

INDUSTRY OVERVIEW

We believe that the sources of the information in this section are appropriate sources for such information, and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any fact has been omitted that would render such information false or misleading. The information from official government and non-official sources has not been independently verified by us, the Sole Sponsor, [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in [REDACTED], and no representation is given as to its accuracy. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct an analysis of the PRC fundamental education market, as well as the private fundamental education market in the PRC and South China. During the preparation of the Frost & Sullivan Report, Frost & Sullivan undertook both primary and secondary researches, and obtained knowledge, statistics, information and industry insights on the industry trends of the PRC fundamental education market, and the private fundamental education market in the PRC and South China. Primary research involved discussing the status of the industry with industry participants and industry experts. Secondary research involved reviewing annual reports of companies, independent research reports and Frost & Sullivan’s proprietary database.

The Frost & Sullivan Report includes estimates of student enrolment and market share information for and the rankings of the top five premium private primary and secondary education groups in South China in 2015/16 school year. According to Frost & Sullivan, there is no publicly available official data with respect to student enrolment or market share for premium private primary and secondary education groups in South China (the markets of which are highly fragmented in nature), and the student enrolment and market share estimates presented in this document have been compiled by Frost & Sullivan by conducting detailed primary research which involves discussing the status of the industry with leading industry participants and industry experts and based on the information in the database of Frost & Sullivan as at July 2016. Frost & Sullivan is also of the view that: (i) there are inherent limitations in the methodology used by Frost & Sullivan, including any information gaps where interviewees have refused to divulge confidential data or figures and incomplete statistics or unconscious omission of industry participants due to latent ownership or highly fragmented characteristics for the market; and (ii) other methodologies may have yielded substantially different outcomes with respect to the identity of the top private primary and secondary education groups and the estimates of their respective student enrolment and market shares contained in the Frost & Sullivan Report, particularly due to the high fragmented nature of the PRC private school industry. Consequently, prospective investors are cautioned not to place undue reliance on the rankings, student enrolment and market share estimates contained in this document. The Frost & Sullivan Report was compiled based on the following assumptions: (i) China’s economy is likely to maintain steady growth in the next decade; (ii) China’s social, economic and political environment is likely to remain stable in the forecast period from 2016 to 2020; and (iii) market drivers, such as Chinese families’ attention on children’s education, the support from PRC central and local governments, improved investments on private education in China and the increase of household income and wealth, are likely to drive the PRC private fundamental education industry.

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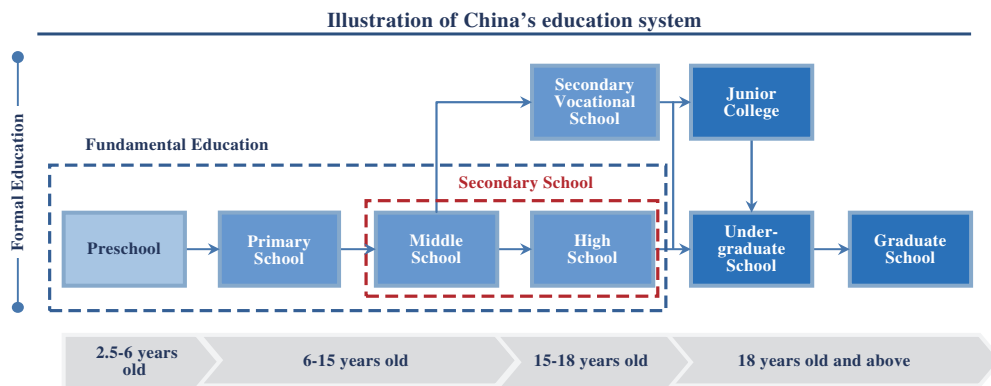
On the basis and subject to the aforesaid, our Directors believe that the disclosure of future projections and industry data in this section is not biased or misleading. We believe that the sources of information in this section are appropriate sources for the information and we have taken reasonable care in extracting and reproducing this information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. After taking reasonable care and based on Frost & Sullivan’s views, our Directors confirm that there has been no adverse change in the market information since the date of the Frost & Sullivan Report up to the Latest Practicable Date which may qualify, contradict or have an impact on the information in this section.

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies, and provides growth consulting and corporate training. It has over 40 offices worldwide with over 2,000 industry consultants, market research analysts and economists. We are contracted to pay a fee of RMB780,000 to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section, as well as in the sections headed “Summary” “Risk Factors” “Business” “Financial Information” and elsewhere in this document to provide our potential investors with a more comprehensive presentation of the industries in which we operate.

OVERVIEW OF THE EDUCATION SYSTEM IN CHINA

Overview

The PRC education system in general can be categorised into formal education and informal education. Formal education in the PRC comprises fundamental education, vocational education and higher education. Further, fundamental education can be divided into three stages: preschool, primary and secondary schools. The following diagram illustrates the composition of the PRC formal education system:



**Note:* (1) Within formal education system, the illustration only covers regular formal education, while adult education, which belongs to formal education according to Ministry of Education’s classification, is not specifically covered.

(2) Secondary schools in the Frost & Sullivan Report include junior secondary school (middle school) and senior secondary school (high school) and exclude secondary vocational school which are categorized as part of vocational education rather than fundamental education.

Source: Frost & Sullivan Report

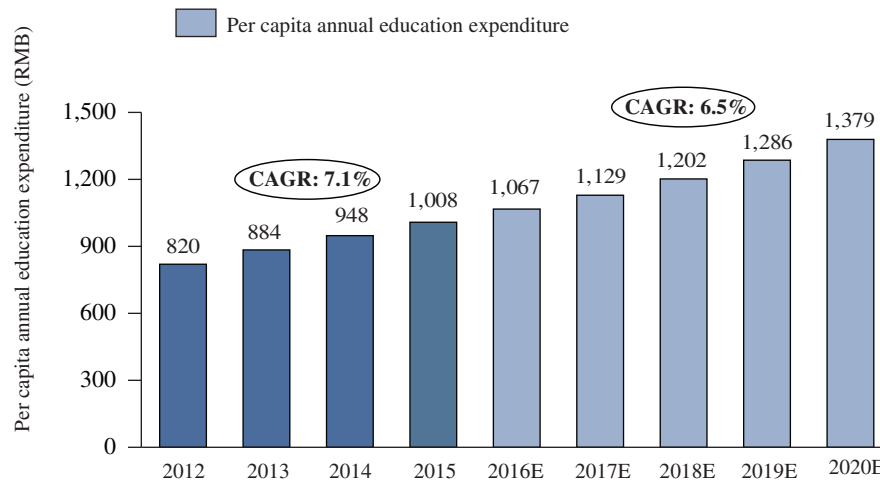
Annual expenditure on education in China

Education is widely recognised as a prioritised and indispensable expenditure for the Chinese community. According to the Frost & Sullivan Report, because of the increasing wealth of Chinese household and general consciousness in children’s education, the per capita annual education expenditure of urban households increased from approximately RMB820 in 2012 to RMB1,008 in

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2015, representing a CAGR of approximately 7.1%, and this increasing trend is expected to continue from 2015 to 2020. The following diagram sets forth per capita annual education expenditure of urban households in the PRC from 2012 to 2015, as well as a forecast of such figures from 2016 to 2020:

Per capita annual education expenditure of urban households (China), 2012-2020E



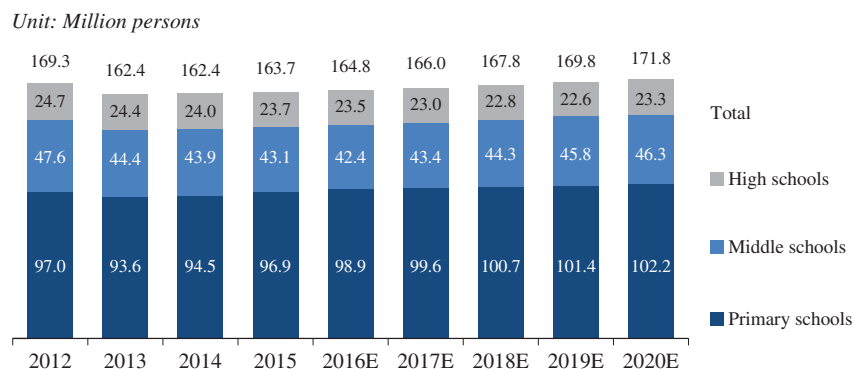
Note: For all years indicated with “E” in this section, the relevant figures for such years are estimated figures according to the Frost & Sullivan Report.

Source: Frost & Sullivan Report

Student enrolment of the overall fundamental education industry in China

From 2015 to 2020, the number of primary school students in China is expected to increase, as the growing population of pre-school students ages and enters primary school. However, the number of middle school and high school students is expected to slightly decrease from 2015 to 2020, resulting from the decreasing school-age population. The following diagram sets forth the number of students enrolled in primary and secondary education in China from 2012 to 2015, as well as a forecast of such figures from 2016 to 2020:

Total number of student enrolments of primary and secondary education (China), 2012-2020E



Source: Frost & Sullivan Report

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Development trends of the education industry in China

The development of the overall education industry in China is driven primarily by the following factors:

- ***Income growth for middle class in China is expected to drive up education spending:*** According to Frost & Sullivan Report, the per capita disposable income of Chinese urban households has increased rapidly from RMB24,565 in 2012 to RMB31,195 in 2015, and is forecasted to increase to approximately RMB44,290 in 2020. The rise of middle class families in China is expected to drive the spending on premium education, as such families are relatively well educated and they consider that good education background could benefit their children in the long run.
- ***Encouragement for private investment in the education sector:*** Currently, the majority of the education institutions in China is funded and operated by government authorities and education resources are not necessarily able to be distributed equally. The central government tends to increasingly welcome private investment in the education industry to improve efficiency, hence private-owned education group with large scale will likely be benefited.
- ***Demand for well-rounded education with premium quality:*** Many believe the existing education in China may have over emphasised examination scores, while other aspects of students such as social skills, psychological and physical health may have often been neglected. There is an increasing preference from parents to seek for high quality academic programs from private schools that can offer a more comprehensive education programme that aim to educate students with all rounded ability.

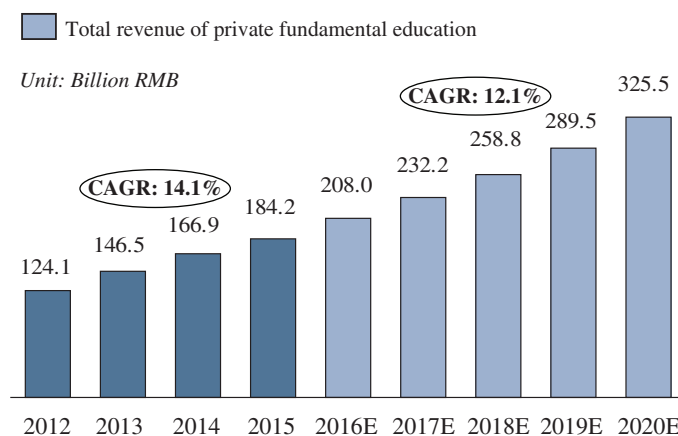
OVERVIEW OF THE PRIVATE FUNDAMENTAL EDUCATION INDUSTRY IN CHINA

Market size and trends of the private fundamental education industry in China

Private education was first allowed in China by law in early 1980s to bridge the shortage of public resources. Private education has experienced rapid growth and become an important segment in the PRC education system.

According to the Frost & Sullivan Report, total revenue generated by the PRC private fundamental education industry increased from RMB124.1 billion in 2012 to RMB184.2 billion in 2015, and is expected to increase to RMB325.5 billion in 2020, representing a CAGR of approximately 14.1% and 12.1% respectively. This rapid growth was primarily driven by the parents’ and students’ rising preference for private schools, which resulted in the increased student enrolment in private schools, as well as increased tuition fees charged by private schools. The following chart sets forth the total revenue generated from the PRC private fundamental education industry from 2012 to 2015, and the forecast revenue from 2016 to 2020:

Total revenue of private fundamental education (China), 2012-2020E



Source: Frost & Sullivan Report

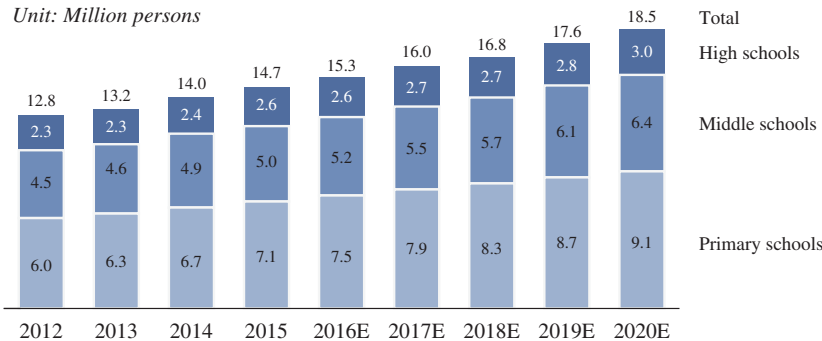
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Student enrolment in the private primary and secondary schools in China

According to the Frost & Sullivan Report, there were an increasing number of students shifting from public schools to private schools from 2012 to 2015.

The following chart sets forth the total number of student enrolled in private primary and secondary education in the PRC from 2012 to 2015, and the forecast number of student enrolment from 2016 to 2020:

Total number of student enrolment of private primary and secondary education (China), 2012-2020E

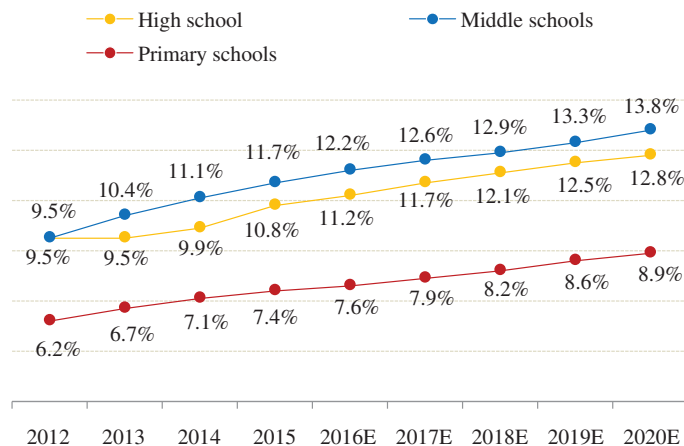


Source: Frost & Sullivan Report

The penetration of private schools in the overall fundamental education system has increased over the past five years and this trend is likely to continue in the future. It is expected that the penetration rate of private primary schools, private middle schools and private high schools will increase from 7.4%, 11.7% and 10.8% in 2015, respectively, to 8.9%, 13.8% and 12.8% in 2020, respectively according to the Frost & Sullivan Report. This suggests that private education is increasingly more popular in China and is considered as a higher quality choice for the middle class population.

The following diagram sets forth the penetration rate of private schools in primary, middle and high school education in the PRC in terms of student enrolment from 2012 to 2015, and a forecast of penetration rates from 2016 to 2020:

Private schools penetration in primary and secondary education by number of student enrolments (China), 2012-2020E



Source: Frost & Sullivan Report

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Comparison between private and public fundamental education in China

According to the Frost & Sullivan Report, as compared to public schools, private schools have the following advantages:

- ***Flexibility in enrolment plan:*** Private schools generally have more flexible enrolment plan and less limitations regarding students’ background, whereas public schools usually have specific requirements, such as students’ registered permanent residence.
- ***Curriculum diversification:*** Many public schools are reluctant to make adjustments and the diversification in public schools’ curriculums is limited due to the requirements of governmental departments. In contrast, private schools tend to have more diverse and broader curriculum offerings and a greater degree of flexibility in terms of the level of tuition they charge.
- ***Motivation for improvements:*** Private schools react more actively towards market needs and demand compared to public schools which are mainly driven by the government guidance. As a result, private schools are more motivated to continuously making improvements allowing them to attract high quality students and charge higher tuition fees.
- ***Operation flexibility:*** Private schools in China generally have higher level of operation independence. With greater motivation to react to market dynamics and improve, private schools also possess greater flexibility in operation that enables them to do so. They have their own employment system and stimulus measures, which broaden the source of teachers and encourage them to improve teaching quality.
- ***Tuition fee:*** Tuition and miscellaneous fees are generally higher in private schools than public schools. According to the Frost & Sullivan Report, annual average tuition and miscellaneous fees in private high schools, middle schools and primary schools are estimated to be RMB7,719, RMB3,289 and RMB2,567, respectively in 2015. In China, primary schools and middle schools are compulsory education, and public schools do not charge tuition fee for compulsory education, while only a limited amount of miscellaneous fees will be collected.

Emergence of premium private education

Private schools providing fundamental education in China can be generally classified into three categories: (i) premium private international schools providing international curriculum; (ii) premium private schools providing the PRC curriculum; and (iii) non-premium/mass market private schools providing the PRC curriculum. The type of private education that Chinese parents are willing to pay more is premium private schools, which offer higher quality education, more advanced educational facilities and a more satisfying environment to students through charging higher tuition fees than non-premium/mass market private schools. Premium private schools generally pay more attention to develop all-rounded education curriculum for students and help students to gain better access to top universities. Non-premium/mass market private schools are more commonly found in industrial area that employs large number of labours who comes from many other provinces whose children are difficult to enter into public school system. These schools aim to serve students in large class size at low and affordable tuition costs for workers with relatively lower income. According to the Frost & Sullivan Report, premium private schools in China are defined to include private schools whose annual tuition fee is higher than the average per student public fiscal budget on education of the province they operate in. Please refer to “Competitive landscape of premium private primary and secondary education market in South China” below for further details.

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Premium private primary and secondary education in the PRC is expected to grow at a higher CAGR than the overall private primary and secondary education in terms of student enrolments during the forecast period from 2016 to 2020, driven by the increasing income of Chinese households and their increasing expectation for quality of education. In contrast, non-premium private primary and secondary education is expected to grow at a slower rate than the overall private education market in China, according to the Frost & Sullivan Report.

Drivers of private fundamental education in China

The development of private primary and secondary education in China is driven primarily by the following factors:

- ***Increase of income level and higher attention on children’s education of Chinese households:*** Children’s education is generally the priority for most parents. There is also an increasing number of Chinese parents who would like their children to receive differentiated and well-rounded education which are usually provided by premium private schools. With the increase of disposable income of urban households in China, tuition fees charged by premium private schools has become more affordable and we expect that it will support the growth of the industry.
- ***Government support:*** Since the 1980s, the PRC government, both at the central and local level, has launched a series of policies to encourage the development of private education institutions. For example, PRC government expenditure on private education has increased at a CAGR of 14.8% from 2012 to 2015. The PRC government also encourages private investment to invest in the education sector. For example, the Decision on Amending the Law for Promoting Private Education of the PRC, which will become effective on 1 September 2017, provides additional supportive measures to private schools. Additionally, the 12th Five-Year Plan for National Economic and Social Development issued by the National People’s Congress in 2011 encouraged private capital to run education and ensured that private schools enjoy equal legal status as public ones. In some regions, local government has taken many favourable policies to attract well-branded private schools to establish local branch such as free land or financial support for campus building.
- ***Increase in private investment:*** With the continuous development of the PRC education sector and the support from the PRC government, the sector has attracted increasing attention from private investors and significant investments have been made by them in the form of private investment, initial public offering, etc. We expect that this trend will continue and become an important funding channel for the industry.

Teaching costs for the private fundamental school industry

Teaching cost of private fundamental schools is determined by multiple factors, such as average salary for teachers, student-teacher ratio and the ratio of the number of teaching staff to the overall number of staff. The average annual salary of teachers in the PRC primary and secondary education market (including both public and private schools) increased from approximately RMB45,100 in 2012 to approximately RMB56,500 in 2015. The average annual wages of teachers vary in different regions, depending on the development status of regional economy as well as the local living standards and purchasing powers. In general, teachers working in premium private schools earn a higher compensation than the national average.

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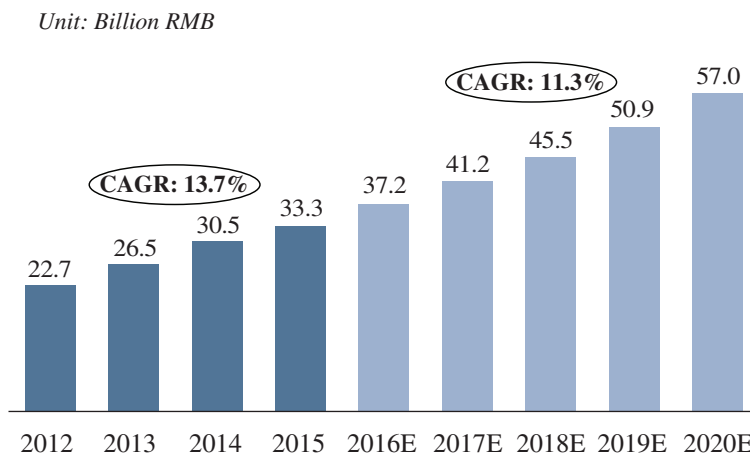
OVERVIEW OF THE PRIVATE FUNDAMENTAL EDUCATION INDUSTRY IN SOUTH CHINA

South China, which includes Guangdong, Guangxi and Hainan provinces, is an important economic region zone in China accounting for 12% of China’s total population and 14% of the national GDP in 2015, according to the Frost & Sullivan Report. It is also the area where the majority of our schools located.

Market size in the private fundamental education industry in South China

According to the Frost & Sullivan Report, total revenue generated by the private fundamental education industry in South China was RMB33.3 billion in 2015, compared to RMB22.7 billion in 2012, representing a CAGR of approximately 13.7%. The total revenue of private fundamental education in South China is expected to reach RMB57.0 billion in 2020, representing a CAGR of approximately 11.3% from 2015 to 2020. In 2015, the total revenue of private fundamental education in South China accounted for 18% of that in China. The following chart sets forth the total revenue generated by the private fundamental education industry in South China from 2012 to 2015, and the forecast of revenue from 2016 to 2020:

Total revenue of private fundamental education (South China), 2012-2020E



Source: Frost & Sullivan Report

In South China, Guangdong province has the highest penetration rate of private fundamental education. In 2015, the penetration rate for Guangdong province reached 28.7%, while the rate for Hainan province and Guangxi province are 24.2% and 16.9% respectively.

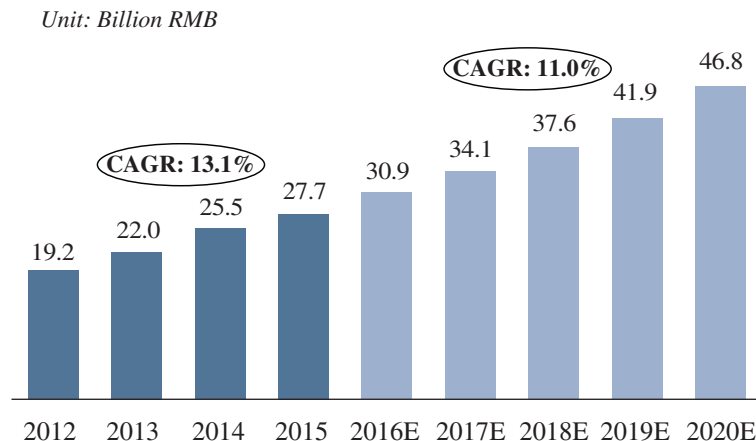
The average annual tuition and miscellaneous fee in 2015 for private schools in South China is RMB7,698, RMB3,138 and RMB2,538 for high school students, middle school students and primary school students, respectively, which is slightly lower than the national average for private education. A considerable amount of private schools in Guangdong provides non-premium/mass market education, which leads to the lower average tuition fee in South China.

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Market size and trends of the private fundamental education industry in Guangdong

According to the Frost & Sullivan Report, total revenue generated by the private fundamental education industry in Guangdong province increased from RMB19.2 billion in 2012 to RMB27.7 billion in 2015, and is expected to increase to RMB46.8 billion in 2020, representing a CAGR of approximately 13.1% and 11.0% respectively. The following chart sets forth the total revenue generated from the private fundamental education industry in Guangdong province from 2012 to 2015, and the forecast revenue from 2016 to 2020:

Total revenue of private fundamental education (Guangdong), 2012-2020E



Source: Frost & Sullivan Report

Student enrolment in the private primary and secondary schools in South China

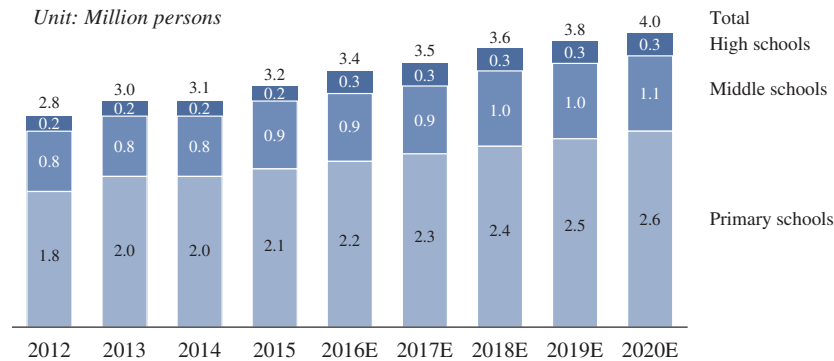
South China is a region where private primary and secondary education is highly developed and recognised. In 2015, while the total population in South China accounts for only 12% of China’s total population, the total number of students enrolled in private primary and secondary schools in South China accounts for 22% of that in overall China. According to the Frost & Sullivan Report, in the Guangdong province, where the majority of our schools are located, the total number of students enrolled in primary and secondary schools was 14.3 million, among which 2.7 million enrolled in private schools. The students enrolled in premium private primary and secondary schools in Guangdong province amounted to 0.7 million in 2015, accounting for 26.7% of the total private primary and secondary school students.

According to the Frost & Sullivan Report, the total number of students enrolled in private primary and secondary schools in South China increased from 2.8 million in 2012 to 3.2 million in 2015, representing a CAGR of approximately 5.0%, and is expected to increase from 3.2 million in 2015 to 4.0 million in 2020, representing a CAGR of approximately 4.4%.

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Such increase in student enrolment is primarily attributable to (i) the PRC central government’s guidelines, local government supportive policies and efforts from relevant departments relating to areas such as taxation, land, capital or employment to drive the development of private education, (ii) population inflow to South China, and (iii) funds from various social sectors to the private education industry. The following diagram sets forth the number of students enrolled in private primary and secondary education in South China from 2012 to 2015, as well as a forecast of student enrolment expected from 2016 to 2020:

**Total number of student enrolment of private primary and secondary education
(South China), 2012-2020E**



Source: Frost & Sullivan Report

Tuition fees of the premium private fundamental education industry in Guangdong province

Tuition fees in private fundamental schools are generally higher than those in public fundamental schools, as their operations are funded primarily by tuition fees. Additionally, premium private schools usually charge an even higher fee. According to the Frost & Sullivan Report, the average annual tuition fee of premium private education in Guangdong province is within the range of RMB20,000-25,000, RMB16,000-20,000 and RMB14,000-18,000 in 2015 for high school, middle school and primary school, respectively.

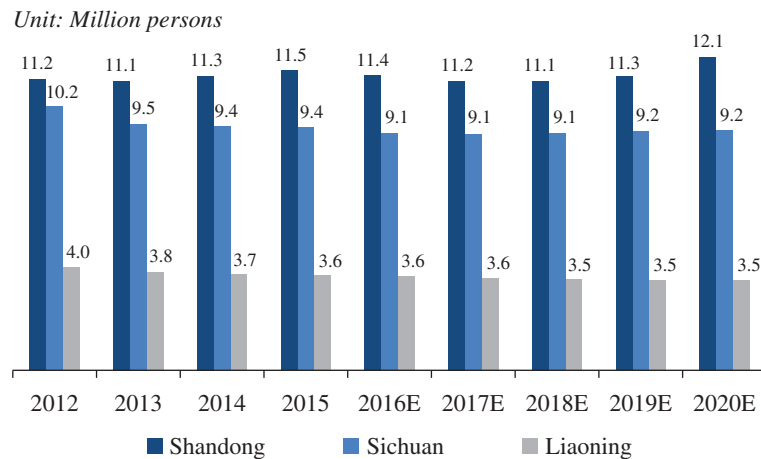
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OVERVIEW OF THE PRIVATE FUNDAMENTAL EDUCATION INDUSTRY IN SHANDONG, SICHUAN AND LIAONING

In addition to South China, where the majority of our schools are located, we also operate in Liaoning province and plan to enter into Shandong and Sichuan provinces.

According to the Frost & Sullivan Report, the total number of students enrolled in primary and secondary schools in Shandong, Sichuan and Liaoning province slightly decreased from 11.2 million, 10.2 million and 4.0 million in 2012 to 11.5 million, 9.4 million and 3.6 million in 2015, respectively. The slight decrease is mainly due to the decrease in school-age population. The following diagram sets forth the number of students enrolled in primary and secondary education in Shandong, Sichuan and Liaoning provinces from 2012 to 2015, as well as a forecast of student enrolment expected from 2016 to 2020:

**Total number of student enrolments of primary and secondary education
(Shandong, Sichuan and Liaoning), 2012-2020E**

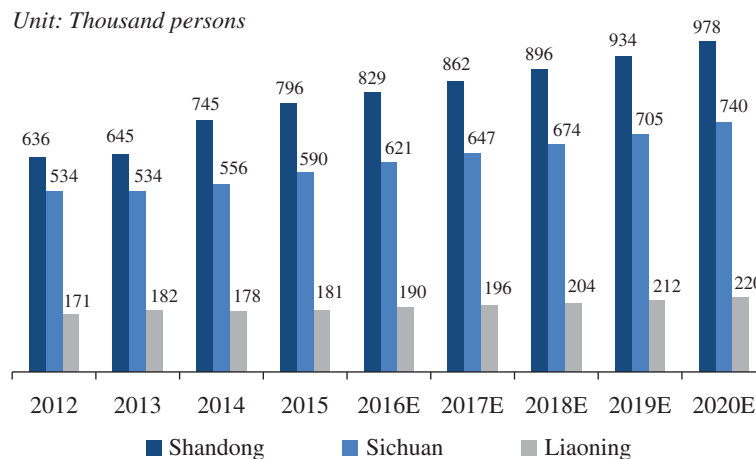


Source: Frost & Sullivan Report

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Despite a downward trend in the student enrolment of the overall primary and secondary education, according to the Frost & Sullivan Report, the number of students enrolled in private primary and secondary education in Shandong, Sichuan and Liaoning provinces increased from 636,000, 534,000 and 171,000 in 2012 to 796,000, 590,000 and 181,000 in 2015, respectively. It is expected that the student enrolment will continue to increase from 2015 to 2020 at a CAGR of 4.2%, 4.7% and 4.1% in Shandong, Sichuan and Liaoning provinces, respectively. In 2015, the students enrolled in private education accounted for approximately 6.9%, 6.3% and 5.0% of the overall student enrolments in Shandong, Sichuan and Liaoning provinces. The following diagram sets forth the number of students enrolled in private primary and secondary education in Shandong, Sichuan and Liaoning provinces from 2012 to 2015, as well as a forecast of such figures from 2016 to 2020:

Total number of student enrollments of private primary and secondary education (Shandong, Sichuan and Liaoning), 2012-2020E



Source: Frost & Sullivan Report

Due to the difference of economic development in each province, the average per student public fiscal budget on education is different and therefore the threshold for premium private school varies in each province. In 2015, according to the Frost & Sullivan Report, students enrolled in premium private primary and secondary education amounted to approximately 0.2 million, 0.2 million, and 0.1 million, accounting for 31.0%, 41.1% and 43.8% of the overall student enrolments in private primary and secondary education in Shandong, Sichuan and Liaoning provinces respectively.

COMPETITIVE LANDSCAPE OF PREMIUM PRIVATE PRIMARY AND SECONDARY EDUCATION MARKET IN SOUTH CHINA

According to the Frost & Sullivan Report, the private primary and secondary education industry is highly fragmented on a nationwide basis and none of the players have a sizable market share. Private fundamental education operators commonly focus on regional markets in China for their operation and development, given that China's private primary and secondary education market is relatively local-based in terms of regulative environment, competition and resources.

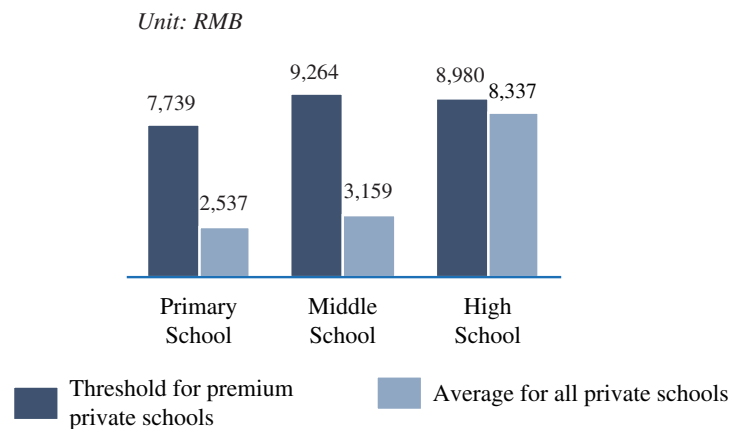
Premium private school vs non-premium/mass market private school

Private schools are divided into premium private schools and non-premium/mass market private schools. Premium private schools target middle class students who are unsatisfied with public education while non-premium/mass market private schools mainly target students who cannot get enrolled in the public schools due to limited public education resources and local limitation policies. Given that premium private schools differ from non-premium/mass market private schools in terms of target market, service offering and business model, it is more precise and appropriate to consider

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only premium private schools when analysing the competitive landscape of the market our Group operates in. According to the Frost & Sullivan Report, premium private schools in China are defined to include private schools whose annual tuition fee is higher than the average per student public fiscal budget on education of the province where it operates in. Due to the difference of economic development in each province, the average per student public fiscal budget on education is different and therefore the threshold for premium private school varies in each province. The following chart sets forth the average tuition and miscellaneous fees of private schools and the threshold for premium private schools in Guangdong province (the region that the majority of our schools are located) in 2015:

**Annual tuition and miscellaneous fees for private schools
(Guangdong Province), 2015**



Positioning of our Group in South China

The premium private primary and secondary education in South China is a large and highly fragmented market. According to the Frost & Sullivan Report, in 2015/16 school year, the number of students enrolled in premium private primary and secondary schools account for approximately 29% and 27% of the total number of students in private primary and secondary schools in South China and Guangdong province, respectively. In terms of market share by number of students, the market is highly fragmented with the top five players accounting for only approximately 9.1% market share. In 2015/16 school year, our Group was the largest provider of premium private primary and secondary education in South China, in terms of student enrolment, with a market share of approximately 2.8%. The other sizable players identified by the Frost & Sullivan Report, Company A, Company B, Company C and Company D, have a market share of approximately 2.2%, 1.5%, 1.3% and 1.3% respectively.

Leading premium private primary and secondary school operators in South China

Company	Market share in terms of student enrolment
Our Group	2.8%
Company A	2.2%
Company B	1.5%
Company C	1.3%
Company D	1.3%

Source: Frost & Sullivan Report

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COMPETITIVE LANDSCAPE OF PRIVATE PRIMARY AND SECONDARY EDUCATION MARKET IN SHANDONG, SICHUAN AND LIAONING

The private primary and secondary education market is fragmented in Shandong, Sichuan and Liaoning provinces, with approximately 640, 500 and 160 private primary and secondary schools in 2015, respectively, according to the Frost & Sullivan Report.

Given that we recently entered Liaoning province, and expect to enter the private fundamental education market in Shandong and Sichuan in the near future, the Group did not have a significant market position in these three provinces as at the Latest Practicable Date.

ENTRY BARRIERS FOR PRIVATE PRIMARY AND SECONDARY EDUCATION INDUSTRIES IN CHINA

The PRC private primary and secondary education industry have fairly high entry barriers, in particular, the primary and middle school education which is closely regulated by the MOE. Specific entry barriers are set forth below:

- **Regulatory approvals:** School operators in China are required to obtain and maintain a series of approvals, licenses and permits by the relevant PRC governmental authorities, and comply with specific registration and filing requirements in order to provide education services. The establishment of a school in China is also subject to the approval of relevant government authorities under the Education Law of the PRC (中華人民共和國教育法), and the establishment of a private school in China is subject to further approvals stipulated under the Law for Promoting Private Education and the Implementation Rules for the Law of Promoting Private Education of the PRC (中華人民共和國民辦教育促進法實施條例). The process to obtain such approvals is lengthy and complex, thereby forming a natural barrier for the industry, especially for the new school operators;
- **Brand awareness and source of students:** For private schools, brand awareness is critical because it is one of the most important factors that parents and students consider when choosing schools. A private school with long operating history and well-established reputation are more attractive to parents and students than new schools. Establishing brand awareness and reputation takes time and experience, which make it difficult for new entrants to attract and enroll students in the early years of operation;
- **Capital requirements:** The establishment of a school in China requires large initial capital investment for the acquisition of the land use right and the construction of campus and school facilities, as well as other related expenses. The establishment of a school also requires an on-going long-term investment commitment in addition to the initial capital outlay. Thus, this sets up a high capital barriers for new entrants;
- **Availability of land:** The availability of land and relevant facilities remain a challenge for new market entrants as a result of tight supply of available land in certain cities and regions in the PRC and the rising rental costs. Sufficient area of land and adequate school facilities are the basic requirements to operate schools and have direct impact on the class size and quality of education school that operators can offer. Based on the foregoing, considerable time and resources are required for school operators to establish new schools in a new location; and
- **Availability of qualified teaching staff:** The quality of education depends on the quality of the teaching staff. Due to the general demand for smaller class size and shortage of qualified teaching staff, school operators who wish to expand their existing schools or establish new schools are faced with pressure to attract and retain high-quality teachers. In addition, qualified teachers are usually more attracted to public schools and well-established private schools, which make it more difficult for new market entrants to attract such teachers at development stage.