prior to the Reorganization.

The Company has completed its share split on April 26, 2017 on a 10-for-1 basis, which resulted in an increase in the number of shares issued and outstanding from 500,000,000 to 5,000,000,000 shares and 10,000,000 to 100,000,000 shares, respectively, after the effect of share split. All references to shares and per share amounts in the accompanying financial statements have been retrospectively restated to reflect the aforementioned share split.

The shares information relating to a total of 92.6% of 100,000,000 Class B ordinary shares (i.e. 92,590,000 shares) issued by the Company to the Yang's Family in exchange for their ownership of the entities that had been under the control of the Yang's Family for the entire period presented, was presented as if the Reorganization occurred at the beginning of the first period presented. The total of 7.4% of 100,000,000 Class B ordinary shares issued by the Company to Mr. He was presented as addition of shares in January 2016 as part of the consideration of the acquisition of Impetus (i.e. 3,844,870 shares) and its compensation for acting as CEO of the Group after the acquisition (i.e. 3,565,130 shares) (see Note 3).

Upon the IPO in May 2017 and exercise of the green shoes options in June 2017, the Company issued 15,000,000 and 2,250,000 Class A ordinary shares, respectively.

The Company completed a follow-on public offering of ADSs priced at US\$19.00 per ADS on March 5, 2018. The Company issued and sold 10,000,000 ADSs, each representing one Class A ordinary share of the Company.

In April 2018, the Board of Directors approved a stock repurchase program (the "2018 Repurchase Program") which authorized the repurchase of up to US\$100,000 of the Company's common stock. Under the 2018 Repurchase Program, shares repurchased under the 2018 Repurchase Program totaled 1,207,465 shares at a cost of US\$16,822, all of which was repurchased during the year ended August 31, 2018. Shares repurchased in September, October, November and December 2018 until the date of the issuance of the financial statements totaled 810,622 shares, 916,678 shares, 171,666 shares, and 223,751 shares, respectively, at a cost of US\$9,604, US\$9,904, US\$1,972, and US\$2,447 respectively. In November 2018, the Board of Directors approved to cancel and retire a total of 3,009,655 of these repurchased shares.

15. REVENUE

The Group provides private kindergarten, primary, middle, high and international school educational services in the PRC. The Group's revenue includes tuition income from education programs, sale of education materials, meal income, boarding income, commission income, study-abroad consulting service income and other education services related revenue. Revenue for the years ended August 31, 2016, 2017 were all generated in the PRC, and for the year ended August 31, 2018 was generated in the PRC, Hong Kong, Canada and United States.

	For the year ended August 31,		
	2016	2017	2018
	RMB	RMB	RMB
Tuition income from kindergartens, primary, middle, high and international schools programs	824,216	1,001,322	1,247,419
Tuition income from training institutes	25,697	71,268	85,098
Sales of education materials	4,039	6,187	6,971
Meal income	126,490	159,257	187,307
Boarding income	44,385	55,286	72,357
Commission income	—	—	50,236
Consulting service income	—	—	18,987
Other revenue	15,771	35,803	53,191
Less: sales tax	269	756	2,695
Total	<u>1,040,329</u>	<u>1,328,367</u>	<u>1,718,871</u>

16. SHARE-BASED COMPENSATION

In January 2016, Yang's Family acquired 100% equity interest in Time Education Group. The Group paid 7.41% interest of the Education Group plus cash consideration to Mr. He for acquiring his 56% interest of Time Education Group and his services for acting as CEO of the Education Group after the acquisition. Hence, the Group determined that the amount in excess of the fair value of 7.41% interest in the Education Group and cash paid to Mr. He over the fair value of 56% interest in Time Education Group is deemed to be share-based compensation so as to attract Mr. He to serve as the CEO of the Education Group. Accordingly, the Group recorded share-based compensation expense of RMB 95,070 for the year ended August 31, 2016 and was included in selling, general and administrative expenses.

Commencing from the completion of acquisition, January 27, 2016, Mr. He is entitled to exercise any shareholder's rights, including but not limited to the right to receive dividend and any voting rights, in respect of his 7.41% interest in the Education Group.

The Group engaged a third party valuation firm to assist them with the valuation of the Education Group and Time Education Group and determined that the fair value as of the acquisition date was RMB 2,025,000 and RMB 108,982, respectively. The Group applied the income approach -discounted cash flow method to estimate the fair value of the Education Group and Time Education Group as of the acquisition date. The major assumptions used in the discount cash flow model are as follows:

	Education Group
Revenue growth rate	3% to 27%
Weight average cost of capital (“WACC”)	18%
Terminal growth rate	3%

	Time Education Group
Revenue growth rate	3% to 269%
Weight average cost of capital (“WACC”)	18%
Terminal growth rate	3%

Share incentive plan

As of December 15, 2017, the Company adopted the Bright Scholar Education Holdings Limited 2017 Share Incentive Plan (the “2017 Plan”), which provide up to an aggregate of 845,000 Class A ordinary shares of the Company as stock-based compensation to school principals and management team members with vesting period varying from 3 to 5 years.

The Company uses the Binomial tree of lattice pricing model to determine the estimated fair value for each option granted below with the assistance of an independent valuation firm. The post-vesting forfeiture rate is estimated by the Group at the range of 0%-15% by different level of principals and management team members.

The assumptions used in determining the fair value of the share options on the grant date were as follows:

<u>Assumptions</u>	<u>2018</u>
Expected dividend yield	0%
Risk-free interest rate	1.84%-2.35%
Expected volatility	42%-51%
Expected life	2 or 10 years
Exercise multiples	2.20-2.80 times
Fair value of underlying ordinary shares (US\$/share)	9.29-12.25

Notes:

- (1) The expected dividend yield was estimated by the Company based on its dividend policy over the expected life of the options.
- (2) The risk-free interest rate was estimated based on the US Government Bond yield with the maturity commensurate with the expected life.
- (3) The expected volatility of the underlying ordinary shares was estimated based on historical volatility of the Company for the period before the valuation date with length commensurate to expected life of the options.
- (4) The expected life was the contractual life of the share options.
- (5) The Company estimated the exercise multiple based on a consideration of various research studies regarding exercise pattern from historical statistical data.
- (6) After the Company’s initial public offering in May 2017, the fair values of ordinary shares were determined based on the closing price in the market.

For the year ended August 31, 2018, the share options movement were as follows:

	Number of share options	Weighted average exercise price US\$	Weighted average remaining contractual years	Weighted average fair value at grant date US\$	Aggregate intrinsic value US\$
As of August 31, 2017	—	—	—		
Granted	845,000	8.74	8.63		
Exercised	—	—	—		
Forfeited	47,896	8.74	8.21		
Outstanding as of August 31, 2018	797,104	8.74	8.66	11.4	2,630,442
Vested and exercisable as of August 31, 2018	63,149	8.74	1.29	9.29	208,391

For the year ended August 31, 2018, the Group recognized share-based payment expenses of RMB 29,061 in connection with the share options granted to employees. The total fair value of share options vested was RMB 3,712.

The total compensation expense is recognized on a straight-line basis over the respective vesting periods. As of August 31, 2018, there was RMB 31,586 unrecognized compensation expense related to un-vested share options granted to executive and employees of the Group. The unvested share options expense relating to the share options of the Group is expected to be recognized over a weighted average vesting period of 3.31 years.

17. INCOME TAX EXPENSE

Income tax expense consist of the following:

	For the year ended August 31,		
	2016 RMB	2017 RMB	2018 RMB
Current income tax expense:			
PRC	13,120	39,995	60,278
Canada	—	—	170
Hong Kong	—	—	243
Deferred income tax expense:			
PRC	4,769	975	6,599
Canada	—	—	92
Total income tax expense:	<u>17,889</u>	<u>40,970</u>	<u>67,382</u>

Cayman Islands

The Company and Impetus are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, the Company and Impetus are not subject to income or capital gains taxes. In addition, dividend payments are not subject to withholdings tax in the Cayman Islands.

United States

Can-achieve Global Education, Inc. (Los Angeles) is located in Los Angeles, United States and is subject to an income tax rate of 21% for taxable income earned in the United States. No provision for United States profits tax has been made in the combined and consolidated financial statements as it has no assessable income from the acquisition date of Can-achieve Group, March 1, 2018, to August 31, 2018.

Canada

Can-Achieve Academy Limited operating in Toronto, Canada and Can-Achieve International Education Limited (Vancouver) operating in Vancouver are subject to income tax rate of 26.5% and 26% respectively according to the province tax rates.

Hong Kong

The provision for current income taxes of the Company's subsidiaries operating in Hong Kong has been calculated by applying the current rate of taxation of 16.5% for the years ended August 31, 2016, 2017 and 2018.

PRC

The subsidiaries and VIEs incorporated in the PRC were generally subject to a corporate income tax rate of 25%.

Effective from January 1, 2008, a new Enterprise Income Tax Law, or ("the New EIT Law"), consolidated the previous income tax laws for foreign invested and domestic invested enterprises in the PRC by the adoption a unified tax rate of 25% for most enterprises with the following exceptions. Changsha Country Garden Venice Bilingual School and Changsha Country Garden Venice Kindergarten were entitled to a five year tax exemptions from year January 1, 2013 to December 31, 2017 as they were determined as non-profit organization according to the Financial Bureau and National Taxation Bureau of Changsha. Zhuhai Bright Scholar is a company registered in Hengqin New Area whose main business, providing outsourcing consulting services, falls within the preferential enterprise income tax ("EIT") catalog of Hengqin New Area in Zhuhai and whose revenue derived from its main business accounts for more than 70% of its total revenue. Zhuhai Bright Scholar was classified as a domestically-owned enterprise in Hengqin New Area, Zhuhai in an encouraged industry sector, and was approved by the PRC tax authorities to enjoy a preferential EIT rate of 15% from January 24, 2017 (date of incorporation). If Zhuhai Bright Scholar continues to meet the relevant requirements, it may be eligible for the preferential EIT rate for the following years until December 31, 2020. Zhengzhou Dahua Education Consulting Co., Ltd was qualified as a "small-scaled minimal profit enterprise" under the EIT Law and was entitled to preferential 50% taxable income with preferential income tax rate of 20% in the period from the acquisition date of Can-achieve Group, March 1, 2018, to August 31, 2018.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Group's deferred tax assets and liabilities were as follows:

	As of August 31,	
	2017	2018
	RMB	RMB
Deferred tax assets:		
Net operating loss carry-forward	37,620	36,293
Less: valuation allowance	12,283	18,164
Total deferred tax assets	25,337	18,129
Deferred tax liabilities:		
Intangible assets	5,294	17,067
Total deferred tax liabilities	5,294	17,067

Movement in valuation allowance is as follows:

	For the year ended August 31,		
	2016	2017	2018
	RMB	RMB	RMB
Beginning balance	17,479	11,250	12,283
Additions from acquisition	—	—	370
Additions	7,510	4,836	8,963
Reversal	(13,666)	(3,257)	(3,395)
Expired	(73)	(546)	(57)
Ending balance	11,250	12,283	18,164

As of August 31, 2016, 2017 and 2018 tax loss carry-forward amounted to RMB 152,768, RMB 150,480 and RMB 143,424, respectively, and would expire by the end of calendar year 2021, 2022 and 2023. The Group operates its business through its subsidiaries, its VIEs, and other affiliated companies under common control with BGY Education Investment. The Group does not file consolidated tax returns, therefore, losses from individual subsidiaries or the VIEs and other affiliated companies under common control with BGY Education Investment may not be used to offset other subsidiaries' or VIEs' earnings within the Group. Valuation allowance is considered on each individual subsidiary and VIE basis. A valuation allowance of RMB 11,250, RMB 12,283 and RMB 18,164 had been established as of August 31, 2016, 2017 and 2018, respectively, in respect of certain deferred tax assets as it is considered more likely than not that the relevant deferred tax assets will not be realized in the foreseeable future.

A deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amounts, including those differences attributable to a more than 50% interest in a domestic subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Company has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in VIEs because it believes such excess earnings can be distributed in a manner that considered to be indefinitely reinvested and thus would not be subject to income tax.

The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group has concluded that there are no significant uncertain tax positions requiring recognition in combine and consolidated financial statements for the years ended August 31, 2016, 2017, and 2018. The Group did not incur any interest and penalties related to potential underpaid income tax expenses and also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next 12 months. The Group has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods.

According to PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or withholding agent. The statute of limitations will be extended five years under special circumstances, which are not clearly defined (but an underpayment of tax liability exceeding RMB0.1 million is specifically listed as a special circumstance). In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. From inception to 2018, the Group is subject to examination of the PRC tax authorities.

Reconciliation between the provision for income taxes computed by applying the PRC EIT rates of 25% in calendar year 2016, 2017 and 2018 to income before income taxes and the actual provision for income tax were as follows:

	For the year ended August 31,		
	2016 RMB	2017 RMB	2018 RMB
Net income before provision for income tax	20,805	232,779	316,325
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	5,201	58,195	79,081
Effect of expenses that are not deductible in determining taxable profit	23,927	265	8,238
Unrecognized tax losses	7,510	4,836	8,963
Utilization of tax losses previously not recognized	(13,666)	(3,257)	(3,395)
Expiration of tax losses previously recognized	—	898	—
Effect of income tax exemptions	(4,831)	(19,967)	(25,497)
Others	(252)	—	(8)
Income tax expense recognized in profit or loss	<u>17,889</u>	<u>40,970</u>	<u>67,382</u>

If the tax holidays granted to certain schools and entities of the Group were not available, the Group's income tax expense would have increased by RMB 4,831, RMB 19,967 and RMB 25,497 for the years ended August 31, 2016, 2017 and 2018, respectively. The basic net (loss)/earnings per share attributable to the Company would (increase)/decrease by RMB 0.05, RMB 0.19 and RMB 0.21 for the years ended August 31, 2016, 2017 and 2018, respectively.

18. EARNINGS PER SHARE

For the purpose of calculating earnings per share as a result of the Reorganization as described in Note 1 and the share split as described in Note 14, the number of ordinary shares used in the calculation reflects the outstanding ordinary shares of the Company as if the Reorganization and the share split took place on September 1, 2015:

	For the year ended August 31,		
	2016 RMB	2017 RMB	2018 RMB
Numerator used in basic and diluted earnings per share:			
Net (loss) earnings attributable to Bright Scholar Education Holdings Limited	(36,374)	172,050	246,969
Earnings available for future distribution	<u>(36,374)</u>	<u>172,050</u>	<u>246,969</u>
Shares (denominator):			
Weighted average common shares outstanding used in computing basic earnings per share	<u>96,983,360</u>	<u>104,839,041</u>	<u>122,088,201</u>
Weighted average common shares outstanding used in computing diluted earnings per share	<u>96,983,360</u>	<u>104,839,041</u>	<u>122,186,796</u>
Net (loss) earnings per share			
Basic	(0.38)	1.64	2.02
Diluted	<u>(0.38)</u>	<u>1.64</u>	<u>2.02</u>

As of August 31, 2016, 2017 and 2018, there are nil, nil and 361,307 employee stock options or non-vested ordinary shares which could potentially dilute basic net earnings per share in the future, but which were excluded from the computation of diluted net earnings per share in the periods presented, as their effects would have been anti-dilutive.

19. RELATED PARTY TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group:

Name of related parties	Relationship with the group
Foshan Shunde Country Garden Property Development Co., Ltd.	Entities controlled by chairman of the Group
Zengcheng Crystal Water Plant Co., Ltd.	Entities controlled by chairman of the Group
Guangzhou Country Garden Shuttle Bus Services Limited	Entities controlled by chairman of the Group
Zhaoqing Country Garden Furniture Co., Ltd.	Entities controlled by chairman of the Group
Zhaoqing Contemporary Zhumei Furnishing Co., Ltd.	Entities controlled by chairman of the Group
Guangdong Shunde Chuang Xi Bang Sheng Furniture Co., Ltd.	Entities controlled by chairman of the Group
Guangdong Giant Leap Construction Co., Ltd.	Entities controlled by chairman of the Group
Guangyuan Country Garden Investment Co., Ltd.	Entities controlled by chairman of the Group
Huidong Country Garden Real Estate Development Co., Ltd.	Entities controlled by chairman of the Group
Kaiping Country Garden Property Development Co., Ltd.	Entities controlled by chairman of the Group
Changsha Ningxiang Country Garden Property Development Co., Ltd.	Entities controlled by chairman of the Group
Guangdong Country Garden Vocational Education School	Entities controlled by chairman of the Group
Can-Achieve Global Edutour Co., Ltd.	Entities controlled by non-controlling interest shareholder
Zengcheng Country Garden Property Development Co., Ltd.	Entities controlled by chairman of the Group
Szeto Kwok Kin, Daniel	Non-controlling interest shareholder
Guangdong Teng An Mechanics and Electrics Engineering Co., Ltd.	Entities controlled by chairman of the Group
Foshan Shunde Bi Ri Security Engineering Co., Ltd.	Entities controlled by chairman of the Group
New Learning Management Co., Ltd.	Non-controlling interest shareholder
Laian Country Garden Property Development Co., Ltd.	Entities controlled by chairman of the Group
Chuzhou Country Garden Property Development Co., Ltd.	Entities controlled by chairman of the Group
Baoding Baigou New Town Honghua Eaton Commerce Co., Ltd.	Non-controlling interest shareholder
Wuhan Country Garden Property Management Co., Ltd.	Entities controlled by chairman of the Group
Guangdong Phoenix Holiday International Travel Service Co., Ltd.	Entities controlled by chairman of the Group

The Group entered into the following transactions with its related parties:

	For the year ended August 31,		
	2016	2017	2018
	RMB	RMB	RMB
Purchases of services and materials provided by other entities controlled by Ms. H are as below			
Foshan Shunde Country Garden Property Development Co., Ltd.	—	—	1,532
Zengcheng Crystal Water Plant Co., Ltd.	722	951	1,296
Guangzhou Country Garden Shuttle Bus Services Limited	3,213	1,232	760
Zhaoqing Country Garden Furniture Co., Ltd.	2,222	—	—
Zhaoqing Contemporary Zhumei Furnishing Co., Ltd.	1,702	152	—
Guangdong Shunde Chuang Xi Bang Sheng Furniture Co., Ltd.	—	1,186	2,069
Guangdong Phoenix Holiday International Travel Service Co., Ltd.	47	67	2,446
Huidong Country Garden Real Estate Development Co., Ltd.	—	—	814
Others	1,147	97	2,200
Total	9,053	3,685	11,117

	For the year ended August 31,		
	2016	2017	2018
	RMB	RMB	RMB
Construction services provided by other entities controlled by Ms. H are as below			
Guangdong Giant Leap Construction Co., Ltd.	21,222	20	5,728
Guangyuan Country Garden Investment Co., Ltd.	—	12,000	—
Total	<u>21,222</u>	<u>12,020</u>	<u>5,728</u>

	For the year ended August 31,		
	2016	2017	2018
	RMB	RMB	RMB
Services provided to other entities controlled by Ms. H are as below			
Huidong Country Garden Real Estate Development Co., Ltd.	—	1,851	3,445
Kaiping Country Garden Property Development Co., Ltd.	—	1,500	1,500
Changsha Ningxiang Country Garden Property Development Co., Ltd.	—	—	2,186
Others	—	1,278	37
Total	<u>—</u>	<u>4,629</u>	<u>7,168</u>

The following table presents amounts owed from and to related parties as of August 31, 2017 and 2018:

	As of August 31,	
	2017	2018
	RMB	RMB
Amounts due from related parties		
Guangdong Country Garden Vocational Education School (1)	14	25
Guangdong Giant Leap Construction Co., Ltd. (1)	5,026	—
Foshan Shunde Country Garden Property Development Co., Ltd. (1)	—	4,172
Guangdong Shunde Chuang Xi Bang Sheng Furniture Co., Ltd. (1)	321	735
Huidong Country Garden Real Estate Development Co., Ltd. (2)	1,809	3,445
Changsha Ningxiang Country Garden Property Development Co., Ltd. (2)	208	2,186
Kaiping Country Garden Property Development Co., Ltd. (6)	—	1,590
Zengcheng Country Garden Property Development Co., Ltd. (5)	—	948
Szeto Kwok Kin, Daniel (3)	—	999
Can-Achieve Global Edutour Co., Ltd. (4)	—	2,505
Others (1)	562	1,355
Total	<u>7,940</u>	<u>17,960</u>

Amounts due from related parties are non-interest bearing, unsecured, and due on demand.

- (1) The amounts mainly represent the advance payment for purchasing services and materials or construction services provided by the entities controlled by Ms.H.
- (2) The amounts mainly represent the receivables of the enrolment tuition discount to the owners of properties with the other real-state subsidiaries controlled by Ms.H.
- (3) The amounts mainly represent an other receivable due from a non-controlling interest shareholder acquired through the acquisition of FGE Group.
- (4) The amounts mainly represent an other receivable due from Can-Achieve Global Edutour Co., Ltd. acquired through the acquisition of Can-achieve Group.
- (5) The amounts due from related parties represent expenses paid on behalf of entities controlled by Ms.H.
- (6) The amounts mainly represent the receivables of providing consulting services on pre-opening schools to Kaiping Country Garden.

	As of August 31,	
	2017	2018
	RMB	RMB
Amounts due to related parties		
Guangzhou Country Garden Shuttle Bus Services Limited (1)	255	4
Laian Country Garden Property Development Co., Ltd.(2)	11,550	11,550
Changsha Ningxiang Country Garden Property Development Co., Ltd. (2)	8,732	8,732
Chuzhou Country Garden Property Development Co., Ltd. (2)	12,000	12,000
Wuhan Country Garden Property Management Co., Ltd. (2)	3,154	3,154
Guangdong Teng An Mechanics and Electrics Engineering Co., Ltd. (3)	8,013	5,781
Guangdong Giant Leap Construction Co., Ltd. (3)	20,701	17,058
Foshan Shunde Bi Ri Security Engineering Co., Ltd. (3)	228	228
Guangyuan Country Garden Investment Co., Ltd. (3)	6,000	1,200
Baoding Baigou New Town Honghua Eaton Commerce Co., Ltd. (4)	—	3,000
New Learning Management Co., Ltd. (5)	—	89,469
Others	5,800	5,119
Total	<u>76,433</u>	<u>157,295</u>

Amounts due to related parties are non-interest bearing, unsecured, and due on demand.

- (1) The amounts represent the purchase of shuttle bus service fees payable to Guangzhou Country Garden Shuttle Bus Services Limited.
- (2) The amounts mainly represent financing funds for maintaining daily operation of schools held by affiliated entities under common control from other entities controlled by Ms. H, Chairman of the Group.
- (3) The amounts mainly represent construction services provided by other entities controlled by Ms. H, Chairman of the Group.
- (4) The amounts represent the financing funds for maintaining daily operation from Baoding BaiGou, the non-controlling interest shareholder.
- (5) The amounts represent the acquisition payables for the acquisition of Xinqiao Group to New Learning Management Co., Ltd., the non-controlling interest shareholder.

The Group utilizes facilities and equipment provided by other real-estate subsidiaries controlled by Ms. H. In return, the Group gives enrolment priorities to the owners of properties with these affiliated companies when providing its educational services.

20. COMMITMENTS AND CONTINGENCIES

Lease obligations

The Group leases certain school and office premises under non-cancelable operating leases. The term of each lease agreement vary and may contain renewal options. Rental payments under operating leases are charged to expense on the straight-line basis over the period of the lease. Rental expenses under operating leases for the years ended August 31, 2016, 2017 and 2018 were RMB 15,181, RMB 20,195 and RMB 28,134, respectively.

Future rental commitments under non-cancelable operating leases as of August 31, 2018 were as follows:

	RMB
Year ending August 31:	
2019	38,990
2020	31,809
2021	21,650
2022	17,020
2023	13,605
Thereafter	132,415
	<u>255,489</u>

Capital commitment

As of August 31, 2018, future minimum capital commitments under non-cancelable construction contracts were as follows:

Capital commitment for construction of schools	<u>RMB</u> <u>53,202</u>
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21. NON-CONTROLLING INTERESTS

The following table summarizes the changes in non-controlling interests from August 31, 2015 through August 31, 2018.

	<u>GCGS</u> <u>RMB</u>	<u>HCGS</u> <u>RMB</u>	<u>PCBS</u> <u>RMB</u>	<u>CGBS</u> <u>RMB</u>	<u>Can-achieve</u> <u>RMB</u>	<u>Xinqiao</u> <u>RMB</u>	<u>Others</u> <u>RMB</u>	<u>Total</u> <u>RMB</u>
Balance at August 31, 2015	(12,796)	(6,707)	4,061	12,638	—	—	8,346	5,542
Income attributable to non-controlling interests	12,467	2,538	4,322	4,443	—	—	15,520	39,290
Balance at August 31, 2016	(329)	(4,169)	8,383	17,081	—	—	23,866	44,832
Capital injection from non-controlling interest shareholders	—	—	—	—	—	—	3,600	3,600
Income attributable to non-controlling interests	9,638	1,613	2,249	100	—	—	6,159	19,759
Acquisition of additional interest in subsidiaries of non-controlling interests*	(9,309)	2,556	(10,632)	(17,181)	—	—	(30,300)	(64,866)
Balance at August 31, 2017	—	—	—	—	—	—	3,325	3,325
Income/(Loss) attributable to non-controlling interests	—	—	—	—	2,338	1,276	(1,680)	1,934
Acquisition of subsidiaries	—	—	—	—	113,288	38,156	15,274	166,718
Disposal of a subsidiary**	—	—	—	—	—	—	(1,953)	(1,953)
Balance at August 31, 2018	—	—	—	—	115,626	39,432	14,966	170,024

Note*: During the year ended August 31, 2017, the Company acquired additional interests in certain subsidiaries of non-controlling interests with total consideration of RMB 15,712, the total amount of the non-controlling interests was RMB64,866 as of the acquisition dates and the difference was charged to additional paid in capital accordingly.

Note**: During the year ended August 31, 2018, the Company disposed interest in a subsidiary with a total consideration of RMB 7,000, and the carrying amount of the non-controlling interests of the disposed subsidiary as of the disposal date was RMB 1,953.

22. SEGMENT INFORMATION

The Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer who reviews financial information of operating segments based on US GAAP amounts when making decisions about allocating resources and assessing the performance of the Group.

The Group identified four operating segments, including International Schools, Bilingual Schools, Kindergartens and Complementary Education Service. All these four operating segments are identified as reportable segments.

The Group primarily operates in the PRC and most of the Group's long-lived assets are located in the PRC.

The Group's CODM evaluates performance based on the operating segment's revenue and their operating results. The revenue and operating results by segments were as follows:

For the year ended August 31, 2016

	International	Bilingual		Complementary	Combined and Consolidated
	Schools	Schools	Kindergartens	Education Service	Consolidated
	RMB	RMB	RMB	RMB	RMB
Revenue	423,122	328,678	252,013	36,516	1,040,329
Costs of revenue	(312,527)	(228,889)	(168,157)	(26,632)	(736,205)
Gross profit	<u>110,595</u>	<u>99,789</u>	<u>83,856</u>	<u>9,884</u>	<u>304,124</u>

For the year ended August 31, 2017

	International	Bilingual		Complementary	Combined and Consolidated
	Schools	Schools	Kindergartens	Education Service	Consolidated
	RMB	RMB	RMB	RMB	RMB
Revenue	505,595	413,404	312,008	97,360	1,328,367
Costs of revenue	(360,044)	(262,283)	(178,758)	(59,245)	(860,330)
Gross profit	<u>145,551</u>	<u>151,121</u>	<u>133,250</u>	<u>38,115</u>	<u>468,037</u>

For the year ended August 31, 2018

	International	Bilingual		Complementary	Combined and Consolidated
	Schools	Schools	Kindergartens	Education Service	Consolidated
	RMB	RMB	RMB	RMB	RMB
Revenue	589,599	534,008	399,249	196,015	1,718,871
Costs of revenue	(373,391)	(346,868)	(223,397)	(146,939)	(1,090,595)
Gross profit	<u>216,208</u>	<u>187,140</u>	<u>175,852</u>	<u>49,076</u>	<u>628,276</u>

The Group's CODM does not review the financial position by operating segments, thus no total assets of each operating segment presented.

23. CONTRIBUTION PLAN

In mainland China, full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. Total contributions for such employee benefits were RMB 73,934, RMB 99,013, and RMB 118,864 for the years ended August 31, 2016, 2017 and 2018, respectively.

The Company also makes payments to other defined contribution plans for the benefit of employees employed by subsidiaries outside of the PRC. Amounts contributed during the years ended March 31, 2016, 2017 and 2018 were insignificant.

24. STATUTORY RESERVES AND RESTRICTED NET ASSETS

As stipulated by the relevant PRC laws and regulations applicable to the Group's entities in the PRC, the Group is required to make appropriations from net income as determined in accordance with the PRC GAAP to non-distributable reserves, which include a statutory surplus reserve and a statutory welfare reserve. The PRC laws and regulations require that annual appropriations of 10% of after-tax income should be set aside prior to payments of dividends as reserve fund, and in private school sector, the PRC laws and regulations require that annual appropriations of 25% of after-tax income should be set aside prior to payments of dividend as development fund. The appropriations to statutory surplus reserve are required until the balance reaches 50% of the PRC entity registered capital.

The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production or increase in registered capital of the entities. For the years ended August 31, 2016, 2017, and 2018, the Group made apportionments of nil, nil and nil to the statutory surplus reserve fund, respectively, and RMB 23,793, RMB 17,132 and RMB nil to the development fund, respectively.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital, additional paid-in capital and the statutory reserves of the Company's PRC subsidiaries and VIEs. As of August 31, 2017, paid in capital, additional paid in capital, and statutory reserves were RMB 2,000, RMB 1,401,615 and BMB 64,945 respectively. As of August 31, 2018, paid in capital, additional paid in capital, and statutory reserves were RMB 2,000, RMB 2,467,824 and BMB 64,945 respectively. As of August 31, 2017, and 2018, the total of restricted net assets was therefore RMB 425,024, and RMB 963,391, respectively.

25. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

For the purpose of the combined and consolidated statement of cash flows, cash and cash equivalents, and restricted cash included cash on hand and in banks and restricted cash. Cash and cash equivalents, and restricted cash at the end of reporting year end as shown in the combined and consolidated statements of cash flows can be reconciled to the related items in the consolidated balance sheets as follow:

	As of August 31,		
	2016	2017	2018
	RMB	RMB	RMB
Cash and cash equivalents	356,018	1,883,000	3,153,852
Restricted cash	6,433	13,662	10,229
Total	362,451	1,896,662	3,164,081

26. EQUITY METHOD INVESTMENTS

The Group has a number of investments in joint ventures and other investments where its voting interests are in excess of 20 percent but not greater than 50 percent and for which there are no other indicators of control. Equity method investments as of August 31, 2017 and 2018 were as follows:

	As of August 31,	
	2017	2018
	RMB	RMB
BOTO Academic English Co., Ltd. ("BOTO")	—	1,504
Beijing Cloud Apply Co., Ltd ("BCAO")	—	541
Sanli Foundation Educaiton Limited ("Sanli")	—	268
Total	—	2,313

As of August 31, 2018, the equity method investments represent (i) 30% equity interest in BOTO through the acquisition of Can-achieve group and (ii) 46% equity interests in BCAO through the acquisition of Can-achieve group and (iii) 50% equity interest in Sanli through the acquisition of FGE group.

27. SUBSEQUENT EVENTS

Acquisition

In December, 2018, the Company completed the acquisition of Chengdu Yinzhe Education and Technology Co., Ltd. ("Yinzhe"), for an aggregate purchase price of RMB 202,500. Yinzhe is primarily engaged in offering online career and education mentoring services to overseas Chinese students. The preliminary purchase price allocation has not been determined as of the issuance of the financial statements.

In December, 2018, the Company completed the acquisition of Bournemouth Collegiate School ("BCS"), for an aggregate purchase price of GBP 10,000 (approximately RMB 88,854). BCS is a co-educational independent day and boarding school based on two sites in Poole and Bournemouth. The preliminary purchase price allocation has not been determined as of the issuance of the financial statements.

In October 2018, the Company also entered into an agreement to acquire an 85% equity interest in a company managing a chain of eight kindergartens in Shandong province for a total consideration of RMB 70,500. The transaction has not been completed as of the issuance of the financial statements.

Others

In September 2018, the Company entered into a partnership agreement with third-parties to establish an investment fund under which the Company agreed to invest a total of RMB 999,800 in promoting the establishment and operations of K12 education centers, bilingual schools and international schools. As of the issuance of financial statements, the Company have invested approximately RMB 100,000 pursuant to the partnership agreement.

SCHEDULE 1-CONDENSED FINANCIAL STATEMENT OF BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED

BALANCE SHEET
(Amounts in thousands)

	<u>As of August 31,</u> <u>2017</u>	<u>As of August 31,</u> <u>2018</u>	
	<u>RMB</u>	<u>RMB</u>	<u>USD</u>
ASSETS			
Current assets			
Cash and cash equivalents	1,094,979	1,702,804	249,312
Amounts due from related parties	14,735	393,123	57,558
Other receivables, deposits and other assets	399	2,530	371
Total current assets	<u>1,110,113</u>	<u>2,098,457</u>	<u>307,241</u>
Total non-current assets			
Investment in subsidiaries	307,045	550,348	80,578
Long-term investments	—	204,968	30,010
Total non-current assets	<u>307,045</u>	<u>755,316</u>	<u>110,588</u>
TOTAL ASSETS	<u>1,417,158</u>	<u>2,853,773</u>	<u>417,829</u>
LIABILITIES AND EQUITY			
Current liabilities			
Accrued expenses and other current liabilities	1,025	7,544	1,105
Non-current liabilities			
Other non-current liabilities	—	4,654	681
TOTAL LIABILITIES	<u>1,025</u>	<u>12,198</u>	<u>1,786</u>
EQUITY			
Share capital	7	9	1
Additional paid-in capital	1,403,608	2,469,815	361,613
Accumulated other comprehensive (loss) income	(36,494)	75,770	11,094
Retained earnings	49,012	295,981	43,335
Total equity	<u>1,416,133</u>	<u>2,841,575</u>	<u>416,043</u>
TOTAL LIABILITIES AND EQUITY	<u>1,417,158</u>	<u>2,853,773</u>	<u>417,829</u>

SCHEDULE 1-CONDENSED FINANCIAL STATEMENT OF BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED AUGUST 31, 2018
(Amounts in thousands)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	
	RMB	RMB	RMB	USD
Other operating income	—	399	1,590	233
Selling, general and administrative expenses	—	(6,734)	(34,753)	(5,088)
Interest income, net	—	1,822	21,200	3,103
Equity in earnings of subsidiaries	(36,374)	176,563	258,932	37,911
Net (loss) income	<u>(36,374)</u>	<u>172,050</u>	<u>246,969</u>	<u>36,159</u>
Other comprehensive (loss) income	—	(36,494)	112,264	16,436
Comprehensive (loss) income	<u>(36,374)</u>	<u>135,556</u>	<u>359,233</u>	<u>52,595</u>

SCHEDULE 1-CONDENSED FINANCIAL STATEMENT OF BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands, except for share data)

	Share capital		Additional	Accumulated	Accumulated	Total equity
	Number of Shares	RMB	paid-in capital RMB	(deficit) RMB	other comprehensive income RMB	RMB
Balance at August 31, 2015	92,590,000	7	42,160	(86,664)	—	(44,497)
Acquisition of subsidiaries	3,844,870	—	102,530	—	—	102,530
Share-based compensation	3,565,130	—	95,070	—	—	95,070
Equity interests in subsidiaries and VIEs	—	—	—	(36,374)	—	(36,374)
Balance at August 31, 2016	100,000,000	7	239,760	(123,038)	—	116,729
Net (loss) income for the year	—	—	—	172,050	—	172,050
Acquisition of additional interest in subsidiaries of non-controlling interests	—	—	49,154	—	—	49,154
Distribution to owners under group Reorganization	—	—	(32,167)	—	—	(32,167)
Foreign currency translation	—	—	—	—	(36,494)	(36,494)
Issuance of ordinary shares upon IPO, net of offering cost	17,250,000	—	1,146,861	—	—	1,146,861
Balance at August 31, 2017	117,250,000	7	1,403,608	49,012	(36,494)	1,416,133
Net income for the year	—	—	—	246,969	—	246,969
Repurchase of ordinary shares*	—	—	(114,554)	—	—	(114,554)
Issuance of ordinary shares upon follow on offering, net of offering cost	10,000,000	2	1,151,700	—	—	1,151,702
Foreign currency translation	—	—	—	—	112,264	112,264
Share-based compensation	—	—	29,061	—	—	29,061
Balance at August 31, 2018 in RMB	127,250,000	9	2,469,815	295,981	75,770	2,841,575
Balance at August 31, 2018 in USD	127,250,000	1	361,613	43,335	11,094	416,043

Note*: Treasury stock represent ordinary shares repurchased by the Group that are no longer outstanding and are held by the Group. The repurchase of ordinary shares is accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. During the years ended December 31, 2016, 2017 and 2018, the Group repurchased a total of nil, nil and 1,207,465 shares from the market for a cash consideration of nil, nil and RMB 114,554.

SCHEDULE 1-CONDENSED FINANCIAL STATEMENT OF BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED
STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	
	RMB	RMB	RMB	USD
<i>Cash flows from operating activities</i>				
Net (loss) income for the year	(36,374)	172,050	246,969	36,159
Share-based compensation	—	—	29,061	4,255
Investment income	—	—	—	—
Adjustments to reconcile net cash flows from operating activities:				
Equity in earnings of subsidiaries and VIEs	36,374	(176,563)	(258,932)	(37,911)
Other receivables, deposits and other assets	—	(399)	(2,131)	(312)
Accrued expenses and other current liabilities	—	—	903	132
Other non-current assets and liabilities	—	—	4,654	681
Amounts due from related parties	—	(14,727)	(378,388)	(55,401)
Net cash used in operating activities	<u>—</u>	<u>(19,639)</u>	<u>(357,864)</u>	<u>(52,397)</u>
<i>Cash flows from investing activities</i>				
Purchase of long-term investments	—	—	(190,920)	(27,953)
Net cash used in investing activities	<u>—</u>	<u>—</u>	<u>(190,920)</u>	<u>(27,953)</u>
<i>Cash flows from financing activities</i>				
Proceeds from initial public offering	—	1,151,112	—	—
Proceeds from follow-on offering	—	—	1,151,702	168,624
Repurchase of ordinary shares	—	—	(108,938)	(15,950)
Net cash provided by financing activities	<u>—</u>	<u>1,151,112</u>	<u>1,042,764</u>	<u>152,674</u>
Net change in cash and cash equivalents	<u>—</u>	<u>1,131,473</u>	<u>493,980</u>	<u>72,324</u>
Cash and cash equivalents at beginning of the year	—	—	1,094,979	160,319
Effect of exchange rate changes on cash and cash equivalents	—	(36,494)	113,845	16,669
Cash and cash equivalents at end of the year	<u>—</u>	<u>1,094,979</u>	<u>1,702,804</u>	<u>249,312</u>

Note to Schedule 1
(In thousands)

Schedule 1 has been provided pursuant to the requirements of Rule 12-04(a), 5-04(c) and 4-08(e)(3) of Regulation S-X, which require condensed financial statements as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of the consolidated and unconsolidated subsidiaries (including variable interest entities) together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. As of August 31, 2018, RMB 963,391 of the restricted capital and reserves are not available for distribution, and as such, the condensed financial statements of the Company have been presented for the years ended August 31, 2016, 2017 and 2018.

Basis of preparation

The condensed financial statements of the Company has been prepared using the same accounting policies as set out in its financial statements, except that the Company has used the equity method to account for its subsidiaries, other affiliated entities and its variable interest entities under common control with the Company. Accordingly, the condensed financial information presented herein represents the financial information of the Company.

Detailed footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote discloses certain supplemental information relating to the operations of the Company and, as such, the condensed financial statements of the Company should be read in conjunction with the notes to the accompanying financial statements of the Group.

Rights and Obligations Assumption Letter

This entity, Wuhan East Lake High-tech Development Zone Xinqiao-Jinxiu Longcheng Kindergarten, is the subsidiary established by Wuhan Qiaosheng Education Investment Co., Ltd., which is controlled by BGY Education Investment Management Co., Ltd. (“Investor”) and registered in Wuhan City at the East Lake High-tech Development Zone branch office of the Ministry of Civil Affairs on April 20, 2009. The Investor holds 75% of the interests in this entity.

In accordance with the Exclusive Management Service and Business Cooperation Agreement (“Agreement”) entered into by and between Investor, Zhuhai Hengqin Bright Scholar Management Consulting Co., Ltd. and other relevant parties on January 25, 2017, this entity shall join the Agreement according to Article 10.1 of the Agreement as a “New Subsidiary of Party B” under the Agreement.

This entity hereby agrees to join the Agreement as a new Subsidiary of Party B of the Investor, enjoy the rights under the Agreement, and perform the obligations according to the Agreement. This Assumption Letter came into effect upon the date of execution.

Wuhan East Lake High-tech Development Zone Xinqiao-Jinxiu Longcheng Kindergarten

(Seal) Wuhan East Lake High-tech Development Zone Xinqiao-Jinxiu Longcheng Kindergarten Affixed

By: /s/ Li Qiao
Name: Li Qiao
Title: Legal Representative
Date: October 22, 2018

Rights and Obligations Assumption Letter

This entity, Wuhan East Lake High-tech Development Zone Xinqiao Kindergarten, is the subsidiary established by Wuhan Qiaosheng Education Investment Co., Ltd., which is controlled by BGY Education Investment Management Co., Ltd. (“**Investor**”) and registered in Wuhan City at the East Lake High-tech Development Zone branch office of the Ministry of Civil Affairs on October 31, 2008. The Investor holds 75% of the interests in this entity.

In accordance with the Exclusive Management Service and Business Cooperation Agreement (“**Agreement**”) entered into by and between Investor, Zhuhai Hengqin Bright Scholar Management Consulting Co., Ltd. and other relevant parties on January 25, 2017, this entity shall join the Agreement according to Article 10.1 of the Agreement as a “New Subsidiary of Party B” under the Agreement.

This entity hereby agrees to join the Agreement as a new Subsidiary of Party B of the Investor, enjoy the rights under the Agreement, and perform the obligations according to the Agreement. This Assumption Letter came into effect upon the date of execution.

Wuhan East Lake High-tech Development Zone Xinqiao Kindergarten

(Seal) Wuhan East Lake High-tech Development Zone Xinqiao Kindergarten Affixed

By: /s/ Li Qiao
Name: Li Qiao
Title: Legal Representative
Date: October 22, 2018

Rights and Obligations Assumption Letter

This entity, Wuhan Dongxihu District Dongqiao Kindergarten, is the subsidiary established by Wuhan Qiaosheng Education Investment Co., Ltd., which is controlled by BGY Education Investment Management Co., Ltd. (“**Investor**”) and registered in Wuhan City at the Dongxihu District branch office of the Ministry of Civil Affairs on November 10, 2008. The Investor holds 75% of the interests in this entity.

In accordance with the Exclusive Management Service and Business Cooperation Agreement (“**Agreement**”) entered into by and between Investor, Zhuhai Hengqin Bright Scholar Management Consulting Co., Ltd. and other relevant parties on January 25, 2017, this entity shall join the Agreement according to Article 10.1 of the Agreement as a “New Subsidiary of Party B” under the Agreement.

This entity hereby agrees to join the Agreement as a new Subsidiary of Party B of the Investor, enjoy the rights under the Agreement, and perform the obligations according to the Agreement. This Assumption Letter came into effect upon the date of execution.

Wuhan Dongxihu District Dongqiao Kindergarten

(Seal) Wuhan Dongxihu District Dongqiao Kindergarten Affixed

By: /s/ Li Qiao
Name: Li Qiao
Title: Legal Representative
Date: October 22, 2018

Rights and Obligations Assumption Letter

This entity, Wuhan Hongshan District Xinqiao Aijia Kindergarten, is the subsidiary established by Wuhan Qiaosheng Education Investment Co., Ltd., which is controlled by BGY Education Investment Management Co., Ltd. (“**Investor**”) and registered in Wuhan City at the Hongshan District branch office of the Ministry of Civil Affairs on January 11, 2012. The Investor holds 75% of the interests in this entity.

In accordance with the Exclusive Management Service and Business Cooperation Agreement (“**Agreement**”) entered into by and between Investor, Zhuhai Hengqin Bright Scholar Management Consulting Co., Ltd. and other relevant parties on January 25, 2017, this entity shall join the Agreement according to Article 10.1 of the Agreement as a “New Subsidiary of Party B” under the Agreement.

This entity hereby agrees to join the Agreement as a new Subsidiary of Party B of the Investor, enjoy the rights under the Agreement, and perform the obligations according to the Agreement. This Assumption Letter came into effect upon the date of execution.

Wuhan Hongshan District Xinqiao Aijia Kindergarten

(Seal) Wuhan Hongshan District Xinqiao Aijia Kindergarten Affixed

By: /s/ Li Qiao
Name: Li Qiao
Title: Legal Representative
Date: October 22, 2018

Rights and Obligations Assumption Letter

This entity, Wuhan Qingshan District Xinqiao Bilingual Kindergarten, is the subsidiary established by Wuhan Qiaosheng Education Investment Co., Ltd., which is controlled by BGY Education Investment Management Co., Ltd. (“**Investor**”) and registered in Wuhan City at the Qingshan District branch office of the Ministry of Civil Affairs on January 18, 2007. The Investor holds 75% of the interests in this entity.

In accordance with the Exclusive Management Service and Business Cooperation Agreement (“**Agreement**”) entered into by and between Investor, Zhuhai Hengqin Bright Scholar Management Consulting Co., Ltd. and other relevant parties on January 25, 2017, this entity shall join the Agreement according to Article 10.1 of the Agreement as a “New Subsidiary of Party B” under the Agreement.

This entity hereby agrees to join the Agreement as a new Subsidiary of Party B of the Investor, enjoy the rights under the Agreement, and perform the obligations according to the Agreement. This Assumption Letter came into effect upon the date of execution.

Wuhan Qingshan District Xinqiao Bilingual Kindergarten

(Seal) Wuhan Qingshan District Xinqiao Bilingual Kindergarten Affixed

By: /s/ Li Qiao
Name: Li Qiao
Title: Legal Representative
Date: October 22, 2018

Rights and Obligations Assumption Letter

This entity, Wuhan Qiaosheng Education Investment Co., Ltd., is the subsidiary established by BGY Education Investment Management Co., Ltd. (“Investor”) and registered in Wuhan City at Jiangnan Administration on July 21, 2017. The Investor holds 75% of the interests in this entity.

In accordance with the Exclusive Management Service and Business Cooperation Agreement (“Agreement”) entered into by and between Investor, Zhuhai Hengqin Bright Scholar Management Consulting Co., Ltd. and other relevant parties on January 25, 2017, this entity shall join the Agreement according to Article 10.1 of the Agreement as a “New Subsidiary of Party B” under the Agreement.

This entity hereby agrees to join the Agreement as a new Subsidiary of Party B of the Investor, enjoy the rights under the Agreement, and perform the obligations according to the Agreement. This Assumption Letter came into effect upon the date of execution.

Wuhan Qiaosheng Education Investment Co., Ltd.

(Seal) Wuhan Qiaosheng Education Investment Co., Ltd. Affixed

By: /s/ Xiaohua He
Name: Xiaohua He
Title: Legal Representative
Date: October 23, 2018

BUSINESS AND ASSET SALE AND PURCHASE AGREEMENT

United Church Schools Foundation Ltd

United Church Schools Trust (**Vendors**)

and

Bright Scholar (BCS) Property Limited

Bright Scholar (BCS) Management Limited (**Purchasers**)

and

Bright Scholar Education Holdings Limited (**Guarantor**)

**In relation to the Sale and Purchase of the
Business and Assets of Bournemouth
Collegiate School**

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THIS AGREEMENT is made on 1 October 2018

BETWEEN

- (1) **UNITED CHURCH SCHOOLS TRUST**, a company limited by guarantee incorporated in England and Wales with company number [***] whose registered office is at Worldwide House, Thorpe Wood, Peterborough, England, PE3 6SB (“**Trust**”)
- (2) **UNITED CHURCH SCHOOLS FOUNDATION LTD**, a limited liability company incorporated in England and Wales with company number [***] whose registered office is at Worldwide House, Thorpe Wood, Peterborough, England, PE3 6SB (“**Foundation**”)
(each a “**Vendor**”, and together the “**Vendors**”); and
- (3) **BRIGHT SCHOLAR (BCS) PROPERTY LIMITED**, a limited liability company incorporated in England and Wales with company number [***] whose registered office is at 6th Floor, Gracechurch Street, London, EC3V 0HR (“**BCS Property**”)
- (4) **BRIGHT SCHOLAR (BCS) MANAGEMENT LIMITED**, a limited liability company incorporated in England and Wales with company number [***] whose registered office is at 6th Floor, Gracechurch Street, London, EC3V 0HR (“**BCS Management**”)
(each a “**Purchaser**” and together the “**Purchasers**”); and
- (5) **BRIGHT SCHOLAR EDUCATION HOLDINGS LIMITED**, a company incorporated in the Cayman Islands whose corporate headquarters are at No.1, Country Garden Road, Beijiao Town, Shunde District Foshan, Guangdong 528300 (“**Guarantor**”).

WHEREAS

- (A) Trust is principally engaged in the business of the operation of schools, including Bournemouth Collegiate School (the **School**) at two locations namely St Osmunds Road in Poole and College Road in Pokesdown, Bournemouth and Foundation owns the land and buildings from which the School operates.
- (B) The Vendors desire to sell and the Purchasers desire to purchase the Business, Assets and Properties of the School pursuant to the terms and conditions as set out in this Agreement.

NOW IT IS HEREBY AGREED as follows:

1. DEFINITIONS AND INTERPRETATIONS

- 1.1 In this Agreement, unless otherwise expressed or required by context, the following expressions shall have the respective meanings set opposite hereto, as follows:

“**Accounts**” the audited annual accounts of the Vendors in relation to the Business for the accounting reference period ended on the Accounts Date, comprising a balance sheet, a profit and loss account and cash flow statement, including the notes thereon and the associated directors’ and auditors’ reports;

“**Accounts Date**” 31 August 2017;

“**Adjustment Pre-estimate**” the pre-estimate of the likely adjustment to the Purchase Price calculated in accordance with clause 16.1 to 16.9 (but not, for the avoidance of doubt in relation to the Debts), being set out in schedule 8 with the accompanying calculation.

“**Agreement**” this Agreement as it may be amended or supplemented from time to time;

“**Assets**” the Books and Records, business information, rights and benefits of the Contracts, Fixed Assets, Loose Assets, Goodwill, Business Intellectual Property, together with all other assets and rights and benefits of any claims relating to the Business as at the date hereof and as at Completion, other than the Excluded Assets, the Excluded Contracts and the Properties;

“**Assumed Liabilities**” the obligations of the Vendors under the Contracts (other than the Excluded Liabilities) and the Employees as at Completion;

“**Beneficiaries**” the beneficiaries of the Vendors under their charitable objects.

“**Books and Records**” the Vendors’ books and records in relation to the Business (including National Insurance and PAYE registers, all bought and sold ledgers, purchase and sales day books, purchase and sales invoices, employee records (including those required to be kept under the Working Time Regulations 1998), client files, customer and supplier lists, credit information, manuals and instructions, catalogues, price lists, sales, marketing and promotional information, mailing lists, business plans, forecasts and stock records), financial and tax records, and all other records relating to the Business as at Completion on whatsoever medium they are stored;

“**Business**” the business carried on by and on behalf of the Vendors as at the date hereof, comprising the operation of the School at the Campuses;

“**Business Day**” a day (other than Saturday and Sunday) on which banks in Hong Kong, China and the United Kingdom are generally open for business;

“**Business Information**” all information, know-how and documentation (and on whatsoever medium they are stored) relating to the Business, the Properties and the Assets as at Completion including all correspondence, promotional material, past and present pupils, customers and suppliers of goods and services to the Business, technical or operational and computer hardware or software manuals;

“**Business Intellectual Property**” Intellectual Property owned by or licensed to the Vendors or used wholly and exclusively or intended to be used in the Business, together with the goodwill relating thereto including the following domain names: *ournemouthcollegiate.org*; *ournemouthcollegiateprep.org*; and *ournemouthcollegiateschool.org*.

“**Business Plan**” the Purchasers’ business plan for the Business as produced by the Purchasers and approved by the Vendors;

“**Campuses**” collectively the sites at St Osmunds Road, Poole BH14 9JY and College Road, Pokesdown BH5 2DR;

“**Chartwells Contract**” the contract with Compass Contract Services (UK) Limited t/a Chartwells Independent dated 1 January 2014 (as extended by correspondence from 1 January 2017);

“**Claim**” a claim by the Purchasers involving or relating to a breach of any Warranties;

“**Completion**” completion of the sale and purchase of the Business and Assets as set out in clause 6;

“**Completion Adjustment Accounts**” the financial statements identifying the debtors and creditors of the Business as at the Completion Date to be prepared by the Vendors in accordance with the provisions of clause 16.5;

“**Completion Date**” the following date (i) 31 October 2018, if the Conditions are satisfied on or before 26 October 2018; (ii) 30 November 2018 if the Conditions are satisfied after 26 October 2018 but on or before 23 November 2018; (iii) 31 December 2018/4 January 2018 if the Conditions are satisfied after 23 November 2018 but on or before 21 December 2018; or (iv) such other date as the parties hereto may agree in writing, on which Completion shall take place in accordance with the terms hereof;

“Computer Equipment” all computer hardware including all disks, disk drives, display screens, keyboards, printers, microprocessors (whether embedded in a computer or any other piece of equipment), associated and peripheral equipment and firmware and any other items that connect with any or all of them together with technical documentation which in each case are owned and/or used by the Vendors in the Business;

“Computer Software” all computer software owned and/or used by the Vendors in connection with the Business, including all executable versions of computer programs in both source and object code form, all operating systems, software comprised in the Computer Equipment and all application software and all other software owned and/or used by the Vendors in connection with the Business or which, by virtue of the Vendors’ interest in the Computer Equipment or in software owned and/or used by the Vendors in the Business, the Vendors is entitled to have or use or is capable of having or using;

“Computer Systems” the Computer Software and the Computer Equipment;

“Conditions” the conditions as set out in clause 3.1;

“Consents” all approvals and consents from third parties which are required to be obtained for the purpose of transfer of the employees, Assets, Properties and Business for the purposes of Completion;

“Contracts” all contracts (including but without limitation any agreements, commitments or understandings) relating solely to the Business subsisting as at Completion and all outstanding offers by or to the Vendors relating solely to the Business as at Completion but excluding:

- (a) contracts of employment with the employees of the School (which shall be covered under the provisions of clause 11); and
- (b) the Excluded Contracts;

“Current Term Debts” all trade and other debts and amounts owing to the Vendors as at the Effective Time in respect of the operation of the Business in the ordinary course in relation to the Autumn 2018 Term (whether or not invoiced);

“Current Use” in relation to each Property, the current use as identified for that Property in schedule 9;

“Customer Advances” all amounts received (whether by deposit, pre-payment or otherwise) by or on behalf of the Vendors on or before the Effective Time so far as the same relate to anything (including any service) to be provided by the Purchasers under any of the Business Contracts or otherwise in connection with the carrying on of the after the Effective Date.

“Customer Data” data relating to pupils at the School.

“Customer Database” the database owned by the Vendors for the purpose of providing services to pupils at the School.

“Customers” pupils attending the School and their parents/guardians.

“**Data Employees**” the Employees and former employees of the Vendors employed or formerly employed in connection with the Business.

“**DPA 1998**” the Data Protection Act 1998.

“**DPA 2018**” the Data Protection Act 2018.

“**Data Protection Legislation**” the UK Data Protection Legislation and (for so long as and to the extent that the law of the EU has legal effect in the UK) the General Data Protection Regulation ((EU) 2016/679) and any other directly applicable EU regulation relating to data protection and privacy.

“**Debts**” the Historic Debts and the Current Term Debts;

“**Deposit**” the sum of £1,000,000 paid on behalf of the Purchasers to the Vendors pursuant to the Heads of Terms dated 24 August 2018 and held by the Vendors on the terms of the Escrow Agreement;

“**Disclosed**” fairly and accurately disclosed with sufficient particularity for the Purchasers to assess the scope and likely consequence of the matter disclosed in or under the Disclosure Letters.

“**Disclosure Letters**” the First Disclosure Letter and/or the Second Disclosure Letter.

“**Disclosure Bundle**” the two identical bundles of documents (as listed in the schedule to the First Disclosure Letter and the Second Disclosure Letter) in the agreed form.

“**Eligible Employee**” those Employees eligible for membership of the Vendors’ Schemes.

“**Employees**” those employees of the Business whose names are listed in schedule 6;

“**Employee Data**” personal data relating to Employees.

“**Employee Database**” the database owned by the Vendors in connection with the Data Employees.

“**Encumbrance**” (a) any option, right to acquire, right of pre-emption, right of first refusal, mortgage, charge, pledge, lien, hypothecation, title creation, right of set off, counterclaim, third party right or interest, assignment by way of security, trust arrangement or other security interest or arrangement or restriction of any kind; (b) any arrangement whereby any rights are subordinated to any rights of any third party; and (c) the interest of a Vendors or lessor under any conditional sale agreement, lease, hire purchase agreement or other title retention arrangement;

“**Effective Time**” 23:59 on the day on which Completion occurs;

“**EHS Laws**” all applicable laws, statutes, secondary legislation, bye-laws, regulations, directives, common law, judgments, orders or decisions of any court, codes of practice, guidance notes and circulars (which have legal effect) and directions of any regulatory authority in force from time to time in relation to EHS Matters;

“**EHS Matters**”:

- (a) the pollution, conservation or protection of, or prevention of harm to the Environment or health & safety of humans and animals;
- (b) the presence, existence, disposal, release, spillage, deposit, escape, leak, migration or emission of Hazardous Substances;

- (c) the exposure of any person to Hazardous Substances;
- (d) the creation or existence of any noise, odour, radiation or nuisance;
- (e) the health & safety of any person, including any accidents, injuries, illnesses and diseases;

“Environment” the natural and man-made environment including all or any of the following media: air (including air within buildings and other natural or man-made structures above or below the ground), water, land and any ecological systems and living organisms (including man) or systems supported by those media

“Environmental Permit” any permit, licence, consent, approval, certificate, registration, exemption or other authorisation required under any EHS Laws for the operation of the Business or the use of the Properties;

“Escrow Letter” the escrow letter addressed to the Vendors’ Solicitors from (1) Trust; (2) Foundation; (3) BCS Property; and (4) BCS Management and dated 24th August 2018;

“Excluded Assets”:

- (a) cash in hand or with a bank used by or held on behalf of the Business as at the Effective Time;
- (b) the Historic Debts;
- (c) the Current Term Debts.

“Excluded Contracts”:

- (a) Group Contracts;
- (b) contracts of engagements between either the Trust or Foundation and other members of the Vendors’ Group, including without limitation The Church Schools Trading Company Limited or any other parties associated with the Vendors,

“Excluded Liabilities” all liabilities of the Vendors relating to or arising in connection with the operation of the Business and the Assets prior to the Completion Date;

“Fee Discounts” all existing fee discount arrangements with existing pupils and those pupils due to join the School in or after September 2018 (including, but not necessarily limited to, bursaries, scholarships, sibling discounts and staff discounts), details of which are set out in schedule 7

“First Disclosure Letter” the disclosure letter dated on or around the date of this Agreement from the Vendors to the Purchasers (together with any documents attached to it) including qualifications to the Warranties, the receipt of which has been acknowledged by the Purchasers;

“Fixed Assets” all of the fixed plant, machinery, equipment and tooling used or intended for use in the Business attached or fixed to the premises of the Business as at Completion including (but not necessarily limited to) the items set out in the asset register Disclosed to the Purchasers;

“Group Contracts” those contracts, licences and other arrangements which relate to the provision of services for the benefit of both the Business and other parts of the business of the Vendors;

“**Goodwill**” the goodwill relating to the Business as at Completion together with the exclusive right for the Purchasers to represent themselves as carrying on the Business in succession to the Vendors and together with the trade name Bournemouth Collegiate School and all other trade names associated with the Business;

“**GDPR**” the General Data Protection Regulation (EU) 2016/679;

“**Hazardous Substances**” any material, substance or organism which, alone or in combination with others, is capable of causing harm to the Environment, and in the case of man this includes offence caused to any of his senses or harm to his property, including (but not limited to) radioactive substances, and materials containing asbestos and Japanese knotweed.

“**Historic Debts**” all trade and other debts and amounts owing to the Vendors as at the Effective Time in respect of goods or services supplied by the Vendors in the ordinary course of carrying on the Business (whether or not invoiced) prior to (and including) 31 August 2018;

“**HMRC**” Her Majesty’s Revenue and Customs and, where relevant, any predecessor body which carried out part of its functions;

“**Instalment Payments**” instalments of school fees and other receivables of the Business which are being paid in instalments by Parents (whether by direct debit or otherwise);

“**Intellectual Property**” all rights in or in relation to any and all patents, utility models, trade and service marks, rights in designs, get-up, trade, business, names, domain names, copyrights, and topography rights, (whether registered or not and any applications to register or rights to apply for registration of any of the foregoing), rights in inventions, Knowhow, trade secrets and other confidential information, rights in databases and all other intellectual property rights of a similar or corresponding character which may now or in the future subsist in any part of the world and any rights to receive any remuneration in respect of such rights;

“**Intellectual Property Agreement**” any licence, consent or permission to use any Intellectual Property (including any unwritten or informal arrangement);

“**Intellectual Property Assignments**” the assignment(s) in the agreed terms of the registered and unregistered Business Intellectual Property;

“**Key Employees**” means any member of the School’s Senior Leadership Team, namely: the Headmaster, the Head of Preparatory School, Assistant Head (Head of Early Years), Assistant Head (Pastoral), Assistant Head (Academic) and the Business Manager;

“**Knowhow**” confidential or proprietary, technical or commercial information and techniques in any form (including paper, electronically stored data, magnetic media, files and microfilm) including, without limitation, all policies and procedures pertaining to the operation of the School and the carrying on of the Business, academic and curricular materials, research reports, project reports, instruction and training manuals, market forecasts, business opportunities, lists and particulars of past and present pupils and of pupils who have registered an interest in attending the School, customers, suppliers, marketing methods and materials and prospectuses and brochures;

“**Lease Agreements**” those of the Contracts which are lease, hire, hire purchase, credit sale or conditional sale agreements;

“**Leased Assets**” those of the Assets which are subject to a Lease Agreement;

“**Life Assurance Scheme**” The group life insurance scheme with Aviva which provides benefits for certain of the Employees.

“**Long Stop Date**” 31 December 2018 or such other date as the parties may agree in writing;

“**Loose Assets**” the loose assets, plant, machinery, tools, Motor Vehicles, fixtures and fittings, office equipment, desks, chattels, stationery, office consumables and other similar articles owned and/or used or for use by the Vendors in connection with the Business at the Effective Time;

“**Losses**” includes all liabilities, costs, expenses, damages and losses (including but not limited to any direct, indirect or consequential losses, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other professional costs and expenses);

“**Management Accounts**” the management accounts of the School, comprising the balance sheet (or statement of financial position) and the profit and loss account of the School, as at and for the period from the Accounts Date to the Management Accounts Date;

“**Management Accounts Date**” 31 August 2018;

“**Material Loss**” means a Loss suffered by the Purchaser of £350,000 or more.

“**Motor Vehicles**” the motor vehicles (together with the benefit of their unexpired road fund licences) owned and/or used by the Vendors in connection with the Business at the Effective Time;

“**Parents**” the individual or individuals who sign the School’s acceptance form and have parental responsibility for a Pupil;

“**Parental Deposits**” the deposits paid by Parents to the Vendor excluding any element of such deposit that has been properly applied to meet a liability of the respective parent;

“**Personal Data**” has the meaning given in Article 4(1) of the GDPR;

“**Planning Acts**” the Town and Country Planning Act 1990, the Planning (Listed Buildings and Conservation Areas) Act 1990, the Planning (Hazardous Substances) Act 1990, the Planning (Consequential Provisions) Act 1990, the Planning and Compensation Act 1991, the Planning and Compulsory Purchase Act 2004, the Planning Act 2008, the Localism Act 2011, the Growth and Infrastructure Act 2013, the Housing and Planning Act 2016 and the Neighbourhood Planning Act 2017 and any other legislation from time to time regulating the use or development of land;

“**Prepayment**” means all amounts paid (whether by deposit, prepayment or otherwise) on or before the Effective Time by or on behalf of the Vendors so far as the same relate to anything (including any service) to be provided to the Purchasers under any of the Contracts or otherwise in connection with the carrying on of the Business after the Effective Time.

“**Properties**” the properties particulars of which are set out in schedule 9 and shall include all the land and buildings comprising the Properties or any part or parts thereof and “**Property**” shall be construed accordingly;

“**Properties Contract**” the contract for the sale and purchase of the Properties in the agreed form attached at Appendix 1;

“**Pupils**” pupils attending the School on the Completion Date or those have been offered (and have accepted) a place to attend the School.

“**Purchase Price**” has the meaning ascribed to it in clause 4.1;

“**Purchasers’ Solicitors**” Shakespeare Martineau LLP of 60 Gracechurch Street, London, EC3V 0HR;

“**Regulations**” the Transfer of Undertakings (Protection of Employment) Regulations 2006;

“**Relevant Benefits**” any pension, lump sum, gratuity or other like benefit provided or to be provided in connection with past service, retirement, death, or any change in the nature of the service of any Employee.

“**Restricted Period**” 5 years after the Completion Date;

“**Retained Business**” all of the assets, operations, goodwill and other rights of the business of the Vendors which do not comprise the Business;

“**Retained Records**” all books and records of the Vendors and the Vendors’ Group relating to the Business and the Assets other than the Books and Records (including, for the avoidance of doubt, the statutory books and accounting records of the Vendors);

“**School**” the independent, co-educational day and boarding school (comprising a prep school and senior school) operated by the Trust at the Campuses;

“**Scottish Widows Plan**” an additional voluntary contribution plan with Scottish Widows providing benefits for Maxine Clarke;

“**Second Disclosure Letter**” the supplemental disclosure letter which the Vendors may issue (at their discretion) dated on the Completion Date from the Vendors to the Purchasers (together with any documents attached to it) including qualifications to the Warranties, the receipt of which will be acknowledged by the Purchasers at Completion;

“**Statutory Agreement**” an agreement or undertaking entered into under section 18 of the Public Health Act 1936, or section 52 of the Town and Country Planning Act 1971, or section 33 of the Local Government (Miscellaneous Provisions) Act 1982, or section 106 of the Town and Country Planning Act 1990, or section 104 of the Water Industry Act 1991, or any other legislation (later or earlier) similar to these statutes;

“**Stock**” all materials held, acquired or used by the Vendors in connection with the Business and which at Completion is held at the Properties;

“**Sun Life Plan**” a pension plan for Wentworth Milton Mount Limited (payment reference 85088) with Sun Life;

“**Taxation**” (a) any form of taxation whenever created or imposed and of any part of the world and without prejudice to the generality of the foregoing includes profits tax, interest tax, salaries tax, property tax, real estate tax, land use fees, land appreciation tax, taxes on income, sales tax, capital gains tax, business tax, value added tax, consumption tax, inheritance tax, capital duty, estate duty, stamp duty, SDLT, payroll tax, withholding tax, rates, customs and excise duties and generally other liabilities relating to taxation payable to the revenue, customs or fiscal authorities in any part of the world; (b) an amount equal to any deprivation of any relief, allowance, set off, deduction in computing profits or right to repayment of taxation granted by or pursuant to any legislation concerning or otherwise relating to taxation; and (c) all costs, charges, interest, fines, penalties and expenses incidental or relating to the liability referred to in paragraphs (a) and/or (b) above;

“**Transitional Services Agreement**” the agreement between (1) Trust and (2) BCS Management of even date relating to the provision of ongoing support and infrastructure services by Trust to BSC Management for the purpose of the efficient operation of the School;

“**TULRCA**” the Trade Union and Labour Relations (Consolidation) Act 1992;

“**VAT Records**” the Vendors’ VAT Records (as referred to in paragraph 6 of schedule 11 to the VATA) in relation to the Business and the Assets;

“**VATA**” means the Value Added Tax Act 1994;

“**Vendors’ Group**” the Vendors and their group undertakings from time to time and all of them and each of them as the context admits;

“**Vendors’ Schemes**” Teachers’ Pension Scheme, Legal & General WorkSave Pension Plan, the Scottish Widows Plan and the Sun Life Plan;

“**Vendors’ Solicitors**” Veale Wasbrough Vizards LLP of Narrow Quay House, Narrow Quay, Bristol BS1 4QA;

“**Warranties**” the warranties given by the Vendors to the Purchasers in clause 8 and schedule 1;

“**Written Replies to Enquiries**” the following written replies to the Purchasers’ due diligence queries:

- Phase 1 due diligence replies to enquiries dated 6 July 2018;
- Phase 1 due diligence replies to property enquiries dated 3 August 2018;
- Phase 2 due diligence enquiries dated 12 September 2018 (property) and 17 September 2018 (general);
- Replies to CPSE1 dated 21 September 2018;

“**GBP**” British pound sterling, the lawful currency in the United Kingdom.

1.2 In this Agreement unless otherwise specified, reference to:

- (a) a document in the “**agreed terms**” and “**agreed form**” is a reference to that document in the form approved and for the purposes of identification signed by or on behalf of each party;
- (b) “**clauses**”, “**paragraphs**” or “**schedules**” are to clauses and paragraphs of and schedules to this Agreement;
- (c) “**includes**” and “**including**” shall mean including without limitation;
- (d) Any reference to a **statute** or **statutory instrument** or any of their provisions is to be construed as a reference to that statute or statutory instrument or such provision as the same may have been amended or re-enacted before the date of this Agreement;
- (e) a “**party**” means a party to this Agreement and includes its assignees (if any) and/or the successors in title to substantially the whole of its undertaking;
- (f) a “**person**” includes any person, individual, company, firm, corporation, government, state or agency of a state or any undertaking (whether or not having separate legal personality and irrespective of the jurisdiction in or under the law of which it was incorporated or exists);

- (g) a “**subsidiary**” is to a company where another company, its “**holding company**”:
 - (i) holds a majority of the voting rights in it;
 - (ii) has the right to appoint or remove a majority of its board of directors;
 - (iii) controls alone, whether pursuant to an agreement with other shareholders or members or otherwise, a majority of the voting rights in it; or
 - (iv) otherwise has the power to control the activities, management or management policies of that body corporate, whether by contract or otherwise;
- (h) “**writing**” includes any methods of representing words in a legible form (other than writing on an electronic or visual display screen) or other writing in non-transitory form; and
 - (i) words denoting the singular shall include the plural and vice versa and words denoting any gender shall include all genders.

1.3 The schedules form part of the operative provisions of this Agreement and references to this Agreement shall, unless the context otherwise requires, include references to the schedules.

1.4 The index to and the headings in this Agreement are for information only and are to be ignored in construing the same.

1.5 The liability under this Agreement as between the Trust and the Foundation shall be joint and several.

1.6 The liability under this Agreement as between BCS Management and BCS Property shall be joint and several.

2. **SALE AND PURCHASE**

2.1 Subject to the terms and conditions contained in this Agreement, Trust as legal and beneficial owner shall sell with full title guarantee and BCS Management shall purchase the Assets and the Business as a going concern with effect from Completion free from any Encumbrance and together with all accrued benefits and rights attached thereto, and Foundation as legal and beneficial owner shall sell with full title guarantee and BCS Property shall purchase the Properties on the terms of the Properties Contract.

2.2 The Excluded Assets and the Excluded Contracts are not included in the sale and purchase pursuant to clause 2.1.

3. **CONDITIONS**

3.1 Completion of the sale and purchase of the Business and Assets pursuant to this Agreement and of the Properties pursuant to the is conditional on the following conditions being satisfied by the parties on or before the Long-Stop Date:

- (a) receipt by the Purchasers of written and unconditional approval by or on behalf of the Secretary of State for Education of the “material change” application (issued pursuant to section 162 of the Education Act 2002) submitted by the Purchasers in relation to the Purchasers becoming the new proprietor of the Business;
- (b) the Vendors complying with the provisions of sections 117 to 121 of the Charities Act 2011.
- (c) the Purchases being reasonably satisfied that the Chartwells Contract will continue to supply the Business following completion (whether by an assignment or novation).

- 3.2 BCS Management shall:
- (a) use its best endeavours to procure the satisfaction of the Condition set out in clause 3.1(a) prior to the Completion Date and in any event before the Long-Stop Date (provided always that this will not be obliged BCS Management to instigate legal proceedings if the approval of the Secretary of State is withheld or delayed);
 - (b) notify the Vendors immediately upon the satisfaction of any of such Condition; and
 - (c) provide to the Vendors evidence of the satisfaction of such Condition.
- 3.3 Trust shall:
- (a) use its best endeavours to procure the satisfaction of the Condition set out in clause 3.1(b) prior to the Completion Date and in any event before the Long-Stop Date;
 - (b) notify the Purchasers immediately upon the satisfaction of any of such Condition; and
 - (c) provide to the Purchasers evidence of the satisfaction of such Condition.
- 3.4 If at any time the Vendors or the Purchasers becomes aware of a fact or circumstance that might prevent a Condition being satisfied, they shall immediately inform the other party by written notice.
- 3.5 In the event that the Conditions set out in either clauses 3.1(a) and/or clause 3.1(b) shall not be fulfilled by the Long Stop Date, then the Vendors and the Purchasers shall not be bound to proceed with the transactions contemplated under this Agreement and this Agreement shall automatically terminate and cease to be of any effect except this clause 3.5, and clauses 19 27 and 34 (which shall remain in full force and effect and save in respect of any claims arising out of any breach of this Agreement).
- 3.6 In the event that the Condition in clause 3.1(c) has not been fulfilled by the Long Stop Date the Long Stop Date shall be extended for a further period agreed between the parties, not extending beyond 30 April 2019, to enable the Vendors and the Purchasers complete the necessary contractual arrangements with the supplier concerned or source an alternative supplier.
- 3.7 In the event that this Agreement terminates in accordance with clause 3.5 the Deposit shall be treated as follows:
- (a) if such termination occurs from a failure to procure the satisfaction of the Condition set out in clause 3.1(a), other than in circumstances where such failure is attributable to the occurrence of a change or introduction of a new condition or requirement to applicable law regulation practice or procedure prior to Completion the Deposit and all interest accrued thereon shall be retained by the Vendors;
 - (b) if such termination occurs from a failure to procure the satisfaction of the Condition set out in clause 3.1(b), the Deposit and all interest accrued thereon shall be refunded in full to the Purchasers.
- 3.8 The Vendors shall procure that from the date of this Agreement, the Purchasers and their advisers are allowed full access to all the existing books, records, properties, assets and accounting and statutory records of the Vendors, and shall promptly supply all documents and information forthwith upon request by the Purchasers (or their advisers) to enable the Purchasers to conduct and be satisfied with a full due diligence review and investigation as to the Assets, Properties and the Business.

3.9 Each of the parties hereto agrees to cooperate reasonably and in good faith to procure the satisfaction of the Conditions as set out in clause 3.1.

4. **CONSIDERATION**

4.1 Subject to clause 4.2, the Purchase Price for the Sale of the Assets, Properties and Business is **GBP10,000,000 (ten million pounds sterling)** of which **GBP1,000,000** was paid to the Vendors on 24 August 2018 and the remaining **GBP9,000,000** shall payable by the Purchasers to the Vendors in cash on the Completion Date in the manner in clause 4.4.

4.2 The sum in clause 4.1 shall on the Completion Date have deducted from it the amount of the Adjustment Pre-estimate.

4.3 The Purchase Price shall be apportioned between the Assets and the Properties as follows:

- (a) books and records - £1;
- (b) business information - £1;
- (c) contracts - £1;
- (d) fixed assets - £1;
- (e) loose assets - £1;
- (f) goodwill - £1;
- (g) business intellectual property - £1;
- (h) Properties - £9,999,993,

but such apportionment of the Purchase Price pursuant to this clause 4.3 shall not limit the Purchaser's remedies under this agreement.

4.4 All payments to be made to the Vendors under this Agreement shall be made in sterling by electronic transfer of immediately available funds to the Vendors' Solicitors (who are irrevocably authorised by the Vendors to receive the same) to the following bank account:

[***]

Payment to the Vendors' Solicitors in accordance with this clause shall be a good and valid discharge of the obligations of the Purchasers to pay the sum in question to the Vendors, and the Purchasers shall not be concerned to see the application of the monies so paid.

5. **PERIOD TO COMPLETION**

5.1 Between the execution of this Agreement and Completion or the earlier termination of this Agreement the Vendors shall:

- (a) comply with the provisions of schedule 3;

- (b) not commit, and shall not procure or knowingly permit the commission of, any act or omission which:
 - (i) constitutes a Claim or would constitute a Claim if Completion were to take place;
 - (ii) constitutes a breach by the Vendors of clauses 5.1(a) or 19 or 27.
- (c) immediately notify the Purchasers, together with reasonable details, if it becomes aware of a fact, event or circumstance which constitutes a breach of clause 5.1(a) or which is described in sub-clauses (b)(i) to (b)(ii) of clause 5.1.

5.2 If at any time before Completion.

- (a) any breach of clause 5.15.1(a) shall occur where the direct or indirect impact of such breach is or is reasonably likely to result in an aggregate loss or liability to the Purchasers (or either of them) which is a Material Loss;
- (b) any act or omission or event shall be discovered which renders any of the Warranties in paragraphs 1.1, 1.2, 9.1(a), 10.3(a) and 14.1(b) (but only in connection with the legal and beneficial ownership of the trading name of the School);
- (c) any act, omission or event shall occur which renders any of the Warranties (other than those mentioned in clause 5.2(b) above) untrue, inaccurate or misleading and the direct or indirect impact of such breach is or is reasonably likely to result in an aggregate loss or liability to the Purchasers (or either of them) which is a Material Loss,

then the Purchasers shall be entitled by written notice to the Vendors at any time before Completion to rescind this Agreement with immediate effect without any liability to the Purchasers.

5.3 If the Purchasers rescind this Agreement pursuant to clause 5.2 each party's further rights and obligations shall cease immediately on termination provided that:

- (a) the Vendors shall forthwith refund the Deposit to the Purchasers together with all interest accrued thereon;
- (b) termination shall not affect a party's accrued rights, liabilities and obligations at the date of termination; and
- (c) the obligations of the parties under clauses 19, 27 and 34 shall remain in full force and effect.

5.4 Any failure or omission of the Purchasers to exercise its right of rescission pursuant to clause 5.2 shall not in any way prejudice or be construed as a waiver of any of its rights under this Agreement to claim damages, compensation or indemnity under the Warranties.

6. **COMPLETION**

6.1 Completion shall take place at the office of the Purchasers Solicitors on the fifth Business Day after the date on which the last of the Conditions to be satisfied or waived is satisfied or waived, when each of the matters set out in schedule 2 shall occur.

6.2 Upon completion of the matters referred to in schedule 2 the Purchasers shall pay to the Vendors' Solicitors such sum being:

- (a) the amount stated in clause 4.1; plus or less
- (b) the Adjustment Pre-estimate,

in the manner specified in clause 4.4.

- 6.3 If the Vendors (or either of them) fail to comply with any of their obligations set out in schedule 2, or the purchase of all the Properties, Assets and Business is not completed simultaneously, the Purchasers shall be entitled in their absolute discretion to either:
- (a) proceed to Completion to the extent reasonably practicable; or
 - (b) specify a new date for Completion not more than 10 Business Days after the date set for Completion in clause 6.1; or
 - (c) terminate this Agreement immediately without liability on their part provided that:
 - (i) termination shall not affect a party's accrued rights and obligations as at the date of termination;
 - (ii) the obligations of the parties under clauses 19 to 34 (inclusive) (except clause 20) shall remain in full force and effect, and whereupon the Vendors shall forthwith refund the Deposit to the Purchasers together with all interest accrued thereon;
 - (d) If the Purchasers postpone Completion to another date in accordance with clause 6.3(b), the provisions of this Agreement shall apply as if that other date is the date set for Completion in clause 6.1.

7. **PROPERTIES**

The provisions of the Properties Contract shall apply in relation to the sale and purchase of the Properties.

8. **WARRANTIES**

- 8.1 The Vendors jointly and severally warrant to the Purchasers in the terms of the Warranties. Immediately before the time of Completion, the Vendors are also deemed to warrant to the Purchasers in the terms of the Warranties and, for this purpose only, where in a Warranty there is an express or implied reference to the "date of this Agreement" that reference is to be construed as also a reference to the "date of Completion".
- 8.2 The Warranties (other than the Warranties in paragraphs 1.1, 8.1(a) 10.3(a) and 14.1(b) of schedule 1) shall be qualified by the facts and circumstances Disclosed in the First Disclosure Letter and the Second Disclosure Letter.
- 8.3 The parties acknowledge and accept that:
- (a) subject to clause 8.3(b), if the Purchasers (or any one of them) has *actual* knowledge of any fact, matter or circumstance which may result in a Claim, no Claim may be brought in respect of such fact, matter or circumstance;
 - (b) clause 8.3(a) shall not extend to any fact, matter or circumstance of which the Purchasers (or any one of them) only has *constructive* or *implied* knowledge, and:
 - (i) the Purchasers shall not be prevented or limited from bringing a Claim in that respect; and
 - (ii) the Vendors may not invoke the Purchasers' constructive or imputed knowledge as a defence to a Claim.

- 8.4 The Purchasers warrant to the Vendors that they have no actual knowledge of any fact, matter or circumstance which may result in a Claim.
- 8.5 The Vendors waive and may not enforce a right which they may have in respect of a misrepresentation, inaccuracy or omission in or from information or advice supplied or given by any of the Employees for the purpose of assisting the Vendors to make a representation, give a Warranty or prepare the First Disclosure Letter or Second Disclosure Letter.
- 8.6 Each Warranty is to be construed independently and (except where this Agreement provides otherwise) is not limited by the terms of any other Warranty or any other provision of this Agreement.
- 8.7 Unless otherwise specified where any Warranty refers to the knowledge, information, belief or awareness of the Vendors (or a similar expression) the Vendors shall be deemed to have such knowledge, information, belief or awareness as the Vendors would have obtained had the Vendors made all due and careful reasonable enquiries into the subject matter of that Warranty of the following individuals:
- (a) the Headmaster of the School;
 - (b) the business manager of the School;
 - (c) the Vendors' Chief Executive Officer;
 - (d) the Vendors' Chief Financial Officer;
 - (e) the Vendors' Company Secretary; and
 - (f) the Vendors' Strategy Director.
9. **ACTIONS AFTER COMPLETION**
- 9.1 After Completion the Vendors shall promptly pass on to the Purchasers all enquiries, notices, correspondence and information relating to the Business which the Vendors may receive.
- 9.2 After Completion:
- (a) the Vendors shall promptly transfer to the Purchasers any money or other asset it receives after Completion that belongs to the Purchasers under the terms of this Agreement or otherwise;
 - (b) the Purchasers shall promptly transfer to the Vendors any money or other asset it receives after Completion that belongs to the Vendors under the terms of this Agreement or otherwise.
- 9.3 For the period of 7 years after Completion, the Vendors shall give to the Purchasers reasonable access during business hours to the books, accounts, records and returns of the Vendors relating to or in connection with the Business or the Employees as the Purchasers may require (including the right to take copies and extracts on reasonable advance notice), acting reasonably, and maintain in safekeeping and shall keep them in good order.
- 9.4 For the period of 7 years after Completion, the Purchasers shall give to the Vendors reasonable access during business hours to the books, accounts, records and returns of the Purchasers relating to or in connection with the Business as the Vendors may require (including the right to take copies and extracts on reasonable advance notice), acting reasonably, and maintain in safekeeping and shall keep them in good order.

9.5 Following Completion the Vendors shall from time to time forthwith upon request from the Purchasers at the Vendors' expense do or procure the doing of all acts and/or execute or procure the execution of all such documents in a form reasonably satisfactory to the Purchasers for the purpose of vesting in the Purchasers the full legal and beneficial title to the Assets, Business and Properties and otherwise giving the Purchasers the full benefit of this Agreement.

10. CONTRACTS

10.1 The Purchaser undertakes to the Vendors with effect from the Effective Time to assume the obligations and liabilities of the Vendors under the Contracts.

10.2 Subject to clause 14 and the other provisions of this clause 10, this Agreement shall constitute an assignment to the Purchasers, with effect from the Effective Time, of the benefit of all the Contracts which the Vendors are entitled to assign without the consent of any third party.

10.3 Notwithstanding clause 10.2 this Agreement does not constitute an assignment or an attempted assignment of a Contract if the assignment or attempted assignment would constitute a breach of that Contract.

10.4 In so far as a Contract cannot be assigned to the Purchasers in accordance with clause 10.1:

- (a) the Vendors shall use their reasonable endeavours to obtain the third party's consent to the assignment, or to achieve the novation, of the Contract; and
- (b) from the Effective Date unless and until consent to assignment is obtained or novation is achieved:
 - (i) the Vendors shall hold such Contract on trust for the Purchasers and their successors in title absolutely and will account to the Purchasers for any sums or other benefits received by the Vendors in relation thereto without any deduction or withholding of any kind;
 - (ii) the Purchasers shall, as the Vendors' agent, perform all obligations of the Vendors under the Contract; and
 - (iii) the Vendors shall do each act and thing reasonably requested of it by the Purchasers (at the Purchaser's cost) to enable performance of the Contract and to provide for the Purchasers the benefits of the Contract (including enforcement of a right of the Vendors against another party to the Contract arising out of its breach or termination by the other party or otherwise).

10.5 The Vendors shall indemnify the Purchasers against each loss, liability and cost which the Purchasers may incur as a result of the Vendors' performance or non-performance of their obligations under each Contract to the extent that the loss, liability or cost is attributable to the Vendors' act or omission before the Effective Time (including each loss, liability and cost incurred as a result of defending or settling a claim alleging such a liability).

10.6 Clause 10.5 does not affect the Purchasers' rights and remedies against the Vendors in respect of a Contract which the Vendors have warranted is assignable, or may be performed by the Purchasers instead of the Vendors, without a novation agreement.

10.7 The Purchasers shall indemnify the Vendors against each loss, liability and cost which the Vendors may incur as a result of the Purchasers' performance or non-performance of their obligations under each Contract to the extent that the loss, liability or cost is attributable to the Purchasers' act or omission whether after the Effective Time (including each loss, liability and cost incurred as a result of defending or settling a claim alleging such a liability).

11. EMPLOYEES

- 11.1 The parties agree that the sale and purchase pursuant to this Agreement will constitute a relevant transfer for the purposes of TUPE and, accordingly, that it will not operate so as to terminate the contracts of employment of any of the Employees. Such contracts shall be transferred to the Purchasers pursuant to TUPE with effect from the Effective Time.
- 11.2 Trust hereby undertakes to the Purchasers:
- (a) that it has to a material extent complied with, and shall up to and including the Effective Time, comply with all of its obligations (whether or not legally binding or in respect of which it would be expected to comply by any regulatory or other body to which it is subject) due to or in connection with the Employees;
 - (b) that it has paid and shall pay all sums due to or in relation to the Employees for the period up to and including the Effective Time (whether arising under common law, statute, equity or otherwise) including all salaries, wages, expenses, holiday pay, National Insurance and pension contributions, liability to Taxation;
 - (c) that it shall comply in all respects with its obligations under regulation 11 of TUPE;
 - (d) that there are no sums owing to or from any Employee other than reimbursement of expenses and wages for the current salary period;
 - (e) that it shall comply with regulation 13 of TUPE;
 - (f) to indemnify the Purchasers against all Losses which the Purchasers may suffer, sustain, incur, pay or be put to arising from:
 - (i) any failure by the Vendors to comply with its obligations under this clause 11;
 - (ii) the employment of the Employees or the termination of their employment by the Vendors on or before the Effective Time;
 - (iii) any failure by the Vendors on or before the Effective Time to comply with its legal obligations in respect of any of the Employees;
 - (iv) the transfer to the Purchasers, by virtue of TUPE, of the employment of any employee of the Vendors other than the Employees; and
 - (v) the Vendors' failure to comply with its obligations under regulation 13 of TUPE save where such failure arises out of any act or omission of the Purchasers' including the Purchasers' obligations under regulation 13(4) of TUPE.
- 11.3 If the contract of employment of any employee who is not an Employee has effect as if originally made between the Purchasers and such employee as a result of the provisions of TUPE:
- (a) the Purchasers may terminate such contract or agreement; and
 - (b) the Vendors shall indemnify the Purchasers against all Losses suffered or incurred by the Purchasers arising out of or in connection with any of the following:
 - (i) such termination; or
 - (ii) such contract before the Effective Time, if the Purchasers does not terminate such contract or collective agreement.

- 11.4 Without prejudice to the other provisions of this clause 11, the Vendors shall, at their own expense, give the Purchasers such assistance as the Purchasers may reasonably require to contest any demand or claim by any person employed or engaged in the Business at or before the Effective Time or their representatives resulting from or in connection with this Agreement, subject always to the Vendors' obligations under the Data Protection Legislation.
- 11.5 The Vendors shall, in the three months following the Effective Time on receipt of a request by the Purchasers and at the Vendors' expense, provide to the Purchasers such information or documents as the Purchasers may reasonably require relating to the terms of employment, pension and life assurance arrangements, health benefits, welfare or any other matter concerning any of the Employees or any trade union, employee representative or body of employees or their representatives or relating to collective agreements or collective or individual grievances in the period before the Effective Time subject always to the Vendors' obligations under the Data Protection Legislation and to the Vendors' data retention policy.
- 12. PENSIONS**
- 12.1 The Purchasers will continue to provide membership of the Vendors Schemes as applicable to each Eligible Employee and make all relevant employer contributions in relation thereto.
- 12.2 The Vendors shall indemnify the Purchaser against any Additional Costs suffered or incurred by the Purchasers if either the Scottish Widows Plan and the Sun Life Plan are defined benefit arrangements.
- 12.3 The Vendors shall use reasonable endeavours to provide the Purchasers with details of the Scottish Widows Plan and the Sun Life Plan within three months of the Completion Date and in the event that this is not possible, will reimburse the Purchasers for the reasonable administration costs that the Purchasers incur in obtaining such details of the Scottish Widows Plan and the Sun Life Plan to enable them to fulfil their obligations in relation to the Scottish Widows Plan and the Sun Life Plan.
- 12.4 For the purpose of clause 12.2 above, "Additional Costs" shall mean any liabilities, costs or expenses relating to the Scottish Widows Plan and the Sun Life Plan in excess of those Disclosed.
- 13. VALUE ADDED TAX**
- 13.1 In this Agreement save as otherwise provided the amount of any payment for a supply of goods or services or the value of any supply (including the value of any supply referred to in calculating any sum due under this Agreement) made or deemed to be made pursuant to this Agreement shall be taken to be exclusive of value added tax properly chargeable on the supply and the amount of such value added tax shall be paid in addition to any payment due under this Agreement (provided a proper tax invoice has been issued) or if no payment is due shall be paid at the time the supply is made or a proper tax invoice is issued whichever is earlier.
- 13.2 The Vendors and the Purchasers shall use all reasonable endeavours to secure that the conditions of article 5(1) of the Value Added Tax (Special Provisions) Order 1995 (No. 1268) and of section 49 of the VATA are fulfilled so that the sale of the Business and Assets hereunder is properly treated as neither a supply of goods nor a supply of services for the purposes of value added tax.
- 13.3 The Vendors shall retain and preserve all records relating to the Business referred to in Regulation 31 of the Value Added Tax Regulations 1995 (No 2518) for such periods as may be required by law and shall, in accordance with its obligations pursuant to section 49(5) of the Value Added Tax Act 1994, allow the Purchasers upon prior written notice to inspect such records (and if necessary take such copies) as the Purchasers reasonably request.

- 13.4 In the event HMRC determine in writing that value added tax is chargeable on the sale of the Business and Assets hereunder or any of them then the Vendors shall immediately notify the Purchasers of such determination and the Purchasers agree that such value added tax shall be in addition to the Purchase Price and the Purchasers shall (against production by the Vendors of tax invoices in respect thereof) pay the amount of any such value added tax forthwith to the Vendors (other than interest or penalties to the extent caused by any act or omission of the Vendors which amounts to a breach of clause 13.8). Such payment shall be without prejudice to the right of the Purchasers under this Agreement to call upon the Vendors to make an appeal against the aforesaid determination subject to the provisions of clause 13.5 below.
- 13.5 The Purchasers shall be entitled at their sole discretion (but after consultation with the Vendors) to resist HMRC's determination that the sale of the Business and Assets (or any part of them) attracts VAT, in the name of the Vendors but at the expense of the Purchasers and to have the conduct of any appeal or incidental negotiations (the "Dispute") PROVIDED THAT:
- (a) the Vendors shall be kept informed of all relevant material matters pertaining to the Dispute; and
 - (b) no material written communication pertaining to the Dispute (and in particular no proposal for or consent to any settlement or compromise thereof) shall be transmitted to HMRC or other tax authority or governmental body or authority without the same having been submitted to and approved by the Vendors such approval not to be unreasonably withheld or delayed.
- 13.6 The Vendors shall give the Purchasers all reasonable co-operation, access and assistance, for the purpose of resisting such Dispute.
- 13.7 Save as mentioned in clause 13.8 below all value added tax payable in respect of goods and services supplied or deemed to be supplied by the Vendors in connection with the Business prior to Completion, and all interest payable thereon and penalties attributable thereto, shall be paid to HMRC by the Vendors, and the Vendors shall be entitled to receive and to retain for its own benefit all reimbursement or credit from HMRC for value added tax borne by the Vendors on goods and services supplied to the Vendors prior to Completion and any payments received in respect of value added tax overpaid to HMRC prior thereto.
- 13.8 The Vendors warrant that:
- (a) the Trust is registered for VAT in relation to the operation of the School; and
 - (b) the Foundation has not opted to tax under section 10 VATA 1994 in relation to any of the Properties.
- 13.9 The Purchasers warrant that:
- (a) they intend to use the Assets in carrying on the same kind of business (whether or not as part of any existing business) as was carried on by the Vendors in relation to the Assets immediately before Completion; and
 - (b) they have applied for registration for VAT purposes and have requested an effective date on or before the Completion Date.

14. **RISK**

- 14.1 Subject to the provisions of schedule 3 the Vendors shall continue to carry on the Business for their own benefit and at their own risk up to the Effective Time. Risk in and ownership of the Assets and the Properties shall pass to the Purchasers at the Effective Time.
- 14.2 The Vendors shall maintain in force, up to and including the Effective Time, all the policies of insurance which have been Disclosed as being held by it.

15. **LIABILITIES**

15.1 The Purchasers shall:

- (a) with effect from the Effective Time, assume responsibility for the payment and/or performance of the Assumed Liabilities and for anything done or omitted to be done after the Effective Time in the course of or in connection with the Business or the Assets; and
- (b) indemnify the Vendors against all Losses suffered or incurred by the Vendors arising out of or in connection with the Purchasers' failure to comply with clause 15.1(a).

15.2 Nothing in this Agreement shall pass to the Purchasers, or shall be construed as acceptance by the Purchasers of, any liability, debt or other obligation of the Seller (whether accrued, absolute, contingent, known or unknown) for anything done or omitted to be done before the Effective Time in the course of or in connection with the Business or the Assets (save to the extent that any such liability is included in the Assumed Liabilities) and the Vendors shall:

- (a) indemnify and hold the Purchasers harmless against all and any obligations, liabilities, demands and Losses suffered or incurred by the Purchaser, including the Excluded Liabilities, arising out of or in connection with any such thing; and
- (b) perform any obligation falling due for performance or which should have been performed before the Effective Time, including those in connection with the Excluded Liabilities.

16. **APPORTIONMENT**

16.1 The Parental Deposits, the Customer Advances and the Instalment Payments (insofar as they are due for collection after the Effective Time) shall belong to the Purchasers, and the Vendors shall:

- (a) account (under the terms of this Agreement) to the Purchasers the full amount of the Parent Deposits and Customer Advances; and
- (b) deal with the Instalment Payments in accordance with clause 16.9 below.

16.2 The Prepayments (as well as Instalment Payments collected, or due for collection, before the Effective Time) shall belong to the Vendors, and the Purchasers shall:

- (a) account (under the terms of this Agreement) to the Vendors the full amount of the Prepayments; and
- (b) deal with the Instalment Payments in accordance with clause 16.9 below.

16.3 All periodical charges and outgoings of the Business, including but not limited to:

- (a) all periodical amounts paid or payable under any of the Contracts;

- (b) all, gas, water, electricity and telephone charges and other utilities and other outgoings relating to or payable in respect of the Properties (other than (1) the rents or licence fees paid or payable in a respect of the occupation of the Properties by the Vendors (2) Council Tax, (3) non-domestic rates and (4) buildings, employer and public liability insurance, which shall not be apportioned at Completion); and
- (c) all salaries, wages, bonuses, commissions, maternity pay, paternity pay, accrued holiday entitlement and holiday pay entitlement, and other emoluments including but not limited to PAYE income tax, National Insurance contributions, health insurance, death in service benefits, season ticket loans and any contributions to pension arrangements,

shall (to the extent not already taken into account as a Prepayment) be apportioned on a time basis so that (subject to clause 16.4 below) such part of the relevant charges and outgoings as is attributable to the period ended at the Effective Time shall be borne by the Vendors and such part of the relevant charges and outgoings as is attributable to the period commencing at the Effective Time shall be borne by the Purchaser.

16.4 The calculation referred to at clause 16.3 above shall be apportioned between the Vendors and the Purchasers in accordance with the approach set out in Schedule 8 (which includes an appropriate and equitable approach to deal with the front-loading of seasonal spend which benefits the Business across the whole academic year).

16.5 All periodical income and receipts of the Business, including but not limited to:

- (a) all periodical amounts received or receivable under any of the Business Contracts; and
- (b) all rents, licence fees and royalties,

shall (to the extent not already taken into account as Customer Advances) be apportioned on a time basis so that such part of the relevant income and receipts as is attributable to the period ended at the Effective Time shall belong to the Vendors and such part of the relevant payments and receipts as is attributable to the period commencing on the day immediately following the Effective Time shall belong to the Purchasers.

16.6 The parties agree and acknowledge that the time basis apportionment described in clause 16.5 above shall be by reference to:

- (a) division of the Autumn 2018 Term into four (4) full months; and
- (b) the whole number of months which have elapsed since 1 September 2018.

16.7 The Current Term Debts (comprising the Vendors' Debts and the Purchasers' Debts) shall be treated in accordance with clause 17 below.

16.8 The calculation and payment of any apportionment in accordance with clause 16.1 to 16.4 shall be dealt with as follows:

- (a) Within 30 Business Days of Completion the Vendors shall submit to the Purchasers the Completion Adjustments Accounts, comprising a schedule of the apportionments to be made under clause 16.1 to 16.4 and a statement of the net amount payable thereunder (which shall take into account the Adjustment Pre-estimate);
- (b) the Purchasers shall notify the Vendors within 15 Business Days of the receipt of the Completion Adjustments Accounts whether or not they accept such schedule and, in the absence of notification to the contrary within that period the Purchasers shall be deemed to have agreed to the schedule of apportionments in the Completion Adjustments Accounts. If the Purchasers notify the Vendors that they do not accept the schedule of apportionments within the above period, the parties shall use all reasonable endeavours to reach agreement. If such schedule is not agreed between the parties within 15 Business Days of receipt of the schedule of apportionments by the Purchasers then the matter or matters in dispute shall be referred to an independent accountant for determination in accordance with clause 16.6; and

- (c) the net amount payable in respect of any apportionments in accordance with this clause 16.5 shall be paid by the relevant party to the other within 5 Business Days after it has been agreed or determined (as the case may be).

16.9 All Instalment Payments which are or were due for collection:

- (a) before the Effective Time but which are received by the Purchasers after the Effective Time shall be held by the Purchasers on trust for the Vendors and shall be paid to the Vendors without deduction within 5 Business Days of receipt.
- (b) after the Effective Time and which are received by the Vendors after the Effective Time shall be held by the Vendors on trust for the Purchasers and shall be paid to the Purchasers without deduction within 5 Business Days of receipt.

16.10 Any dispute as to any amount to be paid in accordance with clause 16.5 shall be referred to an independent chartered accountant to be agreed upon and appointed by the parties (who shall fully co-operate with each other in such appointment and its terms) or (in default of such agreement within 5 Business Days) by the President or other senior official for the time being of the Institute of Chartered Accountants in England and Wales on the application of either party. Such independent accountant shall be instructed to ascertain and certify the amount (if any) payable. The decision of such independent accountant (who shall be deemed to act as an expert and not as an arbitrator) shall be final and binding on the parties, save in the event of fraud or manifest error, and the cost of such reference shall, unless and to the extent that the independent accountant certifies otherwise, be paid by the Purchasers and the Vendors in equal shares.

16.11 In the event that Completion takes place after 31 December 2018, the parties shall revisit the apportionment exercise set out in this clause 16 in order to agree an approach which reflects the general apportionment principles set out in this clause.

17. DEBTS

17.1 Subject to clause 17.2 below, the Purchasers shall not acquire the Debts, which shall remain the property and responsibility of the Vendor (subject to this clause 17).

17.2 Although the Purchasers shall not acquire the Current Term Debts, the Vendor shall hold such proportion of the Current Term Debts which relate to the period after the Effective Time (**Purchasers' Debts**) on Trust for the Purchasers whilst retaining the proportion of the Current Term Debts which relate to the period before the Effective Time (**Vendors' Debts**) for itself without limitation, with such apportionment being undertaken in accordance with the principles in clause 16.6 above.

17.3 The Vendors shall:

- (a) endeavour to collect the Debts (including, for the avoidance of doubt, the Purchasers' Debts) but shall not be bound to take any legal proceedings or other steps to recover the same;
- (b) provide the Purchasers with monthly updates on the collection of the Purchasers' Debts;

- (c) pay to the Purchasers at the end of each month (within 10 Business Days of the last day in each month) such amount of the Purchaser's Debts received.
- 17.4 In consideration of the Vendors collecting the Purchasers' Debts, the Purchasers shall reimburse the Vendors for any reasonable third party costs, fees or disbursements properly incurred by agreement with the Purchaser in relation to the collection of the Debts (with the Vendors being entitled to deduct such amount from any amounts which they would otherwise be obliged to remit to the Purchasers under this clause 17).
- 17.5 Subject to any express intention to the contrary on the part of the debtor, any money received by the Vendors in the course of collecting any Current Term Debts shall be deemed to have been paid in or towards the discharge of the oldest debt first allocated by the Vendors as between Purchasers' Debts and Vendors' Debts in accordance with the principle set out in clause 17.2.
- 17.6 The Purchasers shall provide the Vendors with reasonable assistance in relation to the collection of the Debts which shall include, but not be limited to, taking steps to exclude (or threaten to exclude) any Pupil from the School in the absence of the relevant Parent(s) settling the Debts or proposing appropriate arrangements for the settlement of the Debts.
- 17.7 The Purchasers shall not seek to recover the Debts directly and shall not do anything to hinder their collection by the Vendors and, in particular, the Purchasers shall not assign any of the Debts to any third party. The Vendor shall inform the Purchaser of any payments that may be made to the Vendor in respect thereof.
- 17.8 If it becomes apparent that recovery of any Purchasers' Debt is not likely to be possible within a reasonable period the Vendors shall advise the Purchasers in writing and furnish the Purchasers with full particulars of the steps taken by the Vendors to effect recovery. Where the debtor in question is a continuing debtor of the Business after the Effective Time, the Vendors shall consult with the Purchasers before instituting any legal proceedings and shall not take any action calculated or likely to affect the Goodwill of the Business and, in any event, the Vendor shall not institute any legal proceedings without first giving the Purchaser at least 10 Business Days' prior notice.
- 17.9 The obligations of the Vendors under this clause 17 to collect Purchasers' Debts shall cease absolutely at 23:59 on 31 August 2019 (**End Date**), save that if thereafter any payments are made to the Vendors in respect of such Purchasers' Debts, the Vendors shall remit the same to the Purchaser less any third party costs, fees or disbursements for which it has not already been reimbursed.
- 17.10 As soon as reasonably practicable after the End Date (and no later than 30 Business Days after the end date) the Vendors shall submit to the Purchasers a schedule setting out the amount of Purchasers' Debts which remain unpaid at the End Date (**Purchasers' Debt Balance**) such schedule including the name and address of such debtors and the amount remaining outstanding in relation to such Purchaser's Debts) (**Purchasers' Debts Adjustment Schedule**).
- 17.11 The Purchasers shall notify the Vendors within 15 Business Days of the receipt of the Purchasers' Debts Adjustment Schedule whether or not they accept such schedule and, in the absence of notification to the contrary within that period the Purchasers shall be deemed to have agreed to the Purchasers' Debts Adjustment Schedule. If the Purchasers notify the Vendors that they do not accept the schedule within the above period, the parties shall use all reasonable endeavours to reach agreement. If such schedule is not agreed between the parties within 10 Business Days of receipt of the schedule by the Purchasers then the matter or matters in dispute shall be referred to an independent accountant for determination in accordance with clause 16.7above.

- 17.12 As soon as reasonably practicable following the agreement or determination of the Purchasers' Debt Adjustment Schedule (and no later than 10 Business Days following such agreement or determination) the Vendors shall pay to the Purchasers an amount equal to the Purchasers' Debt Balance (less any reasonable third party costs, fees or disbursements not deducted in accordance with clause 17.4 above and taking account of any reduction agreed with debtors in relation to specific debts where the Purchaser has given prior consent to such reduction).
- 17.13 In the event that, following the date of payment under clause 17.12 above, the Purchasers received any sum which formed part of the Purchaser's Debt Balance paid under clause 17.12, the Purchaser shall pay such sum to the Vendors as soon as reasonably practicable (and no later than 10 Business Days following receipt of the same).
- 17.14 In the event that Completion takes place after 31 December 2018, the parties shall revisit the provisions set out in this clause 17 in order to agree an approach which reflects the general principles relating to the Debts set out in this clause.

18. RESTRICTIVE COVENANTS

- 18.1 Each Vendor hereby jointly and severally covenants with the Purchasers that it will not, either solely or jointly with or through any other person, on its own account or as agent, owner, manager, advisor or consultant for any other person or otherwise howsoever within the five (5) year period starting on the Completion Date:
- (a) during the Restricted Period establish or acquire an independent school which is or may be likely to be competitive with the School and which carries on business or has a catchment area lying within a radius of five (5) miles of the location of either of the campuses of the School;
 - (b) during the Restricted Period induce, solicit or endeavour to entice to leave the service or employment of the Purchasers any of the Key Employees;
 - (c) use any of the Business Intellectual Property (in particular, a name including the word "Bournemouth College or Bournemouth Collegiate or Bournemouth School") or use in that context anything which is intended, or is likely to be, confused with any of the Business Intellectual Property; and
 - (d) knowingly do or say anything which is harmful to the Purchasers' reputation in relation to the Business.
- 18.2 Each restriction in clause 18 constitutes an entirely independent restriction on the Vendors and if one or more of the restrictions is held to be against the public interest, or unlawful, or in any way an unreasonable restraint of trade, or unenforceable in whole or in part for any reason, the remaining restrictions or parts thereof (as appropriate) shall continue to bind the Vendors.
- 18.3 The Vendors, having taken advice, agree that the restrictions in clause 18.1 are reasonable and entered into for the purpose of protecting the Goodwill. If, however, any restriction in clause 18.1 shall be held by a Court to be void, but would be valid if deleted in part or reduced in application, such undertaking shall apply with such deletion or modification as may be necessary to make it valid and enforceable.
- 18.4 The Vendors shall procure, insofar as it is able, that each member of the Vendors' Group complies with the restrictions set out in clause 18.1.

18.5 For the avoidance of doubt, none of the restrictions set out in clause 18.1 shall be deemed to be breached through the operation of services by the Trust under the Transitional Services Agreement.

19. **CONFIDENTIAL INFORMATION**

19.1 The Vendors undertake with the Purchasers that they will within the five (5) year period starting on the Completion Date:

- (a) not use or disclose to any person Confidential Information it has or acquires; and
- (b) make every effort to prevent the use or disclosure of Confidential Information.

19.2 Clause 19.1 does not apply to:

- (a) disclosure of Confidential Information to a director, officer or employee of the Purchasers whose function requires him to have the Confidential Information;
- (b) use or disclosure of Confidential Information required to be used or disclosed by law or by any governmental or regulatory body but only to the extent required by law;
- (c) disclosure of Confidential Information to an adviser for the purpose of advising the Vendors but only on terms that clause 19.1 applies to the use or disclosure by the adviser; or
- (d) Confidential Information which becomes publicly known other than by a breach of clause 19 or clause 27.

20. **PURCHASERS' COVENANTS**

20.1 Subject to the provisions of clauses 20.2 to 20.4 below the Purchasers undertake and covenant to the Vendors, as follows:

- (a) that they shall invest in the capital infrastructure of the School during the course of the 5 years following Completion such amount as identified in (and otherwise implement) the Business Plan;
- (b) that they shall maintain the Properties in their existing use (being the operation of the School) for a period of not less than 5 years following Completion;
- (c) that they shall ensure that the Fee Discounts are honoured by the School.

20.2 The provisions of clause 20.1 above shall cease to apply in the event that following the date of this Agreement but prior to Completion any of the principal School buildings situate at either or both Campuses are damaged or destroyed (whether in whole or in part), such that the affected Campus or Campuses are unable to carry on the Business as from 1 September 2019 in the manner in which it was carried on prior to the date hereof ('business in normal course') and provided always that the Purchasers have first made all reasonable endeavours:

- (a) to reinstate the damaged or destroyed building or buildings (or the affected parts thereof); and
- (b) to deploy all reasonably practicable measures to find reasonable and workable interim solutions which will not adversely impact on the goodwill of the Business (such as the installation of temporary classrooms in the unaffected areas of either Campus or both Campuses),

so as to enable the Business to operate in normal course as from 1 September 2019.

- 20.3 For the avoidance of doubt the provisions of clause 20.2 shall apply to each Campus separately so that the obligations at clause 20.1 shall only cease to apply to the affected Campus but shall continue to apply to the other Campus if it remains unaffected by the circumstances set out in clause 20.2 above.
- 20.4 Should the Purchasers elect to reinstate the affected buildings and continue the Business notwithstanding that the Business is unable to operate business in normal course as from 1 September 2019, the provisions of clause 20.1 shall then reapply for the remainder of the period mentioned in that clause.

21. DATA PROTECTION

21.1 The Purchasers undertake to the Vendors that, on receipt of the Customer Database and Employee Database on the Completion Date:

- (a) they shall duly observe all its obligations as a Controller under the Data Protection Legislation which arise in connection with processing Customer Data and Employee Data;
- (b) they shall comply with the seven principles relating to processing of personal data set out in Article 5(1) of the GDPR, and in particular shall process Customer Data and Employee Data in accordance with the 'lawfulness, fairness and transparency' principle, for the purpose of the continued provision of details of the product(s) and services to the Customers and in connection with the employment of the Data Employees and in accordance with the terms and conditions set out in this agreement;
- (c) they shall make available a privacy notice to Customers and Employees identified in the Customer Database and Employee Database within 10 Business Days of the Completion Date.

22. GUARANTEE

The provisions of schedule 5 shall apply to the guarantee of the Purchasers' obligations under this Agreement.

23. SEVERABILITY

If at any time any one or more provisions hereof is or becomes invalid, illegal, unenforceable or incapable of performance in any respect, the validity, legality, enforceability or performance of the remaining provisions hereof shall not thereby in any way be affected or impaired.

24. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement and understanding between the parties in connection with the subject matter of this Agreement and supersedes all previous proposals, representations, warranties, agreements or undertakings relating thereto whether oral, written or otherwise and no party has relied on any such proposals, representations, warranties, agreements or undertakings.

25. ASSIGNMENT

This Agreement shall be binding on and shall enure for the benefits of the successors and assigns of the parties hereto but shall not be assigned by any party without the prior written consent of the other parties.

26. VARIATION

No provision of this Agreement may be amended, modified, waived, discharged or terminated otherwise than by the express written agreement of all the parties hereto, nor may any breach of any provision hereof by a party hereto be waived or discharged except as expressly provided herein or with the express written consent of the other parties hereto not in breach.

27. ANNOUNCEMENTS

- 27.1 Forthwith after the date of this Agreement and after the date of Completion the Vendors shall join with the Purchasers in sending out a notice in the agreed terms to all the School's parents and suppliers and other relevant business contacts in respect of the Business.
- 27.2 Any announcement made concerning the terms of any matter contemplated by or ancillary to this Agreement shall only be in a form agreed between the Purchasers and the Vendors.
- 27.3 Notwithstanding clause 19 the Purchasers may make or authorise an announcement required by law or by the New York Stock Exchange or the London Stock Exchange or any securities exchange or regulatory or governmental body (whether or not such requirement has the force of law) provided that the Purchasers have consulted with and taken into account the requirements of the Vendors.

28. NOTICE

- 28.1 Any notice required or permitted to be given hereunder shall be given in writing in the English language delivered personally or sent by post (airmail if overseas) to the parties due to receive such notice at their addresses as set out below (or such other address as it may have notified to the other parties in accordance with this clause 28).
- 28.2 A notice delivered personally shall be deemed to be received when delivered and any notice sent by pre-paid recorded delivery post shall be deemed (in the absence of evidence of earlier receipt) to be received two (2) Business Days after posting and in proving the time of despatch it shall be sufficient to show that the envelope containing such notice was properly addressed, stamped and posted. A notice sent by facsimile message shall be deemed to have been received at the expiration of two (2) hours after the time of despatch, if despatched before 3:00 p.m. (UK time) on any Business Day and, in any other case, at 10:00 a.m. (UK time) on the Business Day following the date of despatch.
- 28.3 (a) For the purpose of delivery of notices under this Agreement, the address of the Vendors are:

Name: United Church Schools Trust
Address: Worldwide House, Thorpe Wood, Peterborough PE3 6SB
Attention: Chief Executive Officer and Company Secretary
Name: United Church Schools Foundation Ltd
Address: Worldwide House, Thorpe Wood, Peterborough PE3 6SB
Attention: Chief Executive Officer and Company Secretary

- (b) For the purpose of delivery of notices under this Agreement, the address of the Guarantor is:

Name: Bright Scholar Education Holdings Limited

Address: No.1, Country Garden Road, Beijiao Town, Shunde District Foshan, Guangdong 528300

Attention: Chief Financial Officer and The Board of Directors

(c) For the purpose of delivery of notices under this Agreement, the address of the Purchasers are:

Name: Bright Scholar (BCS) Property Limited

Address: No.1, Country Garden Road, Beijiao Town, Shunde District Foshan, Guangdong 528300

Attention: The Board of Directors

Name: Bright Scholar (BCS) Management Limited

Address: No.1, Country Garden Road, Beijiao Town, Shunde District Foshan, Guangdong 528300

Attention: The Board of Directors

29. COSTS AND EXPENSES

Each party shall bear its own legal and professional fees, costs and expenses incurred in the negotiation, preparation, execution and completion of this Agreement.

30. REMEDIES TO BE CUMULATIVE

30.1 No remedy conferred by any of the provisions of this Agreement is intended to be exclusive of any other remedy available at law, in equity, by statute or otherwise. Each and every other remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law, in equity, by statute or otherwise. The election by any party to pursue one or more of such remedies shall not constitute a waiver by such party of the right to pursue any other available remedy.

30.2 Each of the parties agrees that specific performance and injunctive relief (in addition or as an alternative to damages) shall be appropriate remedies in respect of breaches hereunder.

31. COUNTERPARTS

This Agreement may be entered into in any number of counterparts and by the parties to it on separate counterparts, each of which when so executed and delivered shall be the original, but all the counterparts shall together constitute one and the same instrument.

32. THIRD PARTY RIGHTS

32.1 Any person to whom the benefit of any provision of this Agreement is assigned in accordance with clause 25 and each person falling within the category of persons described in clause 25 shall be entitled under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement which confers (expressly or impliedly) any benefit on any such person.

32.2 Subject to clause 32.1, a person who is not a party to this Agreement shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce a provision of this Agreement save in relation to clause 20 which shall be enforceable by the Customers and the Beneficiaries.

33. **GENERAL**

The failure or delay in exercising a right or remedy provided by this Agreement or by law does not constitute a waiver of that (or any other) right or remedy. No single or partial exercise of a right or remedy provided by this Agreement or by law prevents the further exercise of that (or any other) right or remedy.

34. **GOVERNING LAW**

34.1 This agreement is governed by English law.

34.2 The courts of England have exclusive jurisdiction to hear and decide any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Agreement (including non-contractual disputes and claims) and, for these purposes, each party irrevocably submits to the jurisdiction of the courts of England.

34.3 Each party irrevocably waives any objection which it might at any time have to the courts of England being nominated as the forum to hear and decide any suit, action or proceedings and to settle any disputes which may arise out of or in connection with this Agreement (including non-contractual disputes and claims) and agrees not to claim that the courts of England are not a convenient or appropriate forum.

This document has been entered into as a deed on the date set out above.

schedule 1

WARRANTIES

1. CAPACITY AND AUTHORITY

- 1.1 The Vendors have full power and authority and has taken all action necessary, including obtaining all necessary approvals and consents, and compliance with all relevant statutory and regulatory requirements to enable them to enter into and perform this Agreement and all agreements or documents entered into, or to be entered into, pursuant to the terms of this Agreement.
- 1.2 This agreement and all agreements or documents entered into, or to be entered into, pursuant to the terms of this Agreement constitute (or will constitute when executed) valid legal and binding obligations on the Vendors in accordance with their respective terms.

2. INFORMATION

- 2.1 All information set out in this Agreement is true, and accurate.
- 2.2 The Written Replies to Enquiries were, when given, materially true and accurate and the Vendors are not aware of any facts or circumstances which have occurred since such date which would materially qualify this statement.

3. ACCOUNTS

- 3.1 The Accounts, insofar as they relate or refer to the Business the Assets and/or the Properties,
 - (a) are true in all respects, comply with the requirements of the Companies Act 2006 and other relevant statutes, statutory instruments and generally accepted accounting principles and standards in the United Kingdom, at the date on which the Accounts were approved by the directors;
 - (b) give a true and fair view of the financial position and state of affairs of the Business as at the Accounts Date and of its profit or loss and cash flow for the period ending on that date;
 - (c) are not affected by any exceptional or non-recurring items;
 - (d) make reasonable provision for depreciation of material fixed assets having regard to their original cost and estimated life;
 - (e) contain or make direct reference to all information and factors necessary to accurately determine the surplus and deficit (as that term is commonly understood) on the supply of services by the Vendors in relation to the Business;
 - (f) do not materially overstate the value of any asset or understate any liability of the Business as at the Accounts Date; and
 - (g) so far as the Vendors are aware, have been prepared on a basis consistent with that used for the preparation of the Vendors' accounts in relation to the Business for the preceding 5 financial periods.

4. **PUPIL NUMBERS**

The total number of pupils enrolled at the School as at 5th September 2018 broken down between the prep school and senior school and boarders and day pupils is set out in the First Disclosure Letter.

5. **FEE DISCOUNTS, SCHOLARSHIPS, BURSARIES AND ASSISTED PLACES**

Details of all Fee Discounts, subsisting at 5th September 2018 are set out in the First Disclosure Letter.

6. **MANAGEMENT ACCOUNTS**

6.1 The Management Accounts:

- (a) have been properly prepared in accordance with good accounting practice and on a basis consistent with that employed in preparing the Accounts previously adopted;
- (b) give a true and fair view of the financial position and state of affairs of the Business on the relevant date of such Management Accounts and of the position regarding the surplus/deficit of the Business for the period ending on that date;
- (c) are not affected by exceptional or non-recurring items.

7. **BOOKS AND RECORDS**

7.1 The Books and Records are, so far as the Vendors are aware:

- (a) maintained in accordance with the law and applicable standards, principles and practices generally accepted in the United Kingdom;
- (b) properly written up to date;
- (c) in the Vendors' possession or under its control;
- (d) are consistent with the matters recorded in the Management Accounts.

7.2 The Vendors are the owners of all hardware and all software licences necessary to enable them to use the Books and Records in the manner in which they have been used prior to the date of this Agreement and the Vendors do not share that hardware or software with any other person.

7.3 All statutory records, including accounting records, required to be kept or filed by the Vendors in respect of the Business have been properly kept or filed and, so far as the Vendors are aware, comply with the requirements of the Act and all other applicable law.

8. **CHANGES SINCE THE MANAGEMENT ACCOUNTS DATE**

8.1 Since the Management Accounts Date:

- (a) the Business has been carried on in the ordinary and usual course without interruption, both as regards its nature, extent and manner and so as to maintain it as a going concern;
- (b) there has been no material adverse change in the turnover, financial or trading position or prospects of the Business and, so far as the Vendors are aware, there is no fact or circumstance which might give rise to any such change;

- (c) the Vendors have not in relation to the Business, other than in the ordinary course of the Business;
 - (i) acquired or disposed of, or agreed to acquire or dispose of, any business or asset; or
 - (ii) assumed or incurred, or agreed to assume or incur, a liability, obligation, expense or capital expenditure (actual or contingent);
- (d) none of the material fixed assets of the Business shown in the Accounts and the Management Accounts or acquired by the Vendors since the Management Accounts Date has been lost, materially damaged or destroyed and, so far as the Vendors are aware, there has been no material reduction in their value in excess of usual depreciation;
- (e) the Business has not been adversely affected by the termination, or a change in the terms of an important agreement, or by a reduction in Pupil numbers, or an abnormal factor not affecting similar businesses.

9. ASSETS

9.1 Each of the Assets is:

- (a) legally and beneficially owned by the Vendors free from any Encumbrance;
- (b) where capable of possession, in the possession or under the control of the Vendors; and
- (c) situated in the United Kingdom.

9.2 The Vendors have not sold or transferred or agreed to transfer any of the Assets and Vendors have not granted or agreed to grant any Encumbrance on or over any of the Assets. The Vendors have not received notice of and are not aware of any exercise of a claim for any Encumbrance on or over any of the Assets and, so far as the Vendors are aware, there is no dispute directly or indirectly relating to any of the Assets.

9.3 None of the Assets has been purchased on terms that title does not pass to the Vendors until full payment is made by it to the supplier.

9.4 The Assets comprise all the assets, contracts and rights reasonably necessary or desirable for the Purchasers to effectively operate the Business.

9.5 So far as the Vendor are aware, all documents of title relating to the Assets and an executed copy of each of the Contracts are in the possession of the Vendors.

10. PROPERTIES

10.1 Properties

- (a) The particulars of the Properties set out in of schedule 9 are true, complete and accurate.
- (b) All of the Properties are currently used by the Vendor in connection with the Business.
- (c) The Properties are the only Properties currently used or occupied for the current operation of the Business.

10.2 Replies to pre-contract enquiries

- (a) The Written Replies to Enquiries insofar as they relate to the Properties, were materially complete and accurate at the date they were given and the Vendors are not aware of any fact or circumstance which may have occurred since that date which would qualify this statement.

10.3 Title

- (a) The Vendors are solely legally and beneficially entitled to each of the Properties.
- (b) The Vendors are in possession and actual occupation of the whole of each of the Properties on an exclusive basis, and no right of occupation or enjoyment has been acquired or is in the course of being acquired by any third party, or has been granted or agreed to be granted to any third party.
- (c) The Vendors have in their possession and control and the Disclosure Bundle contains copies of all the title deeds and documents necessary to prove the Vendor's title to the Properties.
- (d) The documents of title (if any other than the registered titles for each Property) relating to the Properties to be delivered to the Purchasers on completion of the purchase of each of the Properties will all be original documents.
- (e) There is no circumstance that could render any transaction affecting the Vendor's title to any of the Properties liable to be set aside under the Insolvency Act 1986.
- (f) There are no insurance policies relating to any issue of title affecting the Properties.
- (g) So far as the Vendor is aware there are, appurtenant to each of the Properties, all rights and easements necessary for their Current Use and enjoyment (without restriction as to time or otherwise).

10.4 Encumbrances

- (a) The Properties (and the proceeds of sale from them) are free from:
 - (i) any mortgage, debenture, charge (whether legal or equitable and whether fixed or floating), rentcharge, lien or other right in the nature of security; and
 - (ii) any agreement for sale, estate contract, option, right of pre-emption or right of first refusal,

and there is no agreement or commitment to give or create any of them.

- (b) The Properties are not subject to the payment of any outgoings other than non-domestic local business rates and water and sewerage charges and utility costs and all outgoings have been paid when due and none are disputed.
- (c) The Vendors have not received notice of any breach of and are not otherwise aware of any covenants, restrictions, stipulations and other Encumbrances affecting the Properties.
- (d) So far as the Vendors are aware there are no circumstances which (with or without taking other action) would entitle any third party to exercise a right of entry to, or take possession of all or any part of the Properties, or which would in any other way affect or restrict the continued possession, enjoyment or use of any part of the Properties.

- (e) The Vendors have not expressly or impliedly waived any breach by any person of any covenant, agreement, restriction, stipulation or obligation relating to the Properties or any part of them, or of which the Properties or any part of them has the benefit.

10.5 Planning and use of Properties

- (a) So far as the Vendors are aware the Current Use of each of the Properties is the permitted lawful use for the purposes of the Planning Acts.
- (b) So far as the Vendors are aware all necessary building regulation consents have been obtained both in relation to the Current Use of the Properties and any alterations and improvements made to them by the Vendors.
- (c) No claim or liability (contingent or otherwise) under the Planning Acts in respect of the Properties (or any part), or any Statutory Agreement affecting the Properties (or any part), is outstanding, nor are the Properties (or any part) the subject of a notice to treat or a notice of entry and so far as the Vendors are aware no notice, order, resolution or proposal has been published for the compulsory acquisition, closing, demolition or clearance of the Properties or any part.
- (d) The Vendors have not received notice of any breach of the terms of any planning permissions, orders and regulations issued under the Planning Acts or in respect of any building regulations consents issued to the Vendor.

10.6 Statutory obligations

The Vendors have not been notified of any breach of and are otherwise not aware of applicable statutory and requirements relating to the Properties and their Current Use.

10.7 Complaints and disputes

- (a) No notices, complaints or requirements have been issued or made (whether formally or informally) by any competent authority or undertaking exercising statutory or delegated powers in relation to any of the Properties, the Current Use of the Properties or any machinery, plant or equipment in them during the Vendor's ownership of the Properties and the Vendors are not aware of any matter which could lead to any such notice, complaint or requirement being issued or made.
- (b) There exists no dispute between the Vendors and the owner or occupier of any other premises adjacent to or neighbouring the Properties and the Vendors are not aware of any circumstances that may give rise to any such dispute after the date of this agreement.

11. **FIXED ASSETS**

11.1 The asset list included in the Disclosure Bundle comprises a materially true and accurate record of all the Computer Equipment, Fixed Assets and Motor Vehicles as at the date of this agreement.

11.2 All the Computer Equipment, Fixed Assets, Loose Assets and Motor Vehicles:

- (a) are in appropriate condition and repair for the operation of an independent school; and
- (b) so far as the Vendors are aware, have been regularly and properly maintained.

11.3 The Vendor has in place appropriate arrangements for the maintenance of the Computer Equipment, boilers and central heating systems and any other significant plant and machinery at the School.

12. HIRE PURCHASE AND LEASED ASSETS

12.1 A list of all the Leased Assets used by the Business is included in the Disclosure Bundle.

12.2 So far as the Vendors are aware, no circumstance has arisen or is likely to arise in relation to any Leased Asset whereby the rental payable has been or is likely to be increased.

12.3 All payments due under the Lease Agreements have been paid on the due dates therefor and such payments are materially up to date.

13. STOCK

13.1 The Stock required for the Business is in such condition and is available in sufficient quantities as to be adequate for the normal requirements of the Business as carried out by the Vendors in the 12 month period up to Completion.

14. INTELLECTUAL PROPERTY

14.1 Ownership

- (a) The Business Intellectual Property is valid and enforceable and, so far as the Vendors are aware, nothing has been done or omitted to be done by which it may cease to be valid.
- (b) The Business Intellectual Property is legally and beneficially owned by the Vendors alone, free from any licence, Encumbrance, restriction on use or disclosure obligation or is licensed to the Vendors, as exclusive licensee, pursuant to an Intellectual Property Agreement.
- (c) No Intellectual Property in relation to which any third party has any right, title or interest is used in or required for or by the Business, save for that which is the subject of any Intellectual Property Agreement.
- (d) The Vendors have not granted and is not obliged to grant a licence, assignment or other right in respect of any of the Business Intellectual Property.
- (e) The Vendors are the sole legal and beneficial owner of the Goodwill.

14.2 Claims and Infringements

- (a) So far as the Vendors are aware, the Business Intellectual Property is not the subject of a claim or opposition from a person (including an Employee or other employee or former employee of the Vendors) as to title, validity, enforceability, entitlement or otherwise.
- (b) The Vendors have received no notice of any civil, criminal, arbitration, administrative or other proceeding, including any infringement proceedings, or any other dispute in any jurisdiction concerning any of the Business Intellectual Property. So far as the Vendors are aware, no civil, criminal, arbitration, administrative or other proceeding concerning any of the Business Intellectual Property Rights is pending or threatened.
- (c) The activities and services in relation to the Business:

- (i) so far as the Vendors are aware do not involve the use of a third party's Intellectual Property or confidential information.
 - (ii) so far as the Vendors are aware, do not at the date of this Agreement, nor did they at the time carried out, used, infringe the Intellectual Property (including moral rights) of another person; and
 - (iii) so far as the Vendors are aware, have not given, and will not on Completion give rise to a claim against the Purchasers or a liability to pay compensation.
- (d) So far as the Vendors are aware, no third party has made, is making any unauthorised use of any of the Business Intellectual Property or has infringed or is infringing any Business Intellectual Property.
 - (e) Neither the Vendors nor, so far as the Vendors are aware, any other contracting party to any Intellectual Property Agreement or any other agreement in relation to the Business Intellectual Property is in breach of such agreement.

14.3 Adequacy of Business Intellectual Property

- (a) The Business Intellectual Property comprises all the Intellectual Property necessary for the Purchasers to operate the Business as carried on at Completion.
- (b) There is no Business Intellectual Property or Intellectual Property Agreement, due to lapse, expire or terminate within the next 12 months, the loss, termination or expiry of which would cause material adverse effect to the operation of the Business.
- (c) The Vendors have not entered into any Intellectual Property Agreement with any Third Party.

14.4 Creation of Intellectual Property

So far the Vendors are aware all Business Intellectual Property created, conceived, developed or discovered by any person retained, commissioned, employed or otherwise engaged by the Vendors from time to time for the purposes of the Business is fully vested in the Vendors and the Vendors have taken reasonable steps to maintain and protect the Business Intellectual Property.

15. CONFIDENTIAL INFORMATION

- 15.1 So far as the Vendors are aware the Confidential Information has at all times been kept strictly confidential by the Vendors and the Vendors have received no notice that confidentiality has been breached.

16. COMPUTER SYSTEMS

- 16.1 A summary of the Computer Systems and Computer Equipment and its relationship to key operations of the Business has been Disclosed.
- 16.2 The Vendors are the owner of all elements of the Computer Equipment free from encumbrances.
- 16.3 A list of the material Computer Software is included in the Disclosure Bundle.
- 16.4 All Intellectual Property in all Computer Software used in the Business, except that which is licensed to the Business by third parties, is owned by the Vendors.

- 16.5 All maintenance and support agreements necessary to support the Computer Equipment and/or Computer Software are in force and any Computer Software used in the Business is supported.
- 16.6 The Business employs adequate members of appropriately trained employees to ensure the proper operation and use of the Computer Systems.
- 16.7 So far as the Vendors are aware and save in respect of any Computer Software which is licensed, no third party (other than any third party licensor under the terms of any licence agreement in place) has any right to prevent the Purchasers from continuing to use the Computer Systems and the Vendors have received no notice from any third party purporting to exercise such right.
- 16.8 The Vendors maintain a disaster recovery plan in respect of damage to or destruction of some or all of the Computer Systems which would be prudent for the operation of an independent school.
- 16.9 The Vendors have in place procedures to ensure the security of the Computer Systems and data stored on it which would be prudent for the operation of an independent school.

17. DEBTORS/CREDITORS

- 17.1 A summary of the position regarding all Current Term Debts due to the Vendors as at 24 September 2018 has been Disclosed.
- 17.2 The Vendors are not entitled to the benefit of any Debt otherwise than as the original creditor and is not, and has not agreed to become, a party to any factoring or discounting arrangement in respect of such Debts.
- 17.3 No Debt is subject to dispute, counterclaim or set off nor, so far as the Vendors are aware, is there any fact or circumstance which might give rise to any such dispute, counterclaim or set off or which would result in any Debt not being recoverable in full in the ordinary course of business.
- 17.4
 - (a) So far as the Vendors are aware, they have paid the creditors of the Business within the times agreed with them;
 - (b) a list of such creditors of the Vendors in relation to the Business as at *21 September 2018* is included in the Disclosure Bundle such creditors.

18. CONTRACTS

- 18.1 A copy of the Businesses standard parent contract template is contained in the First Disclosure Letter.
- 18.2 All the material terms of each Contract have been disclosed to the Purchasers and copies of all material Contracts are included in the Disclosure Bundle.
- 18.3 So far as the Vendors are aware, no Contract:
 - (a) is of an onerous or unusual nature or is not of an entirely arms' length nature or is likely to be loss making;
 - (b) was entered into other than in the ordinary course of the Business;

- (c) is incapable of being fully performed in accordance with its terms within 6 months of the date on which it was entered into or undertaken;
 - (d) is incapable of termination in accordance with its terms by the Vendors on 90 days' notice or less;
 - (e) restricts the Vendors' freedom to operate the whole or part of the Business or to use or exploit any of the Assets as it decides;
 - (f) constitutes a sale or purchase, option or similar agreement, arrangement or obligation affecting the Business or any of the Assets;
 - (g) is one with which the Vendors cannot comply on time or without undue or unusual expenditure of money or effort;
 - (h) is of a loss making nature (that is, likely to result in a loss to the Vendors on completion of performance);
 - (i) is one by which the Vendors grants or is granted sole or exclusive rights;
 - (j) is a distributorship, agency, franchise or management agreement or arrangement;
 - (k) requires the performance by the Vendors of any obligations outside the United Kingdom;
 - (l) is an agreement for the supply of any administrative or other services or facilities to the Vendors in relation to the Business;
 - (m) confers or purports to confer a benefit or right on any person who is not a party to the Contract; or
 - (n) involves obligations or liabilities which, by reason of their nature or magnitude, ought reasonably to have been made known to the Purchasers.
- 18.4 So far as the Vendors are aware, the Contracts are in full force and effect and constitute valid and binding obligations on the parties to such Contracts which are enforceable in accordance with their terms.
- 18.5 The Vendors have no knowledge of the invalidity of, or a ground for termination, avoidance or repudiation of, a Contract.
- 18.6 No party to a Contract has given notice of its intention to terminate or rescind, or has sought to repudiate or disclaim, such Contract. The Vendors have received no written notice of any actual or proposed changes to the prices or other material terms of any Contract.
- 18.7 So far as the Vendors are aware, all the Contracts have been duly complied with, no party to a Contract is in breach of such Contract and, so far as the Vendors are aware, there is no fact or circumstance exists which might give rise to a breach. So far as the Vendors are aware, no Contract is the subject of any dispute or claim and there are no facts matters or circumstances which might give rise to any dispute or claim.
- 18.8 So far as the Vendors are aware there has been no delay, negligence or other default on the part of the Vendors in respect of, and no event has occurred which with the giving of notice or passage of time could constitute a breach by the Vendors of, any of the Vendors' obligations under any of the Contracts.

- 18.9 A description of all Contracts or engagements (whether written or oral), which are material to the Business have been Disclosed.
- 18.10 So far as the Vendors are aware none of the parties to any Contract is entitled to exercise any set off or counterclaim or to delay or withhold payment of any monies falling due under that Contract or to make payment to any party other than the party specified in such contract.
- 18.11 No offer, tender or similar arrangement is outstanding which is capable of being converted into an obligation of the Vendors in relation to the Business by an acceptance or act of a third party.

19. JOINT VENTURES AND PARTNERSHIPS

- 19.1 The Vendors are not in relation to the Business, nor have they agreed to become in relation to the Business, a member of any joint venture, consortium, partnership or other unincorporated association or a party to any agreement or arrangement for sharing commissions or other income relating to the Business.
- 19.2 The Vendors are not a member of any partnership, trade association, society or other group, whether formal or informal, and whether or not having a separate legal identity in connection with the Business and no such body is relevant to or has any material influence over the Business.
- 19.3 The Vendors do not have any interest whether as owner, agent, manager, adviser or consultant or of any other nature in an independent school within 5 miles of any of the Campuses.

20. SUPPLIERS

- 20.1 No supplier (including any person connected in any way with such supplier) accounts for more than 5% of the aggregate value of all purchases made by the Business in the 12 months prior to the date of this Agreement.
- 20.2 A list of the top 15 suppliers (by annual value) of the Business is included in the Disclosure Bundle.
- 20.3 During the year ending on the date of this Agreement no material supplier of the Business has:
- (a) stopped, or indicated an intention to stop, trading with or supplying the Business;
 - (b) reduced, or indicated an intention to reduce, its supplies to the Business; or
 - (c) changed, or indicated an intention to change, the terms on which it is prepared to supply the Business (other than normal price and quota changes).

21. PARENTAL DISPUTES

- 21.1 There are no outstanding claims against the Vendors in respect services supplied by the Vendors and so far as the Vendors are aware, no such claims are threatened or anticipated.
- 21.2 The Vendors have not knowingly accepted any liability or obligation to do or not do anything in respect of any services supplied by the Vendors in the course of the Business.

21.3 Save in relation to those parents who pay fees monthly, the Vendors have not entered into an agreement or arrangement with parents on terms materially different to the standard terms of business of the School, a copy of which is included in the Disclosure Bundle.

22. DATA PROTECTION AND PRIVACY

22.1 So far as the Vendors are aware they have in relation to the Business at all times complied with, and at the date of this Agreement complies with, the Data Protection Legislation including:

- (a) the data protection principles;
- (b) the requirements relating to notification of processing of personal data;
- (c) data subject access requests;
- (d) the obtaining of appropriate consents for direct marketing; and
- (e) the creation and regular maintenance of appropriate suppression lists.

22.2 No information notice or enforcement notice or other correspondence has been received by the Vendors in relation to the Business from the Information Commissioner or any other competent authority or industry body alleging non-compliance or requiring compliance with the Data Protection Legislation and there is no fact or circumstance that might give rise to the issue of such notices or correspondence.

22.3 There is no claim or action or, so far as the Vendors are aware, any fact or circumstance that might give rise to a claim or action against the Vendors in relation to the Business for non-compliance with the Data Protection Legislation.

23. EMPLOYEES

23.1 General

- (a) The Vendors are not a party to a consultancy contract in connection with the Business.
- (b) There is no employment contract between the Vendors and any of the Employees which cannot be terminated by 3 months' notice or less without giving rise to a claim for damages or compensation (other than a statutory redundancy payment or statutory compensation for unfair dismissal).
- (c) The Vendors have not received notice of resignation from any of the Employees since the Management Accounts Date nor has reason to believe that the sale of the Business or the Assets will result in any Employee leaving the Business.
- (d) There is no employment or consultancy contract or other contract of engagement between the Vendors and any person in connection with the Business which is in suspension or has been terminated but is capable of being revived or enforced or in respect of which the Vendors have a continuing obligation.
- (e) Since the Management Accounts Date, the Vendors have not transferred or agreed to transfer any Employees so that they no longer work within the Business;
- (f) Details of the total number of Employees including details of those who are on maternity leave or absent because of disability or other long-term leave of absence, and in each case have or may have a right to return to work in the Business have been Disclosed.

- (g) The Employee Schedule contains details of
 - the name, date of start of employment, period of continuous employment, salary and other benefits, and date of birth of each of the Employees and, identifying any employees on maternity leave and e any Employees who have been continuously absent from work for more than one month, giving the reason for the absence;
- (h) Information of any investigation or formal disciplinary action in accordance with the Vendors disciplinary procedure taken against an Employee within the two years ending on the date of this Agreement has been Disclosed.
 - (i) Information of any formal grievance raised in accordance with the Vendors' grievance procedure taken by an Employee within the two years ending on the date of this Agreement has been Disclosed.
- (i) Since the Management Accounts Date:
 - (i) the basis of the remuneration payable to the Employees has not altered and the Vendors are not obliged to increase, nor has it made provision to increase, the total annual remuneration payable to the Employees by more than 1%; and
 - (ii) no material alterations have been made to the contractual terms and conditions of employment of any of the Employees or other benefits of any of the Employees or any past officer or employee of the Business or any of their dependants.
- (j) The Vendors have made all payments due to the Employees in connection with the Business other than for accrued remuneration or reimbursement of business expenses which will be paid or discharged in full up to the Effective Date.
- (k) There is no agreement or arrangement between the Vendors and any of the Employees of the Vendors in connection with the Business with respect to his employment, his ceasing to be employed or his retirement which is not included in the written terms of his employment. The Vendors have not provided, or agreed to provide, a gratuitous payment or benefit to any of the Employees (or their dependants).
- (l) The Vendors have maintained up-to-date, full and materially accurate records regarding the employment of each of the Employees (including details of terms of employment, payments of statutory sick pay and statutory maternity pay, income tax and social security contributions, holiday accrual, disciplinary and health and safety matters).
- (m) The Vendors have not entered into any agreement and no event has occurred which may involve the Business in the future acquiring any undertaking or part of one such that the Regulations may apply thereto.
- (n) The Vendors have not dismissed any employee in contemplation of this transaction or in the 12 month period immediately preceding the date of this Agreement.
- (o) No outstanding offer of employment has been made by the Vendors in connection with the Business nor has any person accepted such an offer of employment made by the Vendors but not yet commenced such employment.

23.2 Payments on termination

Since the Accounts Date, the Vendors have not:

- (a) incurred a liability for breach or termination of an employment contract with any of the Employees or a former employee of the Vendors in connection with the Business including a redundancy payment, protective award or compensation for wrongful dismissal, unfair dismissal or failure to comply with an order for the reinstatement or re-engagement of any of the Employees or a former employee of the Vendors in connection with the Business;
- (b) incurred a liability for breach or termination of a consultancy agreement in relation to the Business incurred a liability in respect of any accident or injury which is not covered by insurance, or received notice of claim from any Employee or former employee of the Vendors in connection with the Business indicating a potential liability in respect of any of the foregoing.

23.3 Compliance with law

The Vendors have in connection with the Business complied with:

- (a) its obligation under the Working Time Regulations 1998 in relation to the hours worked by its employees and its record-keeping obligations; and
- (b) the provisions of the Information and Consultation of Employees Regulations 2004,

and there are no enquiries or investigations existing, pending or threatened affecting the Vendors in relation to any of the Employees or former employees of the Vendors by the Equality and Human Rights Commission or the Health and Safety Executive.

23.4 Redundancies and transfer of business

Within the year ending on the date of this Agreement the Vendors have not:

- (a) given notice of redundancies to the relevant Secretary of State or started consultations with a trade union under Chapter II of Part IV of the Trade Union and Labour Relations (Consolidation) Act 1992 or failed to comply with its obligations under Chapter II of Part IV of that Act; or
- (b) been a party to a relevant transfer (as defined in the Regulations) or failed to comply with a duty to inform and consult employee representatives or a trade union under the Regulations.

23.5 Trade unions

- (a) The Vendors have no agreement, collective agreement or other arrangement with and does not recognise a trade union, works council, staff association or other body representing any of the Employees.
- (b) The Vendors are not involved in, and so far as the Vendors' are aware, no fact or circumstance exists which is likely to give rise to, a dispute with a trade union, works council, staff association or other body representing any of the Employees.
- (c) The Vendors have not received any formal request under the Information and Consultation of Employees Regulations 2004 in relation to the Employees.

23.6 Bonus and Incentive schemes

- (a) The Vendors does not have and is not proposing to introduce any incentive, share option, profit sharing, bonus, commission or other incentive scheme for any of the Employees.

- (b) No current Employee of employees where offers of employment have been made and accepted are entitled to guaranteed or conditional increases in remuneration whether by way of bonus or otherwise.

23.7 Employment Claims

- (a) There are no legal or other proceedings between the Vendors on the one hand and any Employee of the Vendors or Employee previously engaged in the Business on the other hand nor so far as the Vendors are aware are any such proceedings pending or threatened.
- (b) So far as the Vendors are aware, there are no facts, matters or circumstances which are likely to give rise to any such proceedings.
- (c) No court or Tribunal case, claim or action has been brought by any employee of the Business against the Vendors within the two years ending on the date of this Agreement.

24. EDUCATION COMPLIANCE

- 24.1 The Vendor has in relation to the Business has kept, or procured the keeping of, registers of both admissions and attendance and made returns to the Department for Education detailing the names of any children who have failed to attend school regularly in accordance with the requirements of the Education (Pupil Registration) (England) Regulations 2006 (as amended).
- 24.2 The Vendors have made an annual return of pupil numbers and other necessary information to the Department for Education as required by the Education (Independent Educational Provision in England) (Provision of Information) Regulations 2010 (SI 2010/2919).
- 24.3 The Vendors hold the necessary Department for Education registration required to carry on its Business including pursuant to section 99 Education and Skills Act 2008 (**Consent**).
- 24.4 The Consent is in the Vendors' possession and:
 - (a) the Vendors not in breach of any of the terms and conditions
 - (b) it is valid and subsisting;
 - (c) so far as the Vendors are aware there is no reason why it should not be suspended, cancelled, qualified or revoked or not renewed upon the expiry of the existing terms.
- 24.5 Details of all memberships of the School and of associations and professional bodies paid for by the School are Disclosed.
- 24.6 Details of the latest inspection by the Independent Schools Inspectorate or Ofsted have been Disclosed.
- 24.7 All background checks in relation to all Employees, prospective employees and any other person connected with the Business as required by law, including but not limited to searches of the Disclosure and Barring Service have been made and all necessary steps have been taken to ensure that any matter revealed by such searches is properly investigated to the fullest extent possible as required by law and appropriate action has been taken by the Seller.

- 24.8 Anonymised details of any child protection incidents or allegations in relation to the Business in the past two years have been Disclosed.
- 24.9 Details of the Vendors' Tier 4 sponsor licence have been Disclosed. The Vendors' sponsor licence is currently listed as holding "Tier 4 Sponsor" status and is not subject to any restrictions preventing them from sponsoring pupils under Tier 4.
- 24.10 Details of written complaints made by Parents in the last two years are included in the complaints log, which has been Disclosed.
- 24.11 The Vendors confirm that so far as they are aware all the Employees have the right to work in the UK and that where required evidence of that right is held on the Employees' personnel files.
- 24.12 The School has not filed, and has had no cause to file, any report to the National Crime Agency in respect of fees it receives or has received from parents.

25. PENSIONS

- 25.1 Save for the Vendors' Scheme and the Life Assurance Scheme the Sellers have not proposed nor are they under any obligation, liability or commitment however established and whether or not legally enforceable to pay, provide or contribute towards, any benefits under a pension scheme (as defined by section 150 of the Finance Act 2004) for or in respect of any Employee (or any spouse, child or dependant of any Employee).
- 25.2 All material details in relation to the Vendors' Schemes and the Life Assurance Scheme have been supplied to the Purchaser.
- 25.3 Save for the Teachers' Pensions Scheme, each of the Vendors' Schemes is a registered pension scheme within the meaning of the Finance Act 2004 and, as far as the Vendors are aware, there is no reason why such registration may be withdrawn.
- 25.4 All contributions, premiums and expenses due in respect of the Vendors' Schemes and Life Assurance Scheme have been paid.
- 25.5 No claim has been made or threatened in connection with the Vendors' Schemes or the Life Assurance Scheme and, as far as the Vendors are aware, there are no circumstances likely to give rise to any such claim.
- 25.6 Any lump sum death in service benefits payable under the Vendors' Schemes, other than the Teachers' Pension Scheme, and the Life Assurance Scheme are fully insured with an insurance company authorised to carry on long term insurance business under the Financial Services and Markets Act 2000.
- 25.7 No Employee has any right to Relevant Benefits arising as a result of a transfer of their employment to the Vendors under the Regulations.
- 25.8 The Vendors have complied with their obligations in relation to automatic enrolment under the Pensions Act 2008.
- 25.9 The Trust is an accepted employer under Regulation 13 of the Teachers' Pension Scheme Regulations 2010.

26. **EFFECT OF SALE**

So far as the Vendors are aware, neither the execution and delivery nor the performance of this Agreement or of a document or agreement entered into pursuant to this Agreement or of any obligation under it will:

26.1 conflict with or constitute or result in a breach of or default under or require the consent of a person under:

- (a) any governmental, public or contractual obligation which is binding upon the Vendors, including the provisions of the Contracts or any Encumbrance to which the Vendors are a party or by which any of the Properties or Assets are bound or subject;
- (b) any court order, judgment, decree, award or injunction which is binding upon the Vendors or by which any of the Assets are bound or subject; or
- (c) an agreement, arrangement or obligation to which the Vendors are a party in relation to the Business or any of the Assets or a legal or administrative requirement in relation to the Business or any of the Assets in any jurisdiction;

26.2 result in the Purchasers losing the benefit of an asset, licence, grant, subsidy, right or privilege which the Vendors enjoys at the date of this Agreement in relation to the Business or any of the Assets in any jurisdiction;

26.3 relieve any person from any obligation under any of the Contracts or entitle any person to terminate any such obligation or any right or benefit enjoyed by the Vendors under any Contract; or

26.4 result in the creation, imposition, crystallisation or the enforcement of any Encumbrance on or over any of the Properties or Assets.

27. **INSURANCE**

27.1 Each of the Properties and Assets which is insurable has at all times been and is at the date of this Agreement insured to its full replacement value against each risk normally insured against by a person operating the types of business operated by the Vendors.

27.2 The Vendors have at all times been and is at the date of this Agreement adequately insured in relation to the Business against accident, damage, injury, third party loss (including product liability), loss of profits and all other risks normally insured against by a person operating the types of business operated by the Vendors.

27.3 The Disclosure Letter contains a list of each current insurance policy in respect of which the Vendors have an interest in connection with the Business and the Assets (together the “**Insurance Policies**”).

27.4 So far as the Vendors are aware:

- (a) each of the Policies is valid and enforceable and is not void or voidable; and
- (b) They have not done anything or omitted to do anything which might make any of the Policies void or voidable.

27.5 All premiums due in respect of the Policies have been paid up to date and so far as the Vendors are aware, they have not done or omitted to do anything which might result in an increase in the premium payable under any of the Policies.

27.6 No claim is outstanding under any of the Policies and, so far as the Vendors are aware, there is no fact or circumstance which might give rise to a claim under any of the Policies.

28. EHS MATTERS

28.1 The Vendors have obtained and, so far as the Vendors are aware, have at all times complied with the terms and conditions of all Environmental Permits.

28.2 So far as the Vendors are aware, all such current Environmental Permits remain in full force and effect and there is no fact or circumstance which might lead to the revocation, modification or suspension of any such Environmental Permits.

28.3 The Vendors are not required to carry out any work or capital expenditure in order to comply fully with the terms and conditions of any Environmental Permits or, so far as the Vendors are aware, otherwise to comply fully with any EHS Laws.

28.4 So far as the Vendors are aware, they have, in relation to the Business, at all times complied with all EHS Laws and there is no fact or circumstance which might lead to any breach of, or liability under, any EHS Laws.

28.5 The Vendors have not received notice of any civil, criminal, arbitration or administrative actions, claims or proceedings pending or threatened against the Business arising from or relating to any EHS Laws and, so far as the Vendors are aware, there is no fact or circumstance which might lead to such actions, claims or proceedings.

28.6 The Vendors have not received any notice from any regulatory authority with regard to any alleged breach of EHS Laws in relation to the Business and, so far as the Vendors are aware, there have been no complaints, investigations, enquiries, requests for information or other formal or informal indications of any possible claims or legal actions in respect of EHS Matters from any person including any neighbour, current or former employee, or regulatory authority.

29. LITIGATION

29.1 Save as Disclosed (or through the usual collection of unpaid debts in the ordinary course of business) the Vendors have not during the two years ending on the date of this Agreement been involved, in a civil, criminal, arbitration, administrative or other proceeding in relation to the Business or any of the Assets. So far as the Vendors are aware, no civil, criminal, arbitration, administrative or other proceeding in relation to the Business or any of the Assets is pending or threatened by or against the Vendors or a person for whose acts or defaults the Vendors may be vicariously liable.

29.2 To the best of the Vendors' knowledge, information and belief, there is no fact or circumstance which might give rise to a civil, criminal, arbitration, administrative or other proceeding in relation to the Business or any of the Assets involving the Vendors or a person for whose acts or defaults the Vendors may be vicariously liable.

29.3 There is no outstanding, unfulfilled or unsatisfied judgment, order, decree, arbitral award or decision of a court, tribunal, arbitrator or governmental agency in any jurisdiction against the Vendors or, so far as the Vendors are aware, a person for whose acts or defaults the Vendors may be vicariously liable which affects or might detrimentally and materially affect the Business or any of the Assets.

29.4 Details of all material claims, complaints or returns relating to the Business that have occurred during the 12 months preceding the date of this Agreement are contained in the Disclosure Letter.

30. INSOLVENCY, WINDING UP ETC.

- 30.1 No order or application has been made or resolution passed for the winding up of the Vendors or for the appointment of a provisional liquidator to the Vendors.
- 30.2 No petition has been presented and no application has been made to court for an administration order in respect of the Vendors and, so far as the Vendors are aware, no notice of an intention to appoint an administrator of the Vendors have been given or filed.
- 30.3 No receiver or receiver and manager has been appointed of the whole or part of the Vendors' business or assets.
- 30.4 No voluntary arrangement has been proposed under section 1 of the Insolvency Act 1986 in respect of the Vendors. No compromise or arrangement has been proposed, agreed to or sanctioned under section Part 26 of the Act in respect of the Vendors.
- 30.5 The Vendors are not insolvent or unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986. The Vendors have not stopped paying its debts as they fall due.
- 30.6 No distress, execution or other process has been levied on any of the Assets.
- 30.7 There is no unsatisfied judgment or court order outstanding against the Vendors.
- 30.8 None of the Assets have been the subject of a transaction at an undervalue within the meaning of Part IX or Part IV of the Insolvency Act 1986.
- 30.9 So far as the Vendors are aware, no action is being taken by the registrar of companies to strike the Vendors off the register.
- 30.10 The Vendors have not suffered any equivalent or analogous proceedings or orders to any of those described in this paragraph 30 under the law of any jurisdiction in which the Vendors carries on business or has an asset.

31. COMPLIANCE WITH LAW

31.1 General

- (a) So far as the Vendors are aware, they have at all times carried on the Business and used and dealt with the Properties and Assets in compliance with all material applicable legal and administrative requirements, laws and regulations whether of the United Kingdom or elsewhere including, without limitation, the Charities Acts.
- (b) There has been no violation of, or default with respect to, any statute, regulation, directive, order, decree or judgement of any court or any governmental agency of the United Kingdom (or any other country in which the Business is conducted) by the Vendors which could have an adverse effect upon the Properties, Assets or the Business.
- (c) The Business does not carry on (and has not, at any time when not an authorised person under Part III Financial Services and Markets Act 2000, carried on) a regulated activity in the United Kingdom within the meaning of section 22 Financial Services and Markets Act 2000.

- (d) There is no outstanding liability for any industrial training levy or for any other statutory or governmental levy or charge in relation to the Business, the Assets or the Employees.
- (e) Details of any discrimination claim received in respect of the Business in the past two years have been Disclosed.

31.2 Investigations

So far as the Vendors are aware, there is and has been no governmental or other investigation, enquiry or disciplinary proceeding concerning the Vendors or the Business, the Assets or the Employees in any jurisdiction, no such investigation, enquiry or proceeding is pending or threatened and there is no fact or circumstance which might give rise to any such investigation, enquiry or proceeding.

31.3 Unlawful payments

- (a) So far as the Vendors are aware, neither they nor a person for whose acts or defaults the Vendors may be vicariously liable has:
 - (i) induced a person to enter into an agreement or arrangement with the Vendors by means of an unlawful or immoral payment, contribution, gift, or other inducement;
 - (ii) offered or made an unlawful or immoral payment, contribution, gift or other inducement to a government official or employee; or
 - (iii) directly or indirectly made an unlawful contribution to a political activity.
- (b) The Vendors have not:
 - (i) acquired any of the Assets with monies representing the proceeds of crime; or
 - (ii) at any time received monies representing the proceeds of crime.

32. PERMITS

32.1 For the purposes of this paragraph 32, “**Permit**” shall mean a permit, licence, consent, approval, certificate, qualification, specification, registration or other authorisation, or a filing of a notification, report or assessment, necessary in any jurisdiction for the proper and effective operation of the Business.

32.2 The Vendors have obtained each Permit and, so far as they are aware:

- (a) the Vendors are not in breach of any of the terms and conditions of such Permits;
- (b) they are valid and subsisting;
- (c) there is no reason why any of them should be suspended, cancelled, qualified or revoked or not renewed upon the expiry of the existing terms.

32.3 The School does not have a Tier 2 sponsorship licence and does not employ any persons in any capacity who would require such a licence to be in place in order to be legally employed.

TAX WARRANTIES

- 1.1 There have been no investigations made by HMRC within three years prior to the date hereof into or affecting the payment of income tax and national insurance contributions on benefits in cash or otherwise paid by the Vendors to their employees and details of all notifications made or notices received by the Vendors under section 65 of the Income Tax (Earnings and Pensions) Act 2003 (“benefits in kind; notices of nil liability”) in connection with the Employees.

- 1.2 The amount of Tax chargeable on the Vendors in respect of the Business during any accounting period ending on or within six years before the Management Accounts Date has not, to any material extent, depended on any concession, agreement or other formal or informal arrangement with any Tax Authority.
1. Income tax and national insurance contributions
 - 1.1 The Vendors have complied in all material respects with all statutory requirements, regulations, orders, provisions, directions or conditions relating to national insurance and the Pay As You Earn system and has maintained full, and accurate records and other documents appropriate and requisite for the purposes thereof, in such form and for such periods as are required by the relevant legislation and regulations.
 - 1.2 The Vendors have in respect of the Employees duly deducted all amounts from any payments from which income tax falls to be deducted at source under the Pay As you Earn system and all national insurance contributions and other sums required by law to be deducted from wages, salaries or other benefits of the Employees and the Vendors have duly paid or accounted for such amounts and all other sums due in respect of any benefits of the Employees that are subject to income tax for which the Vendors are liable and in respect of national insurance and other social security contributions to any Tax Authority.
2. Inheritance Tax
 - 2.1 The Assets are not subject to an HMRC charge as mentioned in section 237 of the Inheritance Tax Act 1984 (imposition of charge).
 - 2.2 No person has, and so far as the Vendors are aware no circumstances exist whereby a person could
 - (a) become liable to inheritance tax attributable to the value of any of the Assets; or
 - (b) obtain the power under section 212 of the Inheritance Tax Act 1984 (“powers to raise tax”) to raise inheritance tax by the sale or mortgage of, or by a terminable charge on, any of the Assets.
3. Stamp duty and Stamp Duty Land Tax

All documents by virtue of which the Vendors have any right which are required to be either stamped or accompanied by a certificate as to the compliance with Stamp Duty Land Tax and which relate to the Business have been stamped or are accompanied by such certificate and all duty, interest and penalties on those documents have been paid.
4. Value added tax
 - 4.1 None of the Assets is a capital item, the input tax on which may be subject to adjustment in accordance with Part XV of the Value Added Tax Regulations 1995 (capital goods scheme).
 - 4.2 None of the Assets is a chargeable asset within the meaning of section 44 of the VATA (supplies to groups) acquired by the Vendors within three years of the date of this Agreement.

schedule 2

COMPLETION

1. At completion the Vendors shall:
 - 1.1 in relation to the Assets deliver to the Purchasers:
 - (a) (or, if so requested by the Purchasers, make available to the Purchasers at the Properties) such of the Assets as are capable of being transferred by delivery;
 - (b) assignments of the Business Intellectual Property in the agreed form, duly executed by the Vendors, together with any and all documents required to effect a transfer of the Domain Names from the Vendors to the Purchasers, including any duly executed domain name registry forms stipulating the Vendors' instructions to the relevant domain name registry to transfer the following domain names to the Purchasers:
bourne-mouthcollegiate.org;
bourne-mouthcollegiateprep.org;
bourne-mouthcollegiateschool.org
 - (c) duly executed transfers of registration documents (forms V5) for the Motor Vehicles together with all current test certificates and road fund licences;
 - (d) a duly executed release in the agreed form in respect of any Encumbrance affecting any of the Assets;
 - (e) a schedule of Debts as at the Effective Time;
 - 1.2 in relation to the Properties:
 - (a) complete the transfer of the Properties, in accordance with the Properties Contract;
 - (b) deliver duly executed Transfers of the Properties (on form TR5) in the agreed form to the Purchasers;
 - (c) deliver vacant possession of the Properties to the Purchasers in accordance with the provisions of the Properties Contract;
 - (d) deliver to the Purchasers all deeds and documents (if any) relating to the Properties;
 - 1.3 deliver to the Purchasers:
 - (a) duly executed counterparts of this Agreement and the Transitional Services Agreement;
 - (b) the duly executed First Disclosure Letter with one copy of the Disclosure Bundle and (if required) the Second Disclosure Letter;
 - (c) a certified copy of the minutes of a meeting of the board of directors of each of the Vendors authorising the execution of this Agreement and of any other document referred to herein or that may be necessary to give effect to this Agreement and appointing the relevant signatories to sign such documents on the Vendors' behalf;
 - 1.4 deliver to the Purchasers (or, if so requested, make available to the Purchasers at the Properties):
 - (a) the Books and Records; and

- (b) to the extent that third party consent has been obtained prior to Completion, agreements in the agreed form duly executed by the Vendors for the assignment or novation of the Contracts to the Purchasers and all requisite third party consents for such assignments and/or novations.
2. The Purchasers shall deliver to the Vendors:
- 2.1 a duly signed version of the Business Plan;
 - 2.2 duly executed counterparts of this Agreement and the Transitional Services Agreement;
 - 2.3 a duly signed acknowledgement and acceptance of the First Disclosure Letter and (if required) the Second Disclosure Letter;
 - 2.4 a certified copy of the minutes of a meeting of the board of directors of each of the Purchasers authorising the execution of this Agreement and of any other document referred to herein or that may be necessary to give effect to this Agreement and appointing the relevant signatories to sign such documents on the Purchasers behalf.

schedule 3

CONDUCT PRIOR TO COMPLETION

The Vendors covenant and undertake to the Purchasers that from the date of this Agreement until Completion:

1. They:
 - 1.1 operate the Business in the usual way and in the same manner and on the same terms as in the period prior to Completion so as to maintain the Business as a going concern and comply with all material applicable legal and administrative requirements in any jurisdiction;
 - 1.2 consult with the representatives and advisers of the Purchasers with regard to the management and operation of the Business before taking any action which could materially affect the Business or any of the Assets and provide those representatives and advisers with such information as they may reasonably request in connection therewith;
 - 1.3 co-operate with the Purchasers to:
 - (a) ensure the efficient continuation of the management of the Business after Completion; and
 - (b) prepare for the introduction of the Purchasers' normal working procedures in readiness for Completion,which shall include giving the Purchasers and its representatives supervised access to the Properties during normal business hours subject to the Purchasers and its representatives complying with all health and safety, safeguarding and security requirements of the Vendors and allowing them to inspect and copy the books, accounts and records of the Vendors in relation to the Business and Assets;
 - 1.4 permit the representatives and advisers of the Purchasers to meet with the current officers and employees of the Vendors engaged in the Business or having information in relation to the Business or any of the Assets in order to discuss and facilitate matters regarding the impending change in the ownership of the Business and Assets;
 - 1.5 take all reasonable steps to preserve the Assets, including in particular to preserve the validity of the Business Intellectual Property;
 - 1.6 continue each of the Insurance Policies (as defined in paragraph 27.3 of schedule 1) and not do or omit to do anything which would make any of the Insurance Policies void or voidable or might result in an increase in the premium payable under any of the Insurance Policies or prejudice the ability to effect equivalent insurance in the future;
 - 1.7 make all reasonable endeavours to comply with, and not amend or terminate, all Environmental Permits and Permits (as defined in paragraph 32.1 of schedule 1 and not apply for any new Environmental Permits or Permits; and
 - 1.8 notify the Purchasers of the resignation of any Employee or of any intention of any such Employee to resign which intention has been notified to the Vendors.

2. it shall not without the prior written consent of the Purchasers:
- 2.1 acquire or agree to acquire any asset, other than in the ordinary course of the Business and requiring expenditure of less than £50,000 per item or £100,000 in aggregate;
 - 2.2 assume or incur, or agree to assume or incur, a liability, obligation or expense (actual or contingent) except in the ordinary course of the Business and amounting to less than £100,000 per item or £200,000 in aggregate;
 - 2.3 dispose of, or agree to dispose of, or grant any option over any Asset (other than Stock disposed of in the ordinary course of the Business);
 - 2.4 amend or terminate any Contract or enter into any new contract, agreement or arrangement in relation to the Business including any contract, agreement or arrangement falling within any of the categories of paragraph 18.1 of schedule 1;
 - 2.5 create, or agree to create, an Encumbrance over any of the Assets;
 - 2.6 in relation to each of the Properties:
 - (a) change its existing use;
 - (b) grant or agree to grant any lease, tenancy, licence or other third party right or assign or agree to assign or otherwise dispose of any such rights;
 - (c) amend or terminate, or give a notice to amend or terminate, any existing lease, tenancy, licence or other third party right;
 - (d) apply for consent to do anything requiring consent under a lease, tenancy or licence;
 - (e) grant or refuse an application by a tenant, licensee or occupier to do something requiring its consent under a lease, tenancy or licence; or
 - (f) agree a new rent or fee payable under a lease, tenancy or licence;
 - 2.7 dismiss any Employee, transfer any of the Employees so that they no longer work within the Business or employ or offer employment in the Business to any person not employed in it at the date of this Agreement or amend the terms and conditions of employment of any of the Employees;
 - 2.8 not amend or discontinue (wholly or partly) the Vendors' Scheme or the Life Assurance Scheme (as defined in paragraph 25.1 of schedule 1) or communicate to any employee of the Vendors a plan, proposal or an intention to amend, discontinue (wholly or partly), or exercise a discretion or power, in relation to the Vendors' Scheme or the Life Assurance Scheme or pay any benefits other than in accordance with the terms of documents constituting the Vendors' Scheme or the Life Assurance Scheme;
 - 2.9 take any steps to procure payment by any debtor of the Business in advance of the date on which book and other debts are usually payable in accordance with the standard terms of business of the Vendors (or, if different, the period extended to any particular debtor in which to make payment) or take any steps to reschedule any bad debt;
 - 2.10 delay making any payment to any creditor of the Business beyond the date on which payment of the relevant amount should be paid in accordance with the credit period authorised by the relevant creditor (or, if different, the period extended by creditors in which to make payment);

- 2.11 supply or agree to supply any goods or services on any terms which are different to the Vendors' standard terms of business included in the Disclosure Bundle; and
- 2.12 commence any civil, criminal, arbitration, administrative or other proceeding in relation to the Business or any of the Assets or compromise, settle, release, discharge or compound any such proceedings or a liability, claim, action, demand or dispute, or waive a right in relation to any such proceedings other than in relation to the collection of unpaid fees in the ordinary course of business (as to which they shall notify brief details of the claim to the Purchasers).

schedule 4

LIMITATIONS ON THE VENDORS' LIABILITY

1. Financial Limits

1.1 The Vendors shall not be liable in respect of a Claim unless:

- (a) the Vendors liability in respect of such Claim (together with any connected Claims) exceeds **£50,000**; and
- (b) until the amount that would otherwise be recoverable from the Vendors (but for this paragraph 1.1) in respect of that Claim when aggregated with any other amount or amounts recoverable in respect of other Claims exceeds **£100,000**, in which event the Vendors shall be liable for the whole of such amount and not merely the excess.

1.2 The aggregate liability of the Vendors for all Claims shall not exceed **£3,500,000** except in the case of Claims in respect of the Warranties in paragraphs 1.1, 9.1(a), 10.3(a) or 14.1(b) of schedule 1 where the aggregate liability for such Claims shall not exceed **£10,000,000**

2. Time Limits

2.1 The Vendors shall not be liable for a Claim unless the Purchasers gives the Vendors notice summarising the nature of such Claim and, as far as is reasonably practicable, the amount claimed:

- (a) in the case of a Claim for breach of any of the Warranties in part 2 of schedule 1, within a period of 7 years of Completion; or
- (b) in the case of any other Claim, on or before the 18 months following the date of Completion.

2.2 Any Claim notified in accordance with clause 2.1 shall (if not previously satisfied, settled or withdrawn) be deemed to have been irrevocably withdrawn 18 months after the date on which notice of the relevant Claim was given (and no new Claim may be made in respect of the same facts) unless on or before that date, legal proceedings have been issued and served on the Vendors in respect of the relevant Claim.

3. Fraud

3.1 Nothing in this Schedule 4 shall apply to exclude or limit the liability of the Vendors to the extent that a Claim arises by reason of any fraud, dishonesty, wilful misrepresentation or wilful concealment by or on behalf of the Vendors.

4. Disclosed / Accounts / Actual knowledge of the Purchasers

4.1 The Vendors shall not be liable in respect of a Claim, and accordingly, no Claim may be brought to the extent:

- (a) that the Claim relates to any matter or matters Disclosed; or
- (b) that specific provision or specific reserve is made in the Accounts or Management Accounts in respect of the liability giving rise to the Claim; or
- (c) the fact, matter or circumstance giving rise to a Claim is in the actual (but not constructive or implied) knowledge of the Purchasers (or any one of them)

5. **CONTINGENT CLAIMS**

5.1 If any Claim based upon a liability which is contingent only, provided the Claim has been notified in accordance with the time limits set out in paragraph 2, the Vendors shall not be liable to make payment unless and until such contingent liability becomes an actual liability and gives rise to an obligation to make a payment.

6. **INSURANCE**

6.1 The Vendors shall not be liable in respect of a Claim where the Purchasers (or any member of the Purchaser's Group) have made a successful claim under a policy of insurance in respect of any matter or circumstance giving rise to the Claim. The Vendors' liability in respect of any such Claim shall then be reduced by the amount recovered under such policy of insurance (less all reasonable costs, charges and expenses incurred by the Purchasers in recovering that sum and any excess payable to the insurers), or extinguished if the amount so recovered exceeds the amount of the Claim.

7. **CHANGE OF LAW**

7.1 The Vendors shall not be liable in respect of any Claim to the extent that it arises, or its value is increased, as a result of a change in any law, legislation, rule or regulation (including any new law, legislation, rule or regulation) that comes into force or otherwise takes effect after the date of this agreement.

8. **VOLUNTARY ACT**

8.1 The Vendors shall not be liable in respect of any Claim to the extent that the matter or circumstance giving rise to such Claim arises, occurs or is otherwise attributable to, or the Vendors' liability pursuant to such Claim is increased as a result of:

- (a) any voluntary act, omission, transaction or arrangement of the Purchasers or any member of the Purchasers' Group (or their respective directors, employees or agents) on or after Completion;
- (b) any change in the accounting bases, policies, practices or methods applied in preparing any accounts or valuing any assets or liabilities of the Business introduced or having effect after Completion.

8.2 The Vendors shall not be liable in respect of any Claim to the extent that the liability pursuant to such Claim comprises penalties, charges or interest arising directly or indirectly from any act, omission, transaction or arrangement of the Purchasers after Completion.

9. **SET OFF**

9.1 The Purchaser shall not have any right of set-off (howsoever arising) in respect of any Claim and all sums payable by the Purchasers to the Vendors under this agreement shall be paid in full without set-off, counterclaim or other deduction.

10. **DOUBLE RECOVERY**

10.1 The Purchaser's shall not be entitled to recover damages, or obtain payment, reimbursement, restitution or indemnity more than once in respect of the same loss, shortfall, damage, deficiency, breach or other event or circumstance.

11. THIRD PARTY CLAIMS

- 11.1 In the event that the Purchaser is at any time entitled to recover or otherwise claim reimbursement from a third party in respect of any matter or circumstance giving rise to a Claim the following provisions shall apply:
- (a) the Purchasers shall use all reasonable endeavours to enforce such recovery or seek such reimbursement from the relevant third party taking account of the prospects of success and the likely cost to the Purchaser of doing so (and in so doing always acting in good faith); and
 - (b) the liability of the Vendors in respect of the related Claim shall be reduced by the amount (if any) actually recovered from the relevant third party (less all reasonable costs, charges and expenses incurred by the Purchasers in recovering that sum), or extinguished if the amount recovered exceeds the amount of the relevant Claim.
- 11.2 The provisions of paragraph 11.1 above shall apply in the event that any claim is made or threatened by any third party against the Purchasers which may reasonably be considered likely to give rise to a Claim (Third Party Claim).
- 11.3 In the event of a Third Party Claim, the Purchasers shall:
- (a) as soon as reasonably practicable (and in any event within 5 Business Days of becoming aware of the matter) give written notice of the Third Party Claim to the Vendors, specifying in reasonable detail the nature of the Third Party Claim;
 - (b) keep the Vendors fully informed of the progress of and all material developments in relation to the Third Party Claim; and
 - (c) provide the Vendors with copies of all material information and correspondence relating to the Third Party Claim.
- 11.4 The Purchasers:
- (a) shall take such action as the Vendors may reasonably request to avoid, dispute, resist, mitigate, compromise or defend the Third Party Claim PROVIDED THAT the Vendors shall indemnify the Purchasers in relation to the reasonable cost of such action; and
 - (b) shall not agree any compromise or settlement, or make any admission of liability or payment, in relation to the Third Party Claim without the prior written consent of the Vendors (such consent to be unreasonably withheld) PROVIDED THAT the Purchasers shall not be so obliged where such action may be reasonably considered to be detrimental to the reputation of the Business or the Purchasers.

12. MITIGATION

- 12.1 Nothing in this schedule 4 shall restrict or limit the general obligation at law of the Purchasers to mitigate any loss or damage it may suffer in consequence of a breach of the Warranties.

13. RESCISSION

- 13.1 The Purchasers agree that save as expressly provided in this Agreement at clause 5.2, rescission shall not be available as a remedy for any breach of this Agreement and the Purchasers shall not be entitled to rescind or terminate this Agreement.

schedule 5

GUARANTEE

1. Guarantee

- 1.1 The Guarantor hereby guarantees the punctual performance of all the obligations and liabilities of the Purchasers under or otherwise arising out of or in connection with this Agreement.
- 1.2 If any obligation or liability of the Purchasers expressed to be the subject of the guarantee contained in this clause (the “Guarantee”) is not, or ceases to be, valid or enforceable against the Purchasers the Guarantor shall nevertheless be liable to the Vendors, in respect of that purported obligation or liability as if the same were fully valid and enforceable and the Guarantor was the principal obligor in respect thereof.
- 1.3 The liability of the Guarantor under the Guarantee shall not be discharged or affected in any way by:
 - (a) the Vendors compounding or entering into any compromise, settlement or arrangement with the Purchasers, any co-guarantor or any other person; or
 - (b) the grant of any time, indulgence, waiver or consent to the Purchasers, any co-guarantor or any other person or realising, taking, giving up, agreeing to any variation, renewal or replacement of, releasing, abstaining from or delaying in taking advantage of or otherwise dealing with any securities from or other rights or remedies against the Purchasers, any co-guarantor or any other person; or
 - (c) any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of the security.
- 1.4 The Vendors shall not be obliged to take any steps to proceed against or to enforce any right, security or remedy against the Purchasers or any other person before enforcing the Guarantee.
- 1.5 The Guarantee is in addition to any other right, security or remedy now or hereafter available to the Vendors and is a continuing security notwithstanding any liquidation, administration, insolvency or other incapacity of the Purchasers or Guarantor or any other person or any change in the ownership of any of them.
- 1.6 Until the full and final discharge of all obligations and liabilities (both actual and contingent) which are the subject of the Guarantee the Guarantor waives all of its rights of subrogation, reimbursement against the Purchasers and all rights of contribution against any co-guarantor and agrees not to demand or accept any security from the Purchasers or any co-guarantor in respect of any such rights and not to prove in competition with the Vendors in the liquidation or insolvency of the Purchasers or any such co-guarantor.

- 1.7 If the Guarantee shall be discharged or released in consequence of any performance by the Purchasers of the guaranteed obligations which is set aside for any reason, the Guarantee shall be automatically reinstated in respect of the relevant obligations.
- 1.8 Notwithstanding any other provision of this Agreement the total liability of the Guarantor under the Guarantee shall be limited to, and shall not exceed the Purchase Price.

schedule 6

EMPLOYEES

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schedule 7

DISCOUNTED FEES

[**]

schedule 8

APPORTIONMENT PRE-ESTIMATE

[**]

schedule 9

PROPERTIES

[**]

IN WITNESS whereof the parties hereto have executed this document as a deed on the day and year first above written.

Executed as a deed by)
)
for and on behalf of **UNITED**)
CHURCH SCHOOLS TRUST:)

Signature /s/ Louise Johnston

Signature of witness /s/ Alison Hussain

Name of witness Alison Hussain

Address of witness 4 COURTMAN ROAD
STANWICK
NN9 6TG

Occupation of witness ASSISTANT COMPANY SECRETARY

Executed as a deed by)
)
for and on behalf of **UNITED CHURCH**)
SCHOOLS FOUNDATION LTD:)

Signature /s/ Louise Johnston

Signature of witness /s/ Alison Hussain

Name of witness Alison Hussain

Address of witness 4 COURTMAN ROAD
STANWICK
NN9 6TG

Occupation of witness ASSISTANT COMPANY SECRETARY

APPENDIX 1

PROPERTIES CONTRACT

DATED 2018

UNITED CHURCH SCHOOLS FOUNDATION LIMITED

and

BRIGHT SCHOLAR (BCS) PROPERTY LIMITED

CONTRACT FOR THE SALE OF FREEHOLD LAND WITH VACANT POSSESSION

at

- (1) **Wentworth College, College Road, Bournemouth, BH5 2DR**
- (2) **14 Woodland Avenue, Boscombe, Bournemouth, BH5 2DJ**
- (3) **Uplands School, 40 St Osmunds Road, Poole, BH14 9JY**
- (4) **Land on the south west side of St Osmunds Road, Poole**

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This Contract is dated 2018

PARTIES

- (1) **UNITED CHURCH SCHOOLS FOUNDATION LIMITED** registered in England and Wales with company number [***] whose registered office is at Worldwide House, Thorpe Wood, Peterborough, England PE3 6SB (“**the Seller**”).
- (2) **BRIGHT SCHOLAR (BCS) PROPERTY LIMITED** registered in England and Wales with company number [***] whose registered office is at 6th Floor, 60 Gracechurch Street, London, United Kingdom EC3V 0HR (“**the Buyer**”).

AGREED TERMS

1 Interpretation

The following definitions and rules of interpretation apply in this contract.

1.1 Definitions:

Business: the business carried on as at the date hereof by the Seller and/or its associated companies at the Property, being the ownership and operation of a preparatory and senior school.

Business Sale Contract: means the Business and Asset Sale and Purchase Agreement of even date and made between (1) United Church Schools Foundation Ltd and United Church Schools Trust and (2) Bright Scholar (BCS) Property Limited and Bright Scholar (BCS) Management Limited and (3) Bright Scholar Education Holdings Limited

Buyer’s Conveyancer: Shakespeare Martineau LLP, 60 Gracechurch Street, London, EC3V 0HR (reference: [***]).

Charge: the charge appearing at entries 2 and 3 of the charges register of title number [***] as at 7 June 2018 at 16:19:50.

Completion Date: means the completion date as defined in the Business Sale Contract.

Contract Rate: interest at 4% per annum above the base rate from time to time of Barclays Bank plc.

Deposit: means the deposit of £1,000,000 (exclusive of VAT) as more particularly described in the Business Sale Contract.

Escrow Agreement: the agreement dated 24 August 2018 governing the terms on which the Deposit is being held by the Seller’s Conveyancer and made between (1) the Seller (2) United Church Schools Trust (3) the Buyer and (4) Bright Scholar BCS Management Limited.

Head of Terms: the heads of agreement dated 24 August 2018 summarising the key terms for the proposed sale of the Business, the Property, and the other assets of the Seller and companies associated with the Seller to the Buyer and/or Bright Scholar (BCS) Management Limited and made between (1) the Seller (2) United Church Schools Trust and (3) Impetus Investment Limited.

Part 1 Conditions: the conditions in Part 1 of the Standard Commercial Property

Conditions (Second Edition) and Condition means any one of them.

Part 2 Conditions: the conditions in Part 2 of the Standard Commercial Property Conditions (Second Edition).

Property: the freehold properties at:

- a) Wentworth College, College Road, Bournemouth, BH5 2DR as registered at HM Land Registry with title absolute under title number [***]
- b) 14 Woodland Avenue, Boscombe, Bournemouth, BH5 2DJ as registered at HM Land Registry with title absolute under title number [***]
- c) Uplands School, 40 St Osmunds Road, Poole, BH14 9JY as registered at HM Land Registry with title absolute under title number [***]; and
- d) Land on the south west side of St Osmunds Road, Poole as registered at HM Land Registry with title absolute under title number [***]

Purchase Price: the sum of £9,999,993 (exclusive of VAT) as specified in the Business Sale Contract.

Seller's Conveyancer: Veale Wasbrough Vizards LLP, Narrow Quay House, Narrow Quay, Bristol BS1 4QA (reference: Simon Linnitt).

VAT: value added tax chargeable in the UK.

Written Replies: are written replies that the Seller's Conveyancer has given prior to exchange of this agreement to any written enquiries raised by the Buyer's Conveyancer comprising replies to Phase 1 Due Diligence Replies to Enquiries dated 6 July 2018 and Phase 2 Due Diligence Enquiries (Property) dated 3 August 2018 and 12 September 2018 and Replies to CPSE1 dated 21 September 2018.

- 1.2 A **person** includes a natural person, corporate or unincorporated body (whether or not having separate legal personality).
- 1.3 Unless otherwise specified, a reference to a statute or statutory provision is a reference to it as amended, extended or re-enacted from time to time and shall include all subordinate legislation made from time to time under that statute or statutory provision and all orders, notices, codes of practice and guidance made under it.
- 1.4 A reference to laws in general is a reference to all local, national and directly applicable supra-national laws as amended, extended or re-enacted from time to time and shall include all subordinate laws made from time to time under them and all orders, notices, codes of practice and guidance made under them.
- 1.5 Except where a contrary intention appears, a reference to a clause or Schedule is a reference to a clause of or Schedule to this contract.
- 1.6 Unless the context otherwise requires, references to clauses and Schedules are to the clauses and Schedules of this contract and references to paragraphs are to paragraphs of the relevant Schedule.
- 1.7 Clause, Schedule and paragraph headings shall not affect the interpretation of this contract.

- 1.8 The Schedules form part of this contract and shall have effect as if set out in full in the body of this contract. Any reference to this contract includes the Schedules.
- 1.9 Unless the context otherwise requires, words in the singular shall include the plural and in the plural shall include the singular.
- 1.10 Unless the context otherwise requires, a reference to one gender shall include a reference to the other genders.
- 1.11 Any obligation on a party not to do something includes an obligation not to allow that thing to be done.
- 1.12 For the purposes of the definition of Written Replies, **written replies** and **written enquiries** include any pre-contract enquiries and any replies to pre-contract enquiries that are requested or given before the date of this contract.

2 Sale and purchase

- 2.1 The Seller will sell and the Buyer will buy the Property for the Purchase Price on the terms of this contract.
- 2.2 The Buyer cannot require the Seller to:
 - 2.2.1 transfer the Property or any part of it to any person other than the Buyer; or
 - 2.2.2 transfer the Property in more than one parcel or by more than one transfer; or
 - 2.2.3 apportion the Purchase Price between different parts of the Property.

3 Conditions

- 3.1 The Part 1 Conditions are incorporated in this contract so far as they:
 - 3.1.1 apply to a sale by private treaty;
 - 3.1.2 relate to freehold property;
 - 3.1.3 are not inconsistent with the other clauses in this contract; and
 - 3.1.4 have not been modified or excluded by any of the other clauses in this contract.
- 3.2 The terms used in this contract have the same meaning when used in the Part 1 Conditions.
- 3.3 The following Conditions are amended:
 - 3.3.1 Condition 1.1.1(d) is amended so that reference to the completion date in Condition 1.1.1(d) refers instead to the Completion Date as defined in this contract.
 - 3.3.2 Condition 1.1.1(e) is amended so that reference to the contract rate in Condition 1.1.1(e) refers instead to the Contract Rate as defined in this contract.

3.3.3 Condition 6.6.3 is amended so that reference to “Condition 3.1.2” is reference to “Clause 9”.

3.4 Condition 1.1.4(a) does not apply to this contract.

3.5 The Part 2 Conditions are not incorporated into this contract.

4 Risk and insurance

4.1 The Property shall remain at the risk of the Seller until completion and the Seller shall maintain in force until the date of actual Completion the policy of insurance effected by it for insuring the Property or any part of it against loss or damage.

4.2 Conditions 7.1.3 and 7.1.4 shall not apply.

5 Deposit

5.1 The Buyer has prior to the date of this contract paid the Deposit to the Seller’s Conveyancer as stakeholder under the terms of the Heads of Terms and the Escrow Agreement and such Deposit shall from the date of this contract be held in accordance with the terms of the Business Sale Contract.

5.2 Condition 2.2 does not apply to this contract.

6 Deducing title

6.1 The Seller’s title to the Property has been deduced to the Buyer’s Conveyancer before the date of this contract.

6.2 The Buyer is deemed to have full knowledge of the title and is not entitled to raise any objection, enquiry or requisition in relation to it save in respect of matters arising from pre-completion searches.

6.3 Conditions 6.1, 6.2 and 6.3 do not apply to this contract.

7 Vacant possession

The Property will be sold with vacant possession on completion save that the assets of the Business being acquired by the Buyer (or Bright Scholar (BCS) Management Limited) shall remain at the Property at completion.

8 Title guarantee

8.1 The Seller will transfer the Property with full title.

8.2 Condition 6.6.2 does not apply to this contract.

9 Matters affecting the Property

9.1 The Seller will sell the Property free from incumbrances other than:

- 9.1.1 any matters, other than the Charge, contained or referred to in the entries or records made in registers maintained by HM Land Registry as at:
 - (a) 28 September 2018 at 16:40:03 under title number [***]
 - (b) 28 September 2018 at 16:40:43 under title number [***]
 - (c) 28 September 2018 at 16:39:15 under title number [***] and
 - (d) 28 September 2018 at 16:39:41 under title number [***]
- 9.1.2 any matters discoverable by inspection of the Property before the date of this contract;
- 9.1.3 any matters which the Seller does not and could not reasonably know about;
- 9.1.4 any matters, other than the Charge, disclosed or which would have been disclosed by the searches and enquiries which a prudent buyer would have made before entering into this contract;
- 9.1.5 public requirements;
- 9.1.6 any matters which are unregistered interests which override registered dispositions under Schedule 3 to the Land Registration Act 2002.
- 9.2 Conditions 3.1.1, 3.1.2 and 3.1.3 do not apply to this contract.
- 9.3 The Buyer is deemed to have full knowledge of the matters referred to in clause 9.1 and will not raise any enquiry, objection, requisition or claim in respect of any of them, save in respect of matters arising from pre-completion searches.

10 Transfer

- 10.1 The transfer to the Buyer will be in the agreed form annexed to this contract.
- 10.2 The Buyer and the Seller will execute the transfer in original and counterpart.
- 10.3 Condition 6.6.4 does not apply to this contract.

11 VAT

- 11.1 The Purchase Price is exclusive of VAT (if any).
- 11.2 The Seller warrants that it has not elected to tax the Property for VAT on or prior to the date of this contract and that it shall not do so after the date hereof and unless there is any change in law or statute that requires the Seller to charge VAT on the Purchase Price (in which case the Buyer will pay an amount equal to the VAT as additional consideration), the Buyer shall pay the Purchase Price to the Seller on the Completion Date exclusive of VAT.
- 11.3 Conditions 2.1 and 2.2 do not apply to this contract.

12 Completion

- 12.1 Completion will take place on the Completion Date but time is not of the essence of the contract unless a notice to complete has been served.

12.2 Condition 8.1.1 does not apply to this contract.

12.3 Condition 1.1.3(b) is amended to read: “in the case of the seller, even though a mortgage remains secured on the property, if the amount to be paid on completion enables the property to be transferred freed of all mortgages, (except those to which the sale is expressly subject) or if the seller produces reasonable evidence that this is the case.”

12.4 Condition 9.4 is amended to add, “(d) any other sum which the parties agree under the terms of the contract should be paid or allowed on completion”.

13 Buyer’s acknowledgement of condition

The Buyer acknowledges that before the date of this contract, the Seller has given the Buyer and others authorised by the Buyer, permission and the opportunity to inspect, survey and carry out investigations as to the condition of the Property. The Buyer has formed the Buyer’s own view as to the condition of the Property and the suitability of the Property for the Buyer’s purposes.

14 Entire agreement

14.1 This contract and the Business Sale Contract and the documents annexed to them constitutes the whole agreement between the parties and supersedes all previous discussions, correspondence, negotiations, arrangements, understandings and agreements between them relating to their subject matter.

14.2 The Buyer acknowledges that in entering into this contract and any documents annexed to it the Buyer does not rely on any representation or warranty (whether made innocently or negligently) other than those:

14.2.1 set out in this contract or the documents annexed to it; or

14.2.2 contained in any Written Replies.

14.3 Nothing in this clause shall limit or exclude any liability for fraud.

14.4 Condition 9.1 is varied so that the words “the negotiations leading to it” are replaced with the words “Written Replies”.

15 Notices

15.1 Any notice given under this contract must be in writing and signed by or on behalf of the party giving it.

15.2 Any notice or document to be given or delivered under this contract must be:

15.2.1 delivered by hand;

15.2.2 sent by pre-paid first class post or other next working day delivery service; or

15.2.3 sent through the document exchange (DX).

- 15.3 Any notice or document to be given or delivered under this contract must be sent to the relevant party as follows:
- 15.3.1 to the Seller at:
- United Church Schools Foundation Limited, Worldwide House, Thorpe Wood, Peterborough PE3 6SB
marked for the attention of: Grant Charman or Anna Paige
or at the Seller's Conveyancer, quoting the reference [***];
- 15.3.2 to the Buyer at the Buyer's Conveyancer, quoting the reference [***].
or as otherwise specified by the relevant party by notice in writing to the other party.
- 15.4 Any change of the details in clause 15.3 specified in accordance with that clause shall take effect for the party notified of the change at 9.00 am on the later of:
- 15.4.1 the date, if any, specified in the notice as the effective date for the change; or
- 15.4.2 the date five working days after deemed receipt of the notice.
- 15.5 Giving or delivering a notice or a document to a party's conveyancer has the same effect as giving or delivering it to that party.
- 15.6 Any notice or document given or delivered in accordance with clause 15.1, clause 15.2 and clause 15.3 will be deemed to have been received:
- 15.6.1 if delivered by hand, on signature of a delivery receipt or at the time the notice or document is left at the address provided that if delivery occurs before 9.00 am on a working day, the notice will be deemed to have been received at 9.00 am on that day, and if delivery occurs after 5.00 pm on a working day, or on a day which is not a working day, the notice will be deemed to have been received at 9.00 am on the next working day; or
- 15.6.2 if sent by pre-paid first class post or other next working day delivery service, at 9.00 am on the second working day after posting.
- 15.7 In proving delivery of a notice or document, it will be sufficient to prove that:
- 15.7.1 a delivery receipt was signed or that the notice or document was left at the address; or
- 15.7.2 the envelope containing the notice or document was properly addressed and posted by pre-paid first class post or other next working day delivery service.
- 15.8 A notice or document given or delivered under this contract shall not be validly given or delivered if sent by email.
- 15.9 Condition 1.3 does not apply to this contract.
- 15.10 This clause does not apply to the service of any proceedings or other documents in any legal action or, where applicable, any arbitration or other method of dispute resolution.

16 Third party rights

- 16.1 A person who is not a party to this contract shall not have any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this contract.
- 16.2 Condition 1.5 does not apply to this contract.

17 Business Sale Contract

- 17.1 Completion of the sale and the purchase of the Property is conditional upon completion of the purchase of the Business by Bright Scholar (BCS) Management Limited and United Church Schools Trust under and in accordance with the terms of the Business Sale Contract. The parties agree to complete the sale of the Property on the same date as completion occurs under the Business Sale Contract and the payment of the balance of the Purchase Price shall be dealt with under the Business Sale Contract.
- 17.2 If completion of the Business Sale Contract has not occurred by 31 December 2018 (or such other date as the parties to the Business Sale Contract may agree in writing) then either party may give notice to the other in writing to determine this contract.
- 17.3 The Buyer shall notify the Seller as soon as the Conditions (as defined in the Business Sale Contract) have been satisfied in accordance with the terms of the Business Sale Contract.

18 Governing law and Jurisdiction

- 18.1 This contract and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) shall be governed by and construed in accordance with the law of England and Wales.
- 18.2 Each party irrevocably agrees that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim arising out of or in connection with this contract or its subject matter or formation (including non-contractual disputes or claims).

This contract has been entered into on the date stated at the beginning of it.

Signed by

NAME OF DIRECTOR

for and on behalf of **UNITED
CHURCH SCHOOLS FOUNDATION
LIMITED**

DIRECTOR SIGNATURE

Signed by

NAME OF DIRECTOR

for and on behalf of
**BRIGHT SCHOLAR (BCS)
PROPERTY LIMITED**

DIRECTOR SIGNATURE

List of Subsidiaries and Affiliated Entities of Bright Scholar Education Holdings Limited

<u>Subsidiaries</u>	<u>Place of Incorporation</u>
Bright Scholar (Enlightenment) Investment Holdings Limited	Cayman Islands
Impetus Investment Limited	Cayman Islands
New Bridge Management Co. Ltd	Cayman Islands
Can-Achieve International Education Limited	Hong Kong
Foundation Academy Limited	Hong Kong
Foundation Education China Limited	Hong Kong
Foundation Education Services Limited	Hong Kong
Foundation Global Education Limited	Hong Kong
Time Education China Holdings Limited	Hong Kong
FGE Holdings Limited	The British Virgin Islands
Beijing Bright Scholar Education Consulting Limited Co., Ltd.	The PRC
Beijing Wanjia Culture Communication Co., Ltd.	The PRC
Bright Scholar Education Consulting (Huizhou) Co., Ltd.	The PRC
Can-achieve (Beijing) Education Consulting Co., Ltd.	The PRC
Foshan Shunde Elan Education Training Co., Ltd.	The PRC
Foundation Information Consulting (Shenzhen) Co., Ltd.	The PRC
Guangdong Bright Scholar Education Technology Co., Ltd.	The PRC
Guangdong Zhixing Weilai Logistics Management Co., Ltd.	The PRC
Guangzhou Can-achieve Global Consulting Co., Ltd.	The PRC
Guangzhou Elan Education Consulting Co., Ltd.	The PRC
Shenzhen Elan Education Training Co., Ltd.	The PRC
Shenzhen Qianhai Bright Scholar Management and Consulting Co., Ltd.	The PRC
Time Elan Education Technology Co., Ltd.	The PRC
Zhengzhou Dahua Education Consulting Co., Ltd.	The PRC
Zhuhai Bright Scholar	The PRC
Zhuhai Hengqin Kaidi Education Consulting Co., Ltd.	The PRC
Zhuhai Xin Xu Education Management Co., Ltd.	The PRC
Bright Scholar (BCS) Limited	United Kingdom
Bright Scholar (BCS) Management Limited	United Kingdom
Bright Scholar (BCS) Property Limited	United Kingdom
Bright Scholar (UK) Holdings Limited	United Kingdom
Can-achieve Global Education, Inc. (Los Angeles)	United States

<u>Affiliated Entity</u>	<u>Place of Incorporation</u>
BGY Education Investment	The PRC
<u>Schools/subsidiaries held by Affiliated Entity</u>	<u>Place of Incorporation</u>
Baoding Baigou New City Bright Scholar Shenghua Education Consulting Co., Ltd. ⁽¹⁾	The PRC
Chengdu Laizhe Education and Technology Co., Ltd. ⁽²⁾	The PRC
Chengdu Yinzhe Education and Technology Co., Ltd. ⁽³⁾	The PRC
Chuzhou Country Garden Foreign Language School	The PRC
Chuzhou Country Garden Kindergarten	The PRC
Country Garden Experimental School	The PRC
Country Garden Huacheng Kindergarten	The PRC
Country Garden Huacheng School	The PRC
Country Garden Silver Beach Kindergarten	The PRC
Country Garden Silver Beach School	The PRC
Country Garden Venice Bilingual School (“CGBS”)	The PRC
Country Garden Venice Kindergarten	The PRC
Dalang Country Garden Kindergarten	The PRC
Danyang Country Garden Kindergarten	The PRC
Dongguan Qingxi Country Garden Kindergarten	The PRC
Dongguan Qishi Country Garden Kindergarten	The PRC
Enping Country Garden Kindergarten	The PRC
Fengxin Country Garden Kindergarten	The PRC
Foshan Shunde Beijiao Country Garden Guilanshan Kindergarten Co., Ltd.	The PRC
Foshan Shunde Shengbo Culture and Arts Training Co., Ltd.	The PRC
Gaoming Country Garden Kindergarten	The PRC
Guangdong Country Garden School (“GCGS”)	The PRC
Guangdong Xingjian Education Co., Ltd.	The PRC
Guangzhou Zangxing Network Technology Co., Ltd. ⁽⁴⁾ (“Zangxing”)	The PRC
Haoting Country Garden Kindergarten	The PRC
Heshan Country Garden Kindergarten	The PRC
Heshan Country Garden School	The PRC
Huadu Holiday Peninsula Kindergarten	The PRC
Huanan Country Garden Bilingual Kindergarten	The PRC
Huanan Country Garden Cuiyun Mountain Kindergarten	The PRC
Huanan Country Garden School (“HCGS”)	The PRC
Huaxi Country Garden International Kindergarten	The PRC
Huaxi Country Garden International School	The PRC
Huidong Silver Beach Education Consulting Co., Ltd.	The PRC
Huiyang Country Garden Kindergarten	The PRC
Jurong Country Garden School	The PRC

<u>Schools/subsidiaries held by Affiliated Entity</u>	<u>Place of Incorporation</u>
Kaiping Country Garden Jade Bay Kindergarten	The PRC
Kaiping Country Garden School	The PRC
Laian Country Garden Foreign Language School	The PRC
Laian Country Garden Kindergarten	The PRC
Lanzhou Country Garden School	The PRC
Licheng Country Garden Bilingual Kindergarten	The PRC
Maoming Country Garden Kindergarten	The PRC
Nansha Country Garden Bilingual Kindergarten	The PRC
Ningxiang Country Garden Foreign Language Training School ⁽⁵⁾	The PRC
Ningxiang Country Garden Kindergarten	The PRC
Ningxiang Country Garden School	The PRC
Phoenix City Bilingual Kindergarten	The PRC
Phoenix City Bilingual School (“PCBS”)	The PRC
Phoenix City Country Garden Kindergarten	The PRC
Phoenix City Fengyan Kindergarten	The PRC
Qingyuan Country Garden Bilingual Kindergarten	The PRC
Shanghai Elan Education and Training Co., Ltd.	The PRC
Shaoguan Country Garden Foreign Language School	The PRC
Shaoguan Zhenjiang Country Garden Foreign Language Kindergarten	The PRC
Shawan Country Garden Kindergarten	The PRC
Shenghua Country Garden Bilingual School	The PRC
Shenghua Country Garden Kindergarten	The PRC
Taishan Country Garden School	The PRC
Time Elan Education Technology (Beijing) Co., Ltd.	The PRC
Wuhan Country Garden Kindergarten	The PRC
Wuhan Country Garden School	The PRC
Wuhan Donghu Tech Development Zone Xinqiao Kindergarten	The PRC
Wuhan Donghu Tech Development Zone Xinqiao-Jinxu Longcheng Kindergarten	The PRC
Wuhan Dongxihu District Dongqiao Kindergarten	The PRC
Wuhan Hongshan District Xinqiao Aijia Kindergarten	The PRC
Wuhan Qiaosheng Education Investment Co., Ltd. ⁽⁶⁾	The PRC
Wuhan Qingshan District Bilingual Kindergarten	The PRC
Wuyi Country Garden Bilingual School	The PRC
Xiju Country Garden Kindergarten	The PRC
Zengcheng Country Garden Kindergarten	The PRC
Zengcheng Country Garden School	The PRC

- (1) 30% of the equity interests of Baoding Baigou New City Bright Scholar Shenghua Education Consulting Co., Ltd. are held by third parties.
- (2) Chengdu Laizhe Education and Technology Co., Ltd. is a wholly owned subsidiary of Chengdu Yinzhe Education and Technology Co., Ltd.
- (3) 25% of the equity interests of Chengdu Yinzhe Education and Technology Co., Ltd. are held by third parties.
- (4) 48.33% of the equity interests of Guangzhou Zangxing Network Technology Co., Ltd are held by third parties.
- (5) Ningxiang Country Garden School currently operates its high school programs through Ningxiang Country Garden Foreign Language Training School.
- (6) 25% of the equity interests of Wuhan Qiaosheng Education Investment Co., Ltd. are held by third parties.

Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Junli He, certify that:

1. I have reviewed this annual report on Form 20-F of Bright Scholar Education Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: December 14, 2018

By: /s/ Junli He

Name: Junli He

Title: Chief Executive Officer

Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Dongmei Li, certify that:

1. I have reviewed this annual report on Form 20-F of Bright Scholar Education Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: December 14, 2018

By: /s/ Dongmei Li

Name: Dongmei Li

Title: Chief Financial Officer

Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Bright Scholar Education Holdings Limited (the “Company”) on Form 20-F for the year ended August 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Junli He, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 14, 2018

By: /s/ Junli He
Name: Junli He
Title: Chief Executive Officer

Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Bright Scholar Education Holdings Limited (the “Company”) on Form 20-F for the year ended August 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dongmei Li, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 14, 2018

By: /s/ Dongmei Li
Name: Dongmei Li
Title: Chief Financial Officer

[Letterhead of Frost & Sullivan]

December 14, 2018

Bright Scholar Education Holdings Limited
No. 1, Country Garden Road
Beijiao Town, Shunde District Foshan, Guangdong 528300
People's Republic of China.

Re: Consent of Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.

Ladies and Gentlemen,

We understand that Bright Scholar Education Holdings Limited (the "Company") plans to file an annual report on Form 20-F for the fiscal year ended August 31, 2018 ("Form 20-F") with the United States Securities and Exchange Commission (the "SEC").

We hereby consent to the references to our name and the inclusion of information, data and statements from our research reports and amendments thereto (collectively, the "Reports"), and any subsequent amendments to the Reports, as well as the citation of the Reports and amendments thereto, (i) in the Company's Form 20-F or any other future filings with the SEC (including with limitation, Form F-1, Form F-3, Form 6-K and other SEC filings) by the Company (collectively, the "SEC Filings"), (ii) in any written correspondence with the SEC, (iii) on the websites or in the publicity materials of the Company and its subsidiaries and affiliates, (iv) in institutional and retail roadshows and other activities in connection with the Company's future equity or debt offerings. We further hereby consent to the filing of this letter as an exhibit to the Form 20-F and any amendments thereto and as an exhibit to any other SEC Filings.

Yours faithfully,

For and on behalf of

(Seal) Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Affixed

By: /s/ Yves Wang

Name: Yves Wang

Title: Managing Director, China

[Lettehead of JunHe LLP]

**Suite 1301, 13/F, E Building, G.T.Land Plaza
No. 13 Zhujiang East Road, Zhujiang New Town,
Tianhe District
Guangzhou, 510623, P.R.China
Tel: (86-20) 2805-9088
Fax: (86-20) 2805-9099**

December 14, 2018

Bright Scholar Education Holdings Limited
No.1, Country Garden Road
Beijiao Town, Shunde District
Foshan, Guangdong, PRC
528300

Dear Sirs,

We consent to the references to our firm under “Item 3.Key Information—D. Risk Factors”, “Item 4.Information on the Company—A. History and development of the company” and “Item 5.Operating and Financial Review and Prospects—A. Operating Results—Critical Accounting Policies” included in Bright Scholar Education Holdings Limited’s annual report on Form 20-F for the year ended August 31, 2018 (the “Annual Report”), which is filed with the Securities and Exchange Commission (the “SEC”) on December 14, 2018. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ JunHe LLP
JunHe LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement No. 333-222072 on Form S-8 of our report dated December 14, 2018, relating to the financial statements and the financial statement schedule of Bright Scholar Education Holdings Ltd. (the “Company”), its subsidiaries, other affiliated entities and its variable interest entities under common control with the Company (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the translation of Renminbi amounts into United States dollar amounts) appearing in the Annual Report on Form 20-F of the Company for the year ended August 31, 2018.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Guangzhou, China

December 14, 2018